Schedule 1 - Changes to Chapter 4 of the ESO Special Conditions

Chapter 4: System Operator Revenue Restriction

Special Condition 4.1 System Operator Balancing Services Activity Revenue Restriction

Introduction

4.1.1   The purpose of this condition is to establish the restriction on the amount of Balancing Services Activity revenue that may be collected by the licensee.

Part A: Restriction on the total SO revenue from Balancing Services Activity

4.1.2   The licensee must use best endeavours to ensure that revenue collected by the licensee from the Balancing Services Activity is consistent with its best forecast of $SOTAR_t$ derived in accordance with the following formula:

$$SOTAR_t = SOIAR_t + BXext_t + K_t$$

where:

$SOIAR_t$ means the value derived in accordance with Part A of Special Condition 4.2;

$BXext_t$ means the value derived in accordance with Part A of Special Condition 4.3; and

K_t means the value derived in accordance with Part B.

Part B: Correction term (K_t)

4.1.3   For Regulatory Years commencing on or after 1 April 2024, the value of K_t is derived in accordance with the following formula:

$$K_t = (SOTAR_{t-1} - SOTRR_{t-1}) \cdot (1 + I_{t-1} + 1.15\%)$$

where:

$SOTAR_t$ means the value derived in Part A;

$SOTRR_t$ means the total revenue collected by the licensee from the Balancing Services Activity; and

I_t means the average value of SONIA in Regulatory Year t.

~~Special Condition 4.1~~Special Condition 4.2 System Operator Internal Revenue Restriction

Introduction

~~4.1.1~~4.2.1   The purpose of this condition is:

(a) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs in relation to Balancing Services Activity; and

(b) to set out the obligations of the licensee in respect of those charging restrictions.

Part A: Licensee's obligation in relation to internal costs

4.1.2 The licensee must use best endeavours to ensure that the revenue collected by the licensee from the Balancing Services Activity associated with internal costs does not exceed SO Internal Allowed Revenue.

Part B:Part A: Formula for calculating the SO Internal Allowed Revenue term (SOIARt)

4.1.34.2.2 The value of SOIARt is derived in accordance with the following formula:

$$SOIAR_t = ADJR_t^* + SOLAR_t$$

where:

$ADJR_t^*$ means adjusted revenue most recently published by the Authority pursuant to Part B of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) prior to the start of Regulatory Year t; and

$SOLAR_t$ means legacy adjustments and is derived in accordance with ~~Special Condition 4.8~~Special Condition 4.9 (System Operator Legacy Adjustments (SOLARt)).

Part C:Part B: Formula for calculating Adjusted Revenue (ADJRt)

4.1.44.2.3 The value of ADJRt is derived in accordance with the following formula

$$ADJR_t = R_t \frac{PI_t}{PI_{2018/19}} + ADJ_t$$

where:

R_t means Calculated Revenue derived in accordance with Part ~~D~~C;

PI_t means the price index term derived in accordance with Part ~~E~~D; and

ADJ_t means the AIP adjustment term derived in accordance with Part ~~F~~E.

Part D:Part C: Formula for calculating the Calculated Revenue term (Rt)

4.1.54.2.4 The value of Rt is derived in accordance with the following formula:

$$R_t = FM_t + SOPT_t + DPN_t + RTN_t + EIC_t + ADF_t + DRS_t + ORA_t + ESORI_t + TAX_t + TAXA_t$$

FMt means fast money and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;

SOPTt	is derived in accordance with Part ~~G~~F;
DPNt	means regulatory depreciation and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
RTNt	means return and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
EICt	means equity issuance costs and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
ADFt	means additional funding and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
DRSt	means Directly Remunerated Services adjustment as defined in Special Condition 2.9 (Services treated as Directly Remunerated Services) and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
ORAt	means other revenue allowance derived in accordance with Special Condition 4.6~~Special Condition 4.5~~ (Total other revenue allowance);
ESORIt	means the incentive value for the Electricity System Operator Reporting and Incentive Arrangements, as derived in accordance with Special Condition 4.4~~Special Condition 4.3~~ (Electricity System Operator Reporting and Incentive Arrangements);
TAXt	means the tax allowance and has the value given in sheet SystemOperator of the ESO Price Control Financial Model; and
TAXAt	means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise under Part J.

~~Part E:~~Part D: Formula for calculating the Price Index term (PI$_t$)

~~4.1.6~~4.2.5   The value of PI$_t$ is the arithmetic average value of each of the twelve monthly values of PI$_m$ from 1 April to 31 March within Regulatory Year t, derived in accordance with the following formula:

$$PI_m = \begin{cases} RPI_m, & \text{if } m < April\ 2021 \\ PI_{m-1}\left(0.5\,\dfrac{CPIH_m}{CPIH_{m-1}} + 0.5\,\dfrac{RPI_m}{RPI_{m-1}}\right), & \text{if } m = April\ 2021 \\ PI_{m-1}\cdot\dfrac{CPIH_m}{CPIH_{m-1}}, & \text{if } m > April\ 2021 \end{cases}$$

where:

m	refers to a year and month;
RPIm	means the Retail Prices Index for the year and month m; and
CPIHm	means the Consumer Prices Index Including Owner Occupiers' Housing Costs for the year and month m.

~~Part F:~~Part E: Formula for calculating the AIP adjustment term (ADJt)

~~4.1.7~~4.2.6   For the Regulatory Year commencing on 1 April 2021, the value of ADJ is zero.

~~4.1.8~~4.2.7   For subsequent Regulatory Years, the value of ADJt is derived in accordance with the following formula:

$$ADJ_t = (ADJR_{t-1} - ADJR^*_{t-1})(1 + TVM_{t-1})$$

where:

$ADJRt$ is derived in accordance with Part ~~C~~B;

$ADJR^*_t$ means adjusted revenue most recently published by the Authority pursuant to Part B of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) prior to the start of Regulatory Year t; and

$TVMt$ means the time value of money term derived in accordance with paragraph ~~4.2.8~~4.1.9.

~~4.1.9~~4.2.8   The value of TVMt is derived in accordance with the following formula:

$$TVM_t = (1 + WACC_t)\frac{PI_{t+1}}{PI_t} - 1$$

where:

$WACCt$ means the vanilla weighted average cost of capital for the licensee as derived by the Authority in accordance with the ESO Price Control Financial Handbook; and

PIt means the price index derived in accordance with Part ~~E~~D.

~~Part G:~~Part F: Formula for calculating the allowed pass-through items (SOPTt)

~~4.1.10~~4.2.9   The value of SOPTt is derived in accordance with the following formula:

$$SOPT_t = RB_t + EDE_t + SOBD_t + WCF_t$$

where:

RBt   means the amount levied on the licensee in respect of the Prescribed Rates (or any equivalent tax or duty replacing them) or an amount directed under Part H;

EDEt   means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year as further explained and elaborated upon in the ESO Price Control Financial Handbook;

SOBDt   is derived in accordance with Part ~~I~~H; and

WCFt   means the Working Capital Facility fees as defined in the PCFH.

~~Part H:~~Part G: Review of Prescribed Rates pass-through term (RBt)

~~4.1.11~~4.2.10   As part of any periodic revaluation, the licensee must:

(a) engage with the Relevant Valuation Agency; and

(b) use reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.

~~4.1.12~~4.2.11   The Authority will review the licensee's engagement with the Relevant Valuation Agency with respect to a revaluation.

~~4.1.13~~4.2.12   If, after reviewing the licensee's engagement with the Relevant Valuation Agency and requesting any further information required from the licensee with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph ~~4.1.11~~4.2.11, the Authority will adjust the value of RBt by direction.

~~Part I:~~Part H: Formula for calculating the SO Bad Debt term (SOBD$_t$)

~~4.1.14~~4.2.13   The value of SOBD$_t$ is derived in accordance with the following formula:

$$SOBD_t = SOBDA_t - SORBD_t$$

where:

$SOBDA_t$ means the aggregate value of SO Bad Debt the licensee has incurred or expects to incur, inclusive of RIIO-1 SO Bad Debt with respect to Balancing Services Activity charges owed to the licensee by one or more Defaulting Connection and Use of System Code Party; and

$SORBD_t$ means the aggregate value of SO Bad Debt previously recovered, inclusive of RIIO-1 SO Bad Debt, by the licensee via the SOBDA t term, where the licensee has received cash through either the Defaulting Connection and Use of System Code Party or been credited by the administrator or liquidator of a Defaulting Connection and Use of System Code Party.

~~Part J:~~Part I: Tax Allowance Adjustment (TAXA$_t$)

~~4.1.15~~4.2.14   The Authority may undertake a Tax Review of any material, unexplained differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability, in accordance with Chapter 5 of the ESO Price Control Financial Handbook.

~~4.1.16~~4.2.15   Where the Authority notifies the licensee that it has decided to undertake a Tax Review and given the reasons for that decision, the licensee must:

(a) procure an Appropriately Qualified Independent Examiner to examine the differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability and send a report to the Authority;

(b) carry out any reasonable steps specified by the Authority for such a procurement and comply with any requirements reasonably specified by the Authority as to the terms of appointment of the Appropriately Qualified Independent Examiner;

(c) ensure that the Appropriately Qualified Independent Examiner carries out the work within the scope, and by the date, reasonably specified by the Authority, after discussing with the examiner; and

(d) send to the Authority a report from the Appropriately Qualified Independent Examiner in the form, and containing the content, specified by the Authority, following discussion with the examiner.

4.1.17~~4.2.16~~   Following receipt of the Appropriately Qualified Independent Examiner's report, the Authority will:

(a) direct any adjustment to the value of the TAXAt term that it considers should be made, taking account of said report; and

(b) specify the Regulatory Years to which those adjustments relate.

4.1.18~~4.2.17~~   Before making a direction under paragraph 4.1.17~~4.2.17~~, the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations on the proposed direction may be made, which will not be less than 28 days.

Special Condition 4.2Special Condition 4.3 Balancing Services Activity Revenue Restriction on External Costs

Introduction

4.2.1~~4.3.1~~   The purpose of this condition is:

(a) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its external balancing costs; and

(b) to set out the obligations of the licensee in respect of those charging restrictions.

Part A: Formula for calculating the balancing services external costs term (BXext₀)Balancing services activity revenue restriction on external costs (BXextt)

4.2.2~~4.3.2~~   The licensee must use best endeavours to ensure that the revenue derived from and associated with procuring and using balancing services (being the

~~external costs of the Balancing Services Activity) does not exceed the BXext~~t ~~term, calculated~~ The value of BXext$_t$ is derived in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + SOTOC_t + LOCTRU_t + BSUoSCOVID_t + BSUoSEXCt$$

where:

$CSOBM_t$	is the cost to the licensee of bids and offers in the Balancing Mechanism accepted by the licensee less the total non-delivery charge and is the sum of the values of CSOBMj (being the System Operator BM cashflow for each settlement period j as defined in the BSC);
$BSCC_t$	means the costs to the licensee of contracts for the availability or use of Balancing Services and associated costs, excluding costs within CSOBMt but including charges made by the licensee for the provision of Balancing Services to itself;
$TotAdj_t$	means the amount of any adjustment as provided in paragraph ~~4.2.3~~4.3.3;
OM_t	means an amount representing the revenue from the provision of balancing services to others, derived in accordance with Part C;
$SOTOCt$	means the SO-TO cost allowance term, calculated in accordance with Special Condition 4.5~~Special Condition 4.4~~ (SO-TO Mechanism);
$LOCTRU_t$	has the value of:
	OCTRUt as determined in accordance with Part A of Special Condition 4J (SO-TO Mechanism) of this licence as in force on 31 March 2021; and
	LOCTRUt for Regulatory Years commencing on or after 1 April 2023 is zero; and
$BSUoSCOVIDt$	means for Regulatory Year 2021/22 the total cost of the Covid Support Scheme incurred in 2020/21, including any administrative or financing cost borne by the system operator, as per Section 1.30 of CUSC and for other Regulatory Years thereafter the value of this term will be zero.
$BSUoSEXCt$	means for Regulatory Year 2022/23 the total cost of the Exceptional Costs Support Scheme incurred in 2021/22, including any administrative or financing cost borne by the system operator, as per Section 14.30 of CUSC and for other Regulatory Years thereafter the value of this term will be zero.

Part B: Balancing Services Activity adjustments (TotAdjt)

4.2.34.3.3 For the purposes of paragraph 4.2.24.3.2, the term TotAdjt which relates to prior period adjustments in respect of the Regulatory Year t, means the costs, whether positive or negative, to the licensee of:

(a) bids and offers in the Balancing Mechanism accepted by the licensee in any period before Regulatory Year t less the total non-delivery charge for that period;

(b) contracts for the availability or use of balancing services during any period before Regulatory Year t, excluding costs within CSOBMt for that period, but including charges made by the licensee for the provision of balancing services to itself in that period;

(c) the difference between the value of IncPayExtt in respect of 2020/21 (directed by the Authority in accordance with paragraph 4M.19 of Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements) of this licence as in force on the 31 March 2021) and the amount the licensee has recovered in 2020/21 based on its reasonable expectations of revenue associated with IncPayExtt in respect of 2020/21, with the prior written consent of the Authority for Regulatory Year 2021/22 only; and

(d) the difference in value of financing costs, as a result of updating the forecast SONIA rate used to calculate the recovery of 2022/23 BSUoSEXCt to actual SONIA rates as agreed by the Authority for Regulatory Year 2023/24 only,

4.2.44.3.4 in each case after deducting such costs to the extent that they have been taken into account in any Regulatory Year in computing the terms CSOBMt or BSCCt.

Part C: Provision of balancing services to others (OMt)

4.2.54.3.5 The value of OMt is the net of:

(a) the total amount (exclusive of interest and Value Added Tax attributable thereto) recovered by the licensee under any agreements entered into between an electricity supplier or network operator and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a User System are charged to that electricity supplier or network operator; and

(b) the total costs (exclusive of interest and Value Added Tax attributable thereto) incurred by the licensee which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the National Electricity Transmission System or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 4.2.44.3.4(a)) or network operator (as defined in the Grid Code).

~~Special Condition 4.3~~Special Condition 4.4 Electricity System Operator Reporting and Incentive Arrangements (ESORIt)

Introduction

~~4.3.1~~4.4.1   The purpose of this condition is to calculate the term ESORIt (the Electricity System Operator Reporting and Incentives term). This contributes to the calculation of Calculated Revenue in Special Condition ~~4.1~~4.2 (System Operator Internal Revenue Restriction).

~~4.3.2~~4.4.2   The effect of the Electricity System Operator Reporting and Incentive is to reward or penalise the licensee for how it performed its role as the Electricity System Operator.

~~4.3.3~~4.4.3   This condition also explains the process the Authority will follow in issuing and amending the Business Plan Guidance Document and the ESORI Arrangements Guidance Document.

Part A: The Electricity System Operator Reporting and Incentive term (ESORIt)

~~4.3.4~~4.4.4   The value of ESORIt will be directed by the Authority and will be no greater than a maximum value of £30m, in aggregate, across each 2 year period of the Business Plan Cycle and not less than a minimum value of negative £12m, in aggregate across each 2 year period of the Business Plan Cycle, as determined under this condition and the ESORI Arrangements Guidance Document.

~~4.3.5~~4.4.5   Before issuing a direction under paragraph ~~4.3.4~~4.4.4 the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons why it proposes to issue the direction; and

(c) a period during which representations on the proposed direction may be made, which will not be less than 28 days.

Part B: Business Plan Guidance Document

~~4.3.6~~4.4.6   The Authority will issue a document to be known as the Business Plan Guidance Document that sets out the governance and process by which the licensee must submit the Business Plan to the Authority and the governance and process by which the Authority will assess the Business Plan.

~~4.3.7~~4.4.7   The licensee must comply with the Business Plan Guidance Document.

~~4.3.8~~4.4.8   The Authority will issue and amend the Business Plan Guidance Document by direction.

~~4.3.9~~4.4.9   The Authority will publish the Business Plan Guidance Document on the Authority's Website.

4.3.104.4.10   The Business Plan Guidance Document will include provisions about or impose requirements in relation to:

(a) the dates for the submission of and determinations for the Business Plan;

(b) the contents of the Business Plan;

(c) how the Authority will assess the Business Plan; and

(d) the duration of the Business Plan Cycle.

4.3.114.4.11   Before issuing new or amending the Business Plan Guidance Document, the Authority will publish on the Authority's Website:

(a) the text of the proposed Business Plan Guidance Document;

(b) the date on which the Authority intends the Business Plan Guidance Document to come into effect; and

(c) a period during which representations may be made on the content of the Business Plan Guidance Document, which will not be less than 28 days.

Part C: The ESORI Arrangements Guidance Document

4.3.124.4.12   The Authority will issue a document to be known as the ESORI Arrangements Guidance Document that sets out the process by which the Authority will assess the performance of the licensee and how it will determine the ESORIt term in respect of each Business Plan Cycle.

4.3.134.4.13   The licensee must comply with the ESORI Arrangements Guidance Document.

4.3.144.4.14   The Authority will issue and amend ESORI Arrangements Guidance Document by direction.

4.3.154.4.15   The Authority will publish the ESORI Arrangements Guidance Document on the Authority's Website.

4.3.164.4.16   The ESORI Arrangements Guidance Document will include provisions about or impose requirements in relation to:

(a) the criteria against which the performance of the licensee will be assessed;

(b) the process and procedures that will be in place for assessing the performance of the licensee, including the role of the ESO Performance Panel in this process;

(c) the requirements the licensee must fulfil as part of the assessment process, including the information the licensee must provide and its attendance at ESO Performance Panel meetings;

(d) the information used for the performance assessment, including how the Business Plan and reporting during the Business Plan Cycle will be used in that evaluation;

(e) how the assessment of the performance of the licensee will be used by the Authority to determine the value of ESORIt; and

(f) any other matters relating to the regulation, governance, or administration of the ESORI Arrangement.

4.3.17~~4.4.17~~ Before issuing new or amending the ESORI Arrangements Guidance Document, the Authority will publish on the Authority's Website:

(a) the text of the proposed ESORI Arrangements Guidance Document;

(b) the date on which the Authority intends the ESORI Arrangements Guidance Document to come into effect; and

(c) a period during which representations may be made on the content of the ESORI Arrangements Guidance Document, which will not be less than 28 days.

~~Special Condition 4.4~~**Special Condition 4.5** SO-TO Mechanism (SOTOCt)

Introduction

4.4.1~~4.5.1~~ The purpose of this condition is to establish the value of SOTOCt (the SO-TO Cost term, which feeds into the BXextt term in Special Condition 4.2 (Balancing Services Activity Revenue Restriction on External Costs).

4.4.2~~4.5.2~~ The effect of this condition is to ensure that the licensee's allowed revenue reflects the costs of payments to Transmission Owners and Offshore Transmission Owners for Outages Changes, which can be passed through to consumers up to a maximum value.

4.4.3~~4.5.3~~ This condition also ensures that the licensee's allowed revenue reflects the cost of payments to Transmission Owners for Commercial Operational Services and Joint Works Projects, which can be passed through to consumers up to a maximum value.

Part A: Formula for calculating the SO-TO Cost term (SOTOCt)

4.4.4~~4.5.4~~ The value of SOTOCt is derived in accordance with the following formula:

$$SOTOCt = OCt + COSt + JWt$$

where:

OCt means the costs incurred by the licensee for payments to Transmission Owners and Offshore Transmission Owners or any successor company to each in respect of Outage Changes up to a maximum of £1,900,000 or a maximum value directed otherwise by the Authority;

$COSt$ means the costs incurred by the licensee for payments to Transmission Owners or any successor company to each in respect of Commercial Operational Services up to a maximum of £1,900,000 or a maximum value directed otherwise by the Authority; and

JWt means the costs incurred by the licensee for payments to Transmission Owners or any successor company to each in respect of a Joint Works

Projects where there has been a direction by the Authority to approve these Joint Work Projects in accordance with Part C.

Part B: Notice of Joint Works Projects

4.4.54.5.5   The licensee must give notice of a Joint Works Project to the Authority where it considers, and can provide supporting evidence that the benefits of the Joint Works Project outweigh the associated costs.

4.4.64.5.6   A notice given to the Authority under paragraph 4.4.5 4.5.5 must give particulars of:

(a) the project to which the notice relates and the reasons why the licensee considers the project satisfies the Joint Works Project Principles;

(b) the anticipated level of cost savings that can be demonstrated by the licensee as likely to result from the project and how the level of these cost savings has been calculated; and

(c) any other analysis or information which the licensee considers to be required to enable the Authority fully to assess the projects savings to which the notice relates.

4.4.74.5.7   Any notice submitted to the Authority under paragraph 4.4.54.5.5 must clearly identify whether any of the information contained in the notice is of a confidential nature.

Part C: Authority direction on Joint Works Project

4.4.84.5.8   The Authority will direct whether to approve or reject the Joint Works Project submitted under Part B as well as its view on the appropriate range of costs in respect of that Joint Works Project.

4.4.94.5.9   Before issuing a direction under paragraph 4.4.84.5.8, the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

4.4.104.5.10   In the event that the cost the licensee incurs for a Joint Works Project is outside the range of costs specified by the Authority under the direction in paragraph 4.4.84.5.8, it must notify the Authority and explain why these costs were economically and efficiently incurred.

~~Special Condition 4.5~~Special Condition 4.6 Total other revenue allowances (ORAt)

Introduction

~~4.5.1~~4.6.1   The purpose of this condition is to calculate the term ORAt (the other revenue allowance term). This contributes to the calculation of Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

Part A: Formula for calculating total other revenue allowance (ORAt)

~~4.5.2~~4.6.2   The value of ORAt is derived in accordance with the following formula:

$$ORA_t = NIA_t + CNIA_t + PRPN_t$$

where:

$NIAt$ is the network innovation allowance and is derived in accordance with Special Condition 4.7~~Special Condition 4.6~~ (RIIO-2 network innovation allowance);

$CNIA_t$ is the carry over network innovation allowance and is derived in accordance with Special Condition 4.8~~Special Condition 4.7~~ (Carry-over Network Innovation Allowance); and

$PRPNt$ means the pre-RIIO pension true up and has the value given in the ESO Price Control Financial Model.

~~Special Condition 4.6~~Special Condition 4.7 The RIIO-2 network innovation allowance (NIAt)

Introduction

~~4.6.1~~4.7.1   The purpose of this condition is to calculate NIAt (the network innovation allowance term) which feeds into the calculation of the Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

~~4.6.2~~4.7.2   The effect of this condition is to fund investment in innovation by means of the NIA.

~~4.6.3~~4.7.3   This condition also establishes a framework for the governance and administration of the NIA.

Part A: Formula for calculating the network innovation allowance term (NIAt)

~~4.6.4~~4.7.4   Subject to paragraph ~~4.6.5~~4.7.5, the value of the NIAt term is derived in accordance with the following formula:

$$NIA_t = 90\% \cdot NIAE_t$$

where:

$NIAE_t$ means the Total NIA Expenditure.

4.6.54.7.5   The total value of the network innovation allowance over the RIIO-2 Price Control Period is subject to the following cap:

$$\sum_{t=2021/22}^{2025/26} (NIA_t) \leq (TNIA_t)$$

where:

NIA_t is derived in accordance with paragraph 4.6.44.7.4; and

$TNIA_t$ means the value of the licensee's network innovation allowance as set out in Appendix 1.

4.6.64.7.6   The licensee must not spend more than 25% of Total NIA Expenditure on internal resources over the Price Control Period.

Part B: The RIIO-2 NIA Governance Document

4.6.74.7.7   The licensee must comply with the RIIO-2 NIA Governance Document.

4.6.84.7.8   The Authority will issue and amend the RIIO-2 NIA Governance Document by direction.

4.6.94.7.9   The Authority will publish the RIIO-2 NIA Governance Document on the Authority's Website.

4.6.104.7.10   The RIIO-2 NIA Governance Document will make provision about the regulation, governance and administration of the NIA, including:

(a) the definition of 'unrecoverable NIA expenditure';

(b) the eligibility criteria, which RIIO-2 NIA Projects must meet;

(c) the information that is to be published by the licensee before RIIO-2 NIA Projects can begin;

(d) the circumstances in which the licensee will require approval from the Authority before beginning a RIIO-2 NIA Project, and the processes and procedures for that approval;

(e) arrangements for ensuring that learning from RIIO-2 NIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of an Electricity Distribution Licence;

(f) the reporting obligations in respect of RIIO-2 NIA Projects (which may include reporting in respect of the funding and the completion of such projects, and the provisions of the RIIO-2 NIA Governance Document); and

(g) arrangements relating to the treatment of intellectual property rights in respect of RIIO-2 NIA Projects.

4.6.114.7.11   Before directing that the RIIO-2 NIA Governance Document comes into effect, the Authority will publish on the Authority's Website:

(a) the text of the proposed RIIO-2 NIA Governance Document;

(b) the date on which the Authority intends the RIIO-2 NIA Governance Document to come into effect; and

(c) a period during which representations may be made on the content of the RIIO-2 NIA Governance Document, which will not be less than 28 days.

4.6.124.7.12   Before directing an amendment to the RIIO-2 NIA Governance Document, the Authority will publish on the Authority's Website:

(a) the text of the amended RIIO-2 NIA Governance Document;

(b) the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;

(c) the reasons for the amendment to the RIIO-2 NIA Governance Document; and

(d) a period during which representations may be made on the amendment to the RIIO-2 NIA Governance Document, which will not be less than 28 days.

Part C: Involvement of external stakeholders within the licensee's RIIO-2 NIA Projects

4.6.134.7.13   All the licensee's RIIO-2 NIA Projects must involve partnership with at least one external stakeholder, including but not limited to other Transmission Licensees, holders of an Electricity Distribution Licence, third-party innovators, and academics.

Appendix 1

Value of the licensee's network innovation allowance

Licensee	Value of TNIA (£m)
ESO	20.70

~~Special Condition 4.7~~Special Condition 4.8 Carry-over Network Innovation Allowance (CNIAt)

Introduction

4.7.14.8.1   The purpose of this condition is to calculate the term CNIAt (the Carry-over Network Innovation Allowance term) which feeds into the Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

4.7.24.8.2   The effect of this condition is to extend RIIO-1 Network Innovation Allowance funding.

4.7.34.8.3   This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the Carry-over Network Innovation Allowance.

Part A: Formula for calculating the Carry-over Network Innovation Allowance term (CNIAt)

4.7.44.8.4   For the Regulatory Year commencing on 1 April 2021, the value of CNIA is calculated in accordance with the following formula:

$$CNIA_t = (0.9 \cdot min[ECNIA_t, CNIAV] - CNIAR_t)\frac{PI_{2018/19}}{PI_t}$$

where:

ECNIAt   means the expenditure incurred by the licensee in respect of Eligible CNIA Projects as calculated by the licensee in accordance with the RIIO-1 NIA Governance Document and reported to the Authority in accordance with Standard Special Condition B15 (Regulatory Instructions and Guidance);

CNIAV   is derived in accordance with Part B;

CNIARt   means an amount recovered by the licensee in relation to the Regulatory Year 2021/22 under the RIIO-1 Network Innovation Allowance which the Authority has directed is unrecoverable in accordance with the RIIO-1 NIA Governance Document; and

PIt   is the price index calculated in accordance with Part E D of Special Condition 4.2Special Condition 4.1 (System Operator Internal Revenue Restriction).

4.7.54.8.5   For Regulatory Years commencing on or after 1 April 2022, the value of CNIAt is equal to zero.

4.7.64.8.6   Eligible CNIA Internal Expenditure may not exceed 25% of the total Eligible CNIA, unless the Authority otherwise consents.

Part B: Formula for calculating the Carry-over Network Innovation Allowance Value term (CNIAV)

4.7.74.8.7   The value of CNIAV is calculated in accordance with the following formula:

$$CNIAV = NIAV_{2020/21} * NGETBR_{2020/21} - (ENIA_{2020/21} + BPC_{2020/21})$$

where:

NIAV   the value of NIAV2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021;

NGETBR   the value of NGETBR2020/21 is the value of 'BR' as calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021;

ENIA   the value of ENIA2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; and

BPC   the value of BPC2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021.

Part C: The RIIO-1 NIA Governance Document

4.7.84.8.8   The Authority will amend the RIIO-1 NIA Governance Document by direction.

4.7.94.8.9   The RIIO-1 NIA Governance Document may, without limitation, make additional provision about or impose requirements in respect of:

(a) arrangements for ensuring that relevant learning from Eligible CNIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of a Distribution License;

(b) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the RIIO-1 NIA Governance Document);

(c) arrangements relating to the treatment of intellectual property rights in respect of Eligible CNIA Projects; and

(d) any other matters relating to the regulation, governance or administration of the Carry-over Network Innovation Allowance.

4.7.104.8.10   The licensee must comply with the RIIO-1 NIA Governance Document.

Part D: Procedure for amending the RIIO-1 NIA Governance Document

4.7.114.8.11   Before amending the RIIO-1 NIA Governance Document by direction, the Authority will publish on the Authority's Website:

(a) the text of the amended RIIO-1 NIA Governance Document;

(b) the reasons for the amendments to the RIIO-1 NIA Governance Document; and

(c) a period during which representations may be made on the amendments to the RIIO-1 NIA Governance Document, which will not be less than 28 days.

4.7.124.8.12   The requirements of paragraph 4.7.114.8.11 may be satisfied by action taken by the Authority before or after the commencement of this condition.

~~Special Condition 4.8~~Special Condition 4.9 System Operator Legacy Adjustments (SOLARt)

Introduction

4.8.14.9.1   The purpose of this condition is to calculate the term SOLARt (the System Operator legacy adjustments term), which in turn feeds into SO Internal Allowed Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

Part A: The formula for calculating the System Operator legacy adjustment term (SOLARt)

4.8.24.9.2   The value of the SOLARt term is derived in accordance with the following formula:

$$SOLAR_t = LSOMOD_t + LSOTRU_t + LSOEMRINC_t$$

where:

LSOMODt	has the value in sheet SystemOperator of the ESO Price Control Financial Model unless the Authority directs otherwise in accordance with Part B;
LSOTRUt	is derived in accordance with Part C; and
LSOEMRINCt	is derived in accordance with Part D.

Part B: The formula for calculating the System Operator legacy MOD term (LSOMODt)

4.8.34.9.3   The value of LSOMODt is derived in accordance with the following formula:

$$LSOMOD_t = SOMOD_t * RPIF_t$$

where:

SOMODt	has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the ESO Price Control Financial Model, performed in accordance with Chapter 7 (legacy) of the ESO2 Price Control Financial Handbook; and
RPIFt	has the value of RPIFt as determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook.

4.8.44.9.4   The Authority will direct revisions to LSOMODt, coinciding with the Annual Iteration Process.

4.8.54.9.5   Before making a direction under paragraph 4.8.44.9.4 the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

Part C: The formula for calculating the System Operator legacy TRU term (LSOTRUt)

4.8.64.9.6   For the three Regulatory Years commencing on 1 April 2021 to 1 April 2024, the value of LSOTRUt is derived in accordance with the following formula:

$$LSOTRU_t = SOTRU_t * RPIF_t$$

where:

SOTRUt   has the value of SOTRUt as determined in accordance with paragraph 4A.5 of Part C of Special Condition 4A (Restriction of System Operator Internal Revenue) of this licence as in force on 31 March 2021; and

RPIFt   has the value of RPIFt determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook.

Part D: The formula for calculating the System Operator legacy EMR incentives term (LSOEMRINCt)

4.8.74.9.7   For the two Regulatory Years commencing on 1 April 2021 to 1 April 2022, the value of LSOEMRINCt is derived in accordance with the following formula:

$$LSOEMRINC_t = SOEMRINC_t * RPIF_t$$

where:

SOEMRINCt   has the value of SOEMRINCt as determined in accordance with Part C of Special Condition 4L (Financial Incentives on EMR) of this licence as in force on 31 March 2021; and

RPIFt   has the value of RPIFt as determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 7.14 and 7.15 of the Price Control Financial Handbook; and for Regulatory Years commencing on or after 1 April 2023 is zero.

~~Special Condition 4.9~~Special Condition 4.10 Legacy net RAV additions (LSORAVt)

Part A: Introduction

4.9.24.10.2   This condition explains the process the Authority will follow when directing values for the term LSORAVt (the legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term DPNt (the depreciation term as calculated by the ESO Price Control Financial Model), which in turn

feeds into SO Internal Allowed Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

4.9.34.10.3   The effect is to reflect the close out of the RIIO-ESO Price Control Financial Model in respect of legacy net RAV additions.

Part B: Authority assessment and direction

4.9.44.10.4   The Authority will direct revisions to LSORAVt, coinciding with the Annual Iteration Process.

4.9.54.10.5   Before making a direction under paragraph 4.9.34.10.3 the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.