

Decision on modifications to the Electricity System Operator licence conditions

Subject	Details
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Contact	Penny Harandy
Team:	Regulatory Finance
Email:	regfinance@ofgem.gov.uk

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Direction

To: National Grid Electricity System Operator Limited (NGESO)

Electricity Act 1989 Section 11A(1)(a)

Modification of Special Licence Condition 3.6 Adjustment term (ADJ_t), Special Licence Condition 3.7 Correction Term K_t, and Special Licence Condition 4.8.7 System Operator Legacy EMR Incentives Term LSOEMRINC_t held by NGESO

1. NGESO is the holder of an Electricity Transmission licence ('the Licence') treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2), of the Act, the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 24 August 2022 ('the Notice') that it proposed to modify Special Licence Condition 3 and Special Licence Condition 4.8 of the Licence.²
3. The Notice stated that any representations on these proposed modifications must be made on, or before 23 September 2022.
4. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act and we have not received any direction that the modifications should not be made.
5. We received one response to the Notice from NGESO, which we have carefully considered. We have placed this non-confidential response on our website and we have agreed to make the suggested changes raised by the NGESO.
6. The value of the LSOEMRINC_t term in the 2023/24 Regulatory Year has now been corrected to -£2.03 million in the licence drafting. The proposed drafting included a value of -£2.725 million, the calculation for which has since been updated and agreed between Ofgem and the NGESO.
7. NGESO raised some other drafting changes in its response, which are to aid clarity and consistency and do not change the meaning of the drafting or the calculations.
8. Having carefully considered the response received to the Notice, we have decided to proceed with the licence modifications as set out in the Notice, with some alterations to reflect the stakeholder feedback received. These alterations are highlighted in yellow in the modified Special Licence Conditions, as shown in Appendix 1. They are also set out in more detail in the NGESO's response published alongside this notice.

¹ The terms 'Ofgem', 'we' and 'us' are used interchangeably in this notice. Ofgem is the office of the Gas and Electricity Markets Authority.

² [Statutory consultation on modifications to the Electricity System Operator licence conditions | Ofgem](#)

9. The reason for these modifications is to correct errors in the original licence drafting.
10. The effect of these modifications is to modify the special conditions in the manner indicated in Appendix 1.
11. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2.
12. Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the Special Licence Conditions of the Licence in the manner specified in Appendix 1. This decision will take effect not less than 56 days after this decision is published.
13. This document is notice of the reasons for the decision to modify the Licence held by NGENSO as required by section 49A(2) of the Act.

Jourdan Edwards
Interim Deputy Director, Onshore Networks
Duly Authorised by the Authority
19 October 2022

Annex 1 - Proposed modifications to the Electricity System Operator Licence relating to Allowed Revenue

The text of the proposed modifications to Special Licence Conditions 3.6, 3.7 and 4.8.7 are set out below with text to be inserted double-underlined and deleted text ~~struck through~~. Amendments made since the proposed modifications in the Notice are highlighted **yellow**.

Special Condition 3.6 Adjustment term (ADJ_t)

Introduction

3.6.1. The purpose of this condition is to calculate the term ADJ_t (the adjustment term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

Formula for calculating the adjustment term (ADJ_t)

3.6.2. For the Regulatory Year commencing on 1 April 2021, the value of ADJ_t is zero.

3.6.3. For subsequent Regulatory Years, the value of ADJ_t is derived in accordance with the following formula:

$$ADJ_t = (TO_{t-1} - TO^*_{t-1} - DISC_{t-1}) * (1 + I_{t-1} + 1.15\%)$$

where:

TO_t means Maximum Revenue derived in accordance with Special Condition 3.1 (Transmission Network Revenue Restriction);

TO*_t means Maximum Revenue as **most recently** forecast and published by the **licensee system operator** by 1 April of Regulatory Year t; **and**

DISC_t is derived in accordance with 3.6.4; and

I_t means the average value of SONIA.

3.6.4 DISC_t means the difference between the values of Term_t, TSP_t, TSH_t, TNGET_t, TOFTO_t, OFET_t, TICF_t, TICP_t as included in TO*_t and TO_t and is derived in accordance with the following formula:

$$DISC_t = (Term_t + TSP_t + TSH_t + TNGET_t + TOFTO_t + OFET_t + TICF_t + TICP_t) - (Term^*_t + TSP^*_t + TSH^*_t + TNGET^*_t + TOFTO^*_t + OFET^*_t + TICF^*_t + TICP^*_t)$$

where:

Term_t + TSP_t + TSH_t + TNGET_t + TOFTO_t + OFET_t + TICF_t + TICP_t are derived in accordance with Part A of Special Condition 3.2 (Pass-through items); and

Term*_t + TSP*_t + TSH*_t + TNGET*_t + TOFTO*_t + OFET*_t + TICF*_t + TICP*_t are the values for each of those terms which are ~~means the values~~ included in the Maximum Revenue as

most recently forecast and published by the licensee system operator by 1 April of the Regulatory Year t.

Special Condition 3.7 Correction Term (K_t)

Introduction

3.7.1 The purpose of this condition is to calculate the term K_t (the correction term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

Part A: Formula for calculating the adjustment term (K_t)

3.7.2 For the Regulatory Year commencing on or after 1 April 2022, the value of K_t is zero.

3.7.3 For Regulatory Year commencing 1 April 2021, the value of K_t is derived in accordance with the following formula:

$$K_t = (TO_{t-1} - TNR_{t-1})(1 + I_{t-1} + 1.15\% + (PRP_{t-1}PRA_{t-1}))$$

where:

TO_t has the value of TO_t as determined in accordance with Part A of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021;

TNR_t has the value of TNR_t as determined in accordance with Part A of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 or as agreed with the Authority;

I_t means the average value of SONIA;

PRP_t means the penal rate proportion and has the value of 1, unless the Authority directs otherwise in accordance with paragraph 3.7.5; and

PRA_t means the penal rate adjustment, derived in accordance with paragraph 3.7.4.

3.7.4 The value of PRA_t is derived in accordance with the following formula:

$$PRA_t = \begin{cases} 1.15\% & \text{if } TNR_t/TO_t \geq 1.055 \\ -1.15\% & \text{if } TNR_t/TO_t \leq 0.945 \\ 0, & \text{otherwise} \end{cases}$$

where:

TO_t	is derived in accordance with Part A; and
TNR_t	is derived in accordance with Part A.

3.7.5 The Authority will direct a value for PRP_t which is not less than zero and not more than 1, if it is satisfied that differences between Recovered Revenue and Allowed Revenue were for reasons outside the reasonable control of the licensee.

Special Condition 4.8 System Operator Legacy Adjustments (SOLAR_t)

...

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

4.8.7 For the two Regulatory Years commencing on 1 April 2021 ~~to~~ and 1 April 2022, the value of LSOEMRINC_t is derived in accordance with the following formula:

$$LSOEMRINC_t = SOEMRINC_t * RPIF_t$$

where:

SOEMRINC_t has the value of SOEMRINC_t 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

RPIF_t has the value of RPIF_t 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 Year commencing 1 April 2023 LSOEMRINC_t is negative £2.03725m; and
for Regulatory Years commencing on or after 1 April 2023 2024, LSOEMRINC_t is zero.