

To: National Grid Electricity System Operator Limited

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

**Modification of the special conditions of the electricity transmission licence held by
National Grid Electricity System
Operator Limited**

1. National Grid Electricity System Operator Limited ('NGESO') is the holder of an electricity transmission licence ('the Licence') granted or 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 Authority¹ ('the Authority') gave notice on 21 September 2022 ('the CMP361 Notice') that we proposed to modify Chapter 4 of the Licence. We stated that any representations to the modification proposal contained in the CMP361 Notice must be made on or before 20 October 2022. Further, on 15 December 2022, under section 11A(2) of the Act, the Authority gave notice ('the CMP395 Notice') that we proposed to modify Special Condition ('SpC') 4.2 (Balancing Services Activity Revenue Restriction on External Costs) of the Licence. We stated that any representations to the modification proposal contained in the CMP395 Notice must be made on or before 20 January 2023. We refer to the CMP361 Notice and the CMP395 Notice jointly as "the Notices" in this document.
3. A copy of the Notices were sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the changes should not be made.
4. We received one response to each of the Notices from NGESO, which we carefully considered. We have placed these non-confidential responses on our website. Our reply to these responses is set out in full in the accompanying letter.
5. It is necessary to make alterations to the modifications proposed in the Notices. Amendments made since the proposed modifications in the CMP361 Notice are shown in yellow. Amendments made since the proposed modifications shown in the CMP395 licence are shown in green. The reason for the difference between the modifications set out in the Notices is to introduce introductory text for new terms, and aid clarity and consistency of proposed amendments introduced in the CMP361 Notice and CMP395 Notice.
6. The reason why the Authority is making the modifications in relation to the CMP361 Notice is to facilitate the effective implementation and administration of fixed ex-ante BSUoS tariffs as provided for by the changes approved by CMP361². The reason why the Authority is making the modifications in relation to the CMP395 Notice is to allow NGESO to recover Balancing Services Use of System ("BSUoS") charges relating to the 2022/23 charging year in the following charging year (2023/24) as directed by our decision on CMP395³.
7. The effect of the modifications relating to the CMP361 Notice is to add a correction term to the formula used to calculate the balancing services activity revenue in SpC 4.1.2 and SpC 4.1.3, and ensure this term is operable by removing restrictions elsewhere relating to these costs. This allows NGESO to carry surplus or deficits as required. Modifications to the wording of SpC 4.2.1 and 4.3.1 allow for compatibility with changes in SpC 4.1 of the license. The effect of modifications relating to the CMP395 Notice is to include an additional cost term in the formula to calculate the balancing services external costs term in SpC 4.2.2, and include an additional clause for the associated financing costs in SpC 4.2.3.

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 CMP361: [BSUoS Reform – Introduction of an ex ante fixed BSUoS tariff](#)

³ [CMP395: Cap BSUoS costs and Defer payment to 2023/24 to protect GB customers](#)

8. 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 Market 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. Schedule 2 provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act defines 'relevant licence holder'.

Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the special conditions of the Licence in the manner specified in Schedule 1 attached. This decision will take effect from 1 April 2023.

This document is notice of the reasons for the decision to modify the Licence as required by section 49A(2) of the Act.

Charlotte Friel

**Deputy Director,
Energy Systems Management and Security**
Duly authorised on behalf of the Authority

03 February 2023

ERRATA: The originally posted version of this notice contained pdf errors and track changes which had not displayed correctly. This version has been re-uploaded with corrections. The amendments (and resulting clean copy) are unchanged. Revised version posted the same day as original upload, 3 Feb 2023.

Schedule 1: Modifications to Chapter 4, SpC 4.1 and 4.2 of the electricity transmission licence held by National Grid Electricity System Operator Limited

(Deletions are shown in ~~strike-through~~; Additions are shown in red double underline. Yellow highlighted text is an alternation to the modifications set out in the CMP361 Notice. Where we have merged amendments set out in the CMP395 Notice, we have highlighted these in green.)

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, when setting charges for Balancing Services Activity, use best endeavours to ensure that revenue collected from such charges for the Regulatory Year (after deduction of value added tax (if any) and any other taxes charged directly by reference to the amounts so collected) is consistent with its most recent forecast of the SO Revenue from Balancing Services Activity term (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 accordance with Part A;

- $SOTRR_t$ means the total revenue collected by the licensee from the Balancing Services Activity, excluding:
- a) Value added tax
 - b) any revenue relating to reconciliations (other than those calculated by the $TotAdj_t$ term derived in accordance with paragraph 4.3.3 of Special Condition 4.3 (Balancing Services external costs)) for Regulatory Year 2022/23 and prior,
 - c) any revenue collecting relating to the $BSUoSFXC_t$ term which has the meaning given to it in paragraph 4.3.2 of Special Condition 4.3 (Balancing Services external costs); and
- I_t means the average value of SONIA in Regulatory Year t .

For Regulatory Years commencing before 1 April 2024 the value of K_t is zero.

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

Introduction

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

- (a) to establish ~~calculate~~ the charging restrictions that determine ~~term~~ $SOIAR_t$ (the level of allowed revenue that may be recovered by the licensee, associated with its internal costs in relation ~~SO Internal Allowed Revenue term~~), which contributes to the calculation of SO Revenue from Balancing Services Activity; ~~term in Special Conditions 4.1 (System Operator Balancing Services Activity Revenue Restriction)~~; and
- (b) to set out the obligations of the licensee in respect of ~~$SOIAR_t$ 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 ($SOIAR_t$)

4.1.3 ~~4.2.2~~ The value of $SOIAR_t$ 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)

~~4.1.4~~ **4.2.3** 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)

~~4.1.5~~ **4.2.4** The value of Rt is derived in accordance with the following formula:

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

- FM_t means fast money and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
- $SOPT_t$ is derived in accordance with Part ~~G~~ **F**;
- DPN_t means regulatory depreciation and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
- RTN_t means return and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
- EIC_t means equity issuance costs and has the value set out in sheet SystemOperator of the ESO Price Control Financial Model;
- ADF_t 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 4.5~~ **Special Condition 4.6** (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 4.3~~ **Special Condition 4.4** (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 **H**.

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:

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

where:

- m refers to a year and month;
- RPI_m means the Retail Prices Index for the year and month m ; and
- $CPIH_m$ 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 (ADJ_t)

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 ADJ_t is derived in accordance with the following formula:

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

where:

- $ADJR_t$ 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
- TVM_t means the time value of money term derived in accordance with paragraph 4.1.9 4.2.8.

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

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

where:

WACC_t 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

PI_t means the price index derived in accordance with Part [E](#)[D](#).

Part ~~G~~: [Part F](#): Formula for calculating the allowed pass-through items (SOPT_t)

~~4.1.10~~[4.2.9](#) The value of SOPT_t is derived in accordance with the following formula:

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

where:

RB_t 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](#)[C](#);

EDE_t 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;

SOBD_t is derived in accordance with Part [H](#)[I](#); and

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

Part ~~H~~: [Part G](#): Review of Prescribed Rates pass-through term (RB_t)

~~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~~,[4.2.10](#), the Authority will adjust the value of RB_t 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 TAXA_t 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~~,4.2.16, 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 4.2 ~~Special Condition 4.2~~ **Special Condition 4.3** ~~Balancing Services Activity Revenue Restriction on External Costs~~ **external costs (BXext_t)**

Introduction

~~4.2.14.3.1~~ **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~~

(a) to calculate the term BXext_t (the Balancing Services external costs term), which contributes to the calculation of the SO Revenue from Balancing Services Activity term in Special Condition 4.1 (System Operator Balancing Services Activity Revenue Restriction); and

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

Part A: Balancing ~~Formula for calculating the balancing services activity revenue restriction on external costs~~ **term (BXext_t)**

~~4.2.24.3.2~~ **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:

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

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 CSOBM_j (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 CSOBM_t 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;

$SOTO_t$ means the SO-TO cost allowance term, calculated in accordance with ~~Special Condition 4.4~~ [Special Condition 4.5](#) (SO-TO Mechanism);

$LOCTRU_t$ has the value of:

OCTRU_t 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

~~LOCTRU_t~~ [Zero for Regulatory Years commencing on or after 1 April 2023 is zero; and;](#)

$BSUoSCOVID_t$ 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.

$BSUoSEX_t$ 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.

$BSUoSFX_t$ [BSUoSFX_t means for Regulatory Year 2023/24 the total cost of the scheme to cap BSUoS costs and defer payment to 2023/24 to protect GB customers incurred in 2022/23, including any administrative or financing cost borne by the system operator, as per Section 14.30 \(Calculation of the Daily Balancing Services Use of System Charges\) of CUSC, and for other Regulatory Years thereafter the value of this term will be zero.](#)

Part B: Balancing Services Activity adjustments (TotAdj_t)

~~4.2.3~~ [4.3.3](#) For the purposes of paragraph ~~4.2.2~~ [4.3.2](#), the term TotAdj_t 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 CSOBM_t 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,
 - (e) the difference in value of financing costs, as a result of updating the forecast SONIA rate used to calculate the recovery of 2023/24 BSUoSFxc to actual SONIA rates as agreed by the Authority for Regulatory Year 2024/25 only,**
- 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)

4.2.44.3.4 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 4.23.4(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

4.3.14.4.1 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 4.12 (System Operator Internal **Allowed** Revenue ~~Restriction~~).

4.3.24.4.2 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.

4.3.34.4.3 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)

4.3.44.4.4 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.

4.3.54.4.5 Before issuing a direction under paragraph 4.3.44.4.4 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

4.3.64.4.6 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.

4.3.74.4.7 The licensee must comply with the Business Plan Guidance Document.

4.3.84.4.8 The Authority will issue and amend the Business Plan Guidance Document by direction.

4.3.94.4.9 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

~~4.3.12~~4.4.12 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.

~~4.3.13~~4.4.13 The licensee must comply with the ESORI Arrangements Guidance Document.

~~4.3.14~~4.4.14 The Authority will issue and amend ESORI Arrangements Guidance Document by direction.

~~4.3.15~~4.4.15 The Authority will publish the ESORI Arrangements Guidance Document on the Authority's Website.

~~4.3.16~~4.4.16 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 $BX_{ext,t}$ term in Special Condition 4.23 (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

4.4.5 4.5.5 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 4.4.54.5.5 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 4.4.8,4.5.8, 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 4.4.8,4.5.8, 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

4.5.14.6.1 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 4.12 (System Operator Internal Allowed Revenue Restriction).

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

4.5.24.6.2 The value of ORAt is derived in accordance with the following formula:

$$ORA_t = NIA_t + CNIA_t + PRPN_t$$

where:

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

$CNIA_t$ is the carry over network innovation allowance and is derived in accordance with ~~Special Condition 4.7~~ Special Condition 4.8 (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 ~~4.4~~ 2 (System Operator Internal Allowed 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.

~~4.6.5~~ 4.7.5 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 ~~4.6.4~~; 4.7.4; and

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

~~4.6.6~~4.7.6 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

~~4.6.7~~4.7.7 The licensee must comply with the RIIO-2 NIA Governance Document.

~~4.6.8~~4.7.8 The Authority will issue and amend the RIIO-2 NIA Governance Document by direction.

~~4.6.9~~4.7.9 The Authority will publish the RIIO-2 NIA Governance Document on the Authority's Website.

~~4.6.10~~4.7.10 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.

~~4.6.11~~4.7.11 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.

~~4.6.12~~4.7.12 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

4.6.13 4.7.13 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

4.7.1 4.8.1 The purpose of this condition is to calculate the term $CNIA_t$ (the Carry-over Network Innovation Allowance term) which feeds into the Calculated Revenue in Special Condition 4.12 (System Operator Internal Allowed Revenue Restriction).

4.7.2 4.8.2 The effect of this condition is to extend RIIO-1 Network Innovation Allowance funding.

4.7.3 4.8.3 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)

4.7.4 4.8.4 For the Regulatory Year commencing on 1 April 2021, the value of CNIA is calculated in accordance with the following formula:

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

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 ~~ED~~ of ~~Special Condition 4.1~~ Special Condition 4.2 (System Operator Internal Allowed Revenue Restriction).

~~4.7.5~~4.8.5 For Regulatory Years commencing on or after 1 April 2022, the value of CNIAt is equal to zero.

~~4.7.6~~4.8.6 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)

~~4.7.7~~4.8.7 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

~~4.7.8~~4.8.8 The Authority will amend the RIIO-1 NIA Governance Document by direction.

4.7.9 ~~4.8.9~~ 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.

4.7.10 ~~4.8.10~~ The licensee must comply with the RIIO-1 NIA Governance Document.

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

4.7.11 ~~4.8.11~~ 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.

4.7.12 ~~4.8.12~~ The requirements of paragraph 4.7.11 ~~4.8.11~~ 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

4.8.1 ~~4.9.1~~ 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 4.4 ~~2~~ (System Operator Internal **Allowed Revenue Restriction**).

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

4.8.2 ~~4.9.2~~ The value of the SOLARt term is derived in accordance with the following formula:

$$SOLAR_t = LSOMOD_t + LSOTRU_t + LSOEMRINC_t$$

where:

<i>LSOMOD_t</i>	has the value in sheet SystemOperator of the ESO Price Control Financial Model unless the Authority directs otherwise in accordance with Part B;
<i>LSOTRU_t</i>	is derived in accordance with Part C; and
<i>LSOEMRINC_t</i>	is derived in accordance with Part D.

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

4.8.3 4.9.3 The value of LSOMOD_t is derived in accordance with the following formula:

$$LSOMOD_t = SOMOD_t * RPIF_t$$

where:

SOMOD_t 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

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.

4.8.4 4.9.4 The Authority will direct revisions to LSOMOD_t, coinciding with the Annual Iteration Process.

4.8.5 4.9.5 Before making a direction under paragraph 4.8.4 4.9.4 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 (LSOTRU_t)

4.8.6 4.9.6 For the three Regulatory Years commencing on 1 April 2021 to 1 April 2024, the value of LSOTRU_t is derived in accordance with the following formula:

$$LSOTRU_t = SOTRU_t * RPIF_t$$

where:

SOTRU_t has the value of SOTRU_t 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

RPIF_t has the value of RPIF_t 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 (LSOEMRIN_t)

~~4.8.7~~4.9.7 For the two Regulatory Years commencing on 1 April 2021 to 1 April 2022, the value of LSOEMRIN_t is derived in accordance with the following formula:

$$LSOEMRIN_t = SOEMRIN_t * RPIF_t$$

where:

SOEMRIN_t has the value of SOEMRIN_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 Years commencing on or after 1 April 2023 is zero.

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

Part A: Introduction

~~4.9.1~~4.10.1 This condition explains the process the Authority will follow when directing values for the term LSORAV_t (the legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term DPN_t (the depreciation term as calculated by the ESO Price Control Financial Model), which in turn feeds into SO Internal Allowed Revenue in Special Condition ~~4.12~~ (System Operator Internal Allowed Revenue Restriction).

~~4.9.2~~4.10.2 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

~~4.9.3~~4.10.3 The Authority will direct revisions to LSORAV_t, coinciding with the Annual Iteration Process.

~~4.9.4~~4.10.4 Before making a direction under paragraph 4.910.3 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.

Schedule 2: Relevant License Holders⁴

National Grid Electricity System Operator Limited

⁴ <https://www.ofgem.gov.uk/sites/default/files/2022-02/Copy%20of%20Electricity%20Registered%20or%20service%20addresses%20NEW%201.0.pdf>