



Making a positive difference  
for energy consumers

National Grid Electricity System Operator Limited  
and other interested stakeholders

Email: [ElectricityNetworkCharging@ofgem.gov.uk](mailto:ElectricityNetworkCharging@ofgem.gov.uk)

Date: 17 May 2023

Dear Stakeholders,

**Decision on the proposal to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited (NGESO) - February 2023**

On 3 February 2023, we<sup>1</sup> published a decision to modify the special conditions of the electricity transmission licence held by NGESO (the 'Licence')<sup>2</sup>. The changes (shown in the Notice and Schedule attached to our decision) were required to take account of the approval of two CUSC code modification proposals: CMP361 and CMP395.

Prior to our decision, we consulted on the proposed changes in September<sup>3</sup> and December<sup>4</sup> 2022 respectively. Each consultation referenced a Schedule of Changes showing the amendments to the licence as it existed at the time. These Schedules were then merged (with minor amendments) in our final decision.

It has come to our attention, however, that further unrelated changes to the same Chapter of the licence took effect from 14 December<sup>5</sup> and 26 December 2022<sup>6</sup>. It is therefore necessary to consolidate all of these changes into the Licence. The original schedule of changes up to Special Condition 4.7 (now renumbered to 4.8) remain unchanged. Attached to this letter is a revised schedule of changes for Special Condition 4.8 and 4.9 (now 4.9 and 4.10) taking account of all three decisions by updating number and cross-referencing. This has been reflected in the 1 April 2023 version of the licence.

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<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> [Decision to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited - February 2023 | Ofgem](#)

<sup>3</sup> [Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited | Ofgem](#)

<sup>4</sup> [Statutory consultation on a proposal to modify the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited | Ofgem](#)

<sup>5</sup> [Decision on modifications to the Electricity System Operator licence conditions | Ofgem](#)

<sup>6</sup> [Decision on modifications to the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1 | Ofgem](#)

If you have any questions regarding this letter, please contact Charlotte Friel— by email at [ElectricityNetworkCharging@ofgem.gov.uk](mailto:ElectricityNetworkCharging@ofgem.gov.uk)

Yours faithfully,

Charlotte Friel

**Schedule 1: Modifications to Chapter 4, 4.8 and 4.9 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 alteration to the modifications set out in the CMP361 Notice. Where we have merged amendments set out in decisions published on 19 October 2022 and 31 October 2022, we have highlighted these **in green**.)

## **Special Condition 4.8** **Special Condition 4.9** **System Operator Legacy Adjustments (SOLAR<sub>t</sub>)**

### **Introduction**

**4.8.1** **4.9.1** The purpose of this condition is to calculate the term  $SOLAR_t$  (the System Operator legacy adjustments term), which in turn feeds into SO Internal Allowed Revenue in Special Condition 4.1 **2** (System Operator Internal **Allowed Revenue Restriction**).

### **Part A: The formula for calculating the System Operator legacy adjustment term (SOLAR<sub>t</sub>)**

**4.8.2** **4.9.2** The value of the  $SOLAR_t$  term is derived in accordance with the following formula:

$$SOLAR_t = LSOMOD_t + LSOTRU_t + LSOEMRINC_t$$

where:

$LSOMOD_t$  has the value in sheet *SystemOperator* of the ESO Price Control Financial Model unless the Authority directs otherwise in accordance with **Parts B and C**;

$LSOTRU_t$  is derived in accordance with Part **CD**; and

$LSOEMRINC_t$  is derived in accordance with Part **ED**.

### **Part B: The formula for calculating the System Operator legacy MOD term (LSOMOD<sub>t</sub>)**

**4.8.3** **4.9.3** **For the Regulatory Years commencing on 1 April 2021 and 1 April 2022,** **14** 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 **67 (Legacy Adjustments)** 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 **76.14** and **76.15** of the Price Control Financial Handbook.

**4.9.4** **For the Regulatory Years commencing on 1 April 2023, the value of  $LSOMOD_t$  is derived in accordance with the following formula:**

$$LSOMOD_t = COA \cdot CWACC_t \cdot \frac{PI_t}{PI_{2018/19}}$$

where:

**COA** means the closeout adjustment in 2018/19 prices, and has the value directed by the Authority in accordance with Chapter 6 (Legacy Adjustments) of the ESO Price Control Financial Handbook;

**CWACC<sub>t</sub>** means compound WACC and has the value derived in accordance with Part B;

**PI<sub>t</sub>** has the value given to it by Part E of Special Condition 4.1; and

**PI<sub>2018/19</sub>** has the value given to it by Part E of Special Condition 4.1 of PI<sub>t</sub> for the Regulatory Year commencing on 1 April 2018;

For the Regulatory Years commencing on or after 1 April 2024 the value of LSOMOD<sub>t</sub> is zero.

4.8.4 4.9.5 The Authority will direct revisions to LSOMOD<sub>t</sub>, coinciding with the Annual Iteration Process.

4.8.5 4.9.6 Before making a direction under paragraphs 4.8.4 and 4.9.5 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: Compound WACC**

For the Regulatory Year commencing on 1 April 2021, CWACC<sub>t</sub> has the value of 1.

4.9.7 For Regulatory Years commencing on or after 1 April 2022, CWACC<sub>t</sub> is derived in accordance with the following formula:

$$CWACC_t = \prod_{t=2021/22}^{t-1} (1 + WACC_t)$$

where:

**WACC<sub>t</sub>** means vanilla weighted average cost of capital, derived set out in accordance with the ESO Price Control Financial Handbook.

### **Part C: Part D: The formula for calculating the System Operator legacy TRU term (LSOTRU<sub>t</sub>)**

4.8.6 4.9.8 For the three Regulatory Years commencing on 1 April 2021 to and 1 April 2024 2022, the value of LSOTRU<sub>t</sub> 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 76.14 and 76.15 of the Price Control Financial Handbook.

4.9.9 For the Regulatory Years commencing on 1 April 2023 to and 1 April 2024, the value of  $LSOTRU_t$  is derived in accordance with the following formula:

$$LSOTRU_t = \left[ \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \cdot LPVF_{t-2} \cdot LPVF_{t-1} \cdot SOREV_{t-2} \cdot \frac{PI_t}{PI_{2009/10}}$$

where:

$RPIA_t$  has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021.

$RPIF_t$  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 6.14 and 6.15 of the ESO Price Control Financial Handbook.

$SOREV_{t-2}$  has the value of  $SOREV_{t-2}$  as determined in accordance with Part C of Special Condition 4A (Restriction of System Operator Internal Revenue) of this licence as in force on 31 March 2021. For this calculation the component SOPS (SO Opening Base Revenue Allowance) is zero.

$LPVF_t$  has the value derived in accordance with paragraph 4.8.11.

$PI_t$  has the value given to it by Part E of Special Condition 4.1; and

$PI_{2009/10}$  has the value of  $PI_t$  given to it by Part E of Special Condition 4.1 for the Regulatory Year commencing on 1 April 2009.

4.9.10 The value of  $LPVF_t$  is derived in accordance with the following formula:

$$LPVF_t = 1 + WACC_t$$

where:

$WACC_t$  means vanilla weighted average cost of capital, derived in accordance with the ESO Price Control Financial Handbook.

**Part D: ~~Part E:~~ The formula for calculating the System Operator legacy EMR incentives term (LSOEMRINC<sub>t</sub>)**

~~4.8.7~~4.9.11 For the two Regulatory Years commencing on 1 April 2021 ~~to~~ **and 1 April 2022**, the value of LSOEMRINC<sub>t</sub> is derived in accordance with the following formula:

$$LSOEMRINC_t = SOEMRINC_t * RPIF_t$$

where:

SOEMRINC<sub>t</sub> has the value of SOEMRINC<sub>t</sub> 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<sub>t</sub> has the value of RPIF<sub>t</sub> 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 ~~7.6.14~~ and ~~7.6.15~~ of the Price Control Financial Handbook; ~~and for Regulatory Years commencing on or after 1 April 2023 is zero.~~

**For Regulatory Years commencing on or after 1 April 2023 the value of LSOEMRINC<sub>t</sub> is zero.**

**~~Special Condition 4.9~~ Special Condition 4.10 Legacy net RAV additions (LSORAV<sub>t</sub>)**

**Introduction**

~~4.9.1~~4.10.1 This condition explains the process the Authority will follow when directing values for the term LSORAV<sub>t</sub> (the legacy RIIO-1 net RAV additions term). This contributes to the calculation of the term DPN<sub>t</sub> (the depreciation term as calculated by the ESO Price Control Financial Model), which in turn feeds into SO Internal Allowed Revenue in Special Condition ~~4.1.2~~ **(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 A: Authority assessment and direction**

~~4.9.3~~4.10.3 The Authority will direct revisions to LSORAV<sub>t</sub>, coinciding with the Annual Iteration Process **and following implementation of closeout methodologies set out in the ESO Price Control Financial Handbook.**

~~4.9.4~~4.10.4 Before making a direction under paragraph ~~4.9.3~~ **4.10.3** 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.

(c)