

**To: National Grid Electricity System Operator Limited  
Electricity Act 1989  
Section 11A(2)**

**Notice of decision to proceed with the modification of the special conditions of the Electricity Transmission Licence held by National Grid Electricity System Operator Limited proposed in our statutory consultation of 14 March 2023 subject to the consolidation and cross-referencing described in our Erratum Notice of 4 May 2023**

1. The Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> has decided to proceed with modification of the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited ('NGESO') granted or treated as granted under Section 6(1)(b) of the Electricity Act 1989 by amending Special Condition 1.1 ('SpC 1.1'), Special Condition 3.3 ('SpC 3.3') and Special Condition 3.4 ('SpC 3.4'), making the housekeeping amendments to Chapter 1, Chapter 2, Chapter 3, Chapter 4 and Chapter 5 and addressing the consolidation and cross-referencing issues described in our Erratum notice of 4 May 2023.
2. These modifications enable implementation of the Strategic Innovation Fund (SIF) and legacy arrangements for the Network Innovation Competition (NIC) in the electricity distribution sector for RIIO-ED2.
3. The effect of the modifications is to make provision for NGESO to collect SIF and NIC funding through transmission network charges and transfer funding to electricity distribution network operators. The proposed modifications also make provision for funds to be transferred back to NGESO where applicable in line with SIF and NIC governance arrangements. Housekeeping amendments to Chapters 1-5 ensure correct referencing and fix typographical errors throughout the licence.
4. The Authority has taken account of the representations duly made during the consultation period
5. A copy of the modifications and other documents referred to in this Notice have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)). Alternatively they are available from [foi@ofgem.gov.uk](mailto:foi@ofgem.gov.uk).
6. The modifications shall come into effect on the 6th of July 2023.

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Steven McMahon  
Duly authorised on behalf of the Gas and Electricity Markets Authority

**11 May 2023**

<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

## Schedule 1

Deletions are shown in ~~strike through~~; Additions are shown in red double underline. Amendments to show the correct base starting point licence (as notified in our Erratum published on 4 May 2023) are **yellow highlighted text**

# Chapter 1: Interpretation and definitions

## Special Condition 1.1 Interpretation and definitions

### Introduction

- 1.1.1 The purpose of this condition is to provide for the special conditions of this licence:
- (a) some provisions of general interpretation; and
  - (b) the meaning of the defined terms, which are capitalised throughout the special conditions.

### Part A: Interpretation

- 1.1.2 Wherever the subscript 't' is used, without further numerical notation, the value to be used is the one for the Regulatory Year in question.
- 1.1.3 A positive or negative numerical notation indicates that the value to be used is for a year after or before the Regulatory Year in question and the number indicates how many years after or before.
- 1.1.4 In some cases, other subscripts may also be used to denote the value for a specific Regulatory Year and are noted in those Conditions.
- 1.1.5 Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee shall be the actual sum accrued, received or paid by or to the licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes charged directly by reference to the amounts so accrued, received or paid.
- 1.1.6 Any reference in these special conditions to:
- (a) a provision thereof;
  - (b) a provision of the standard conditions of electricity transmission licences;
  - (c) a provision of the standard conditions of electricity supply licences;
  - (d) a provision of the standard conditions of electricity distribution licences;
  - (e) a provision of the standard conditions of electricity generation licences; or
  - (f) a provision of the standard conditions of electricity interconnector licences

must, if these or the standard conditions in question come to be modified, be construed, so far as the context permits as a reference to the corresponding provision of these or the standard conditions in question as modified.

- 1.1.7 Any reference in these special conditions to a numbered appendix is, unless otherwise stated, to the relevant numbered appendix to that special condition.
- 1.1.8 Unless otherwise stated, any reference in these special conditions to the Authority giving a direction, consent, derogation, approval or designation includes:
  - (a) giving it to such extent, for such period of time, and subject to such conditions as the Authority thinks reasonable in all the circumstances of the case; and
  - (b) revoking or amending it after consulting the licensee.
- 1.1.9 Unless otherwise stated, any reference in these special conditions to the Authority making a determination includes making it subject to such conditions as the Authority thinks reasonable in all the circumstances of the case.
- 1.1.10 Any direction, consent, derogation, approval, designation or determination by the Authority will be given or made in writing.
- 1.1.11 Where these special conditions provide for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before, on or after 1 April 2021.
- 1.1.12 Any monetary values in these special conditions are in sterling in a 2018/19 price base unless otherwise indicated.
- 1.1.13 The price base for each PCFM Variable Value is denoted in the ESO Price Control Financial Model 'Input' sheet. Where a PCFM Variable Value is listed as a "£m nominal" value, the ESO Price Control Financial Model will convert these values in accordance with Part D of Special Condition 4.2 (System Operator Internal Allowed Revenue), so that the component terms of Calculated Revenue are in a 2018/19 price base.

## **Part B: Definitions**

- 1.1.14 In these special conditions the following defined terms have the meanings given in the table below.
- 1.1.15 Where these special conditions state that the outputs, delivery dates and allowances are located in another document, the following defined terms also have the meanings given in the table below in that document.
- 1.1.16 Where the table below states that a defined term has the meaning given to it by:
  - (a) another condition of this licence;

- (b) the ESO Price Control Financial Instruments;
- (c) the RIGs;
- (d) the STC;
- (e) the System Operator - Transmission Owner Code;
- (f) the Grid Code;
- (g) the CUSC;
- (h) the Fuel Security Code or
- (i) an Associated Document

the defined term is to have the meaning given in that provision or document as amended from time to time.

the Act	means the Electricity Act 1989.
Actual Corporation Tax Liability	means the value as shown in the licensee's company tax return (CT600) as submitted to Her Majesty's Revenue and Customs, relating to the licensee.
Affiliate	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Allowed Security Costs	has the meaning given to the term in the Fuel Security Code.
Annual Average Cold Spell Conditions	has the meaning given to the term in the Grid Code.
Annual Iteration Process	means in relation to the ESO Price Control Financial Model, the process set out in Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ESO Price Control Financial Handbook that may be applicable to it.
Appropriate Auditor	means: <ul style="list-style-type: none"> <li>(a) in the case of a licensee which is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;</li> <li>(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed; and</li> <li>(c) in any other case, a person who is eligible for</li> </ul>

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appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006.

Appropriately Qualified Independent Examiner	means a qualified tax accountant from a firm regulated by a relevant professional body, who may be an employee of the licensee's Appropriate Auditors.
Associate	means: (a) an Affiliate or Related Undertaking of the licensee; (b) an Ultimate Controller (as defined in standard condition A1 (Definitions and interpretation)) of the licensee; (c) a Participating Owner of the licensee; or (d) a Common Control Company.
Associated Document	means a document issued and amended by the Authority by direction in accordance with the special conditions of this licence and any reference to an Associated Document is to that document as amended from time to time unless otherwise specified.
the Authority	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Authority's Website	means <a href="http://www.ofgem.gov.uk">www.ofgem.gov.uk</a> .
Bad Debt	means the expense incurred by the licensee when Transmission Network Charges related charges owed to the licensee are not considered recoverable and which crystallises when normal payment terms have been exceeded and the licensee has made all reasonable efforts to collect the debt but is unable to recover the amounts owed.
Balancing Mechanism	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).

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Balancing Services	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Balancing Services Activity	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Between	in the context of something being done, or occurring, between two dates, means on or after the first date and on or before the second date.
Board	means the licensee's board of directors.
BSC	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Business Plan	means the plan established and published under Part B of Special Condition 4.4 (Electricity System Operator Reporting and Incentive Arrangements).
Business Plan Cycle	means the period for which the Business Plan is applicable with the first period commencing on 1 April 2021 and ending on 31 March 2023.
Business Plan Guidance Document	means a document developed and published by the Authority in accordance with Part B of Special Condition 4.3 (Electricity System Operator Reporting and Incentive Arrangements).
Calculated Revenue	has the value given to it in paragraph 4.2.4 of Special Condition 4.2 (System Operator Internal Allowed Revenue).
Calculated Tax Allowance	means the value of the $TAX_t$ term as set out in sheet <i>SystemOperator</i> of the ESO Price Control Financial Model.
Capacity Market ("CM")	means the scheme established by the Electricity Capacity Regulations 2014 (as amended) and the Capacity Market Rules (as amended) to which the licensee is the nominated delivery body.
Carry-over Network Innovation Allowance	means the allowance provided by Special Condition 4.8 (Carry-over Network Innovation Allowance ( $CNIA_t$ )) to extend the RIIIO-1 Network Innovation Allowance for an additional Regulatory Year.

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Commercial Operational Services	means a service provided to the licensee by Transmission Owners or any successor company to each with the purpose of lowering the overall costs associated with the procurement and use of balancing services by the licensee above these parties obligations under the licence or the STC.
Compliance Certificate	means a certificate certifying that, to the best knowledge, information and belief of the sufficiently independent director chair of the Compliance Committee, having made due and careful enquiry, the report of the Compliance Officer fairly represents the licensee's compliance with the specified business separation duties.
Compliance Committee	means a sub-committee of the board of the licensee, for the purpose of overseeing and ensuring the performance of the duties and tasks of the Compliance Officer set out in paragraph 2.3.27 and the compliance of the licensee with its specified business separation duties.
Compliance Officer	means a competent person appointed for the purpose of facilitating compliance by the licensee with the obligations pursuant to Special Condition 2.3 (Business Separation requirements and compliance obligations), Standard Condition B5 (Prohibition of Cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2.6 (Prohibited Activities and Conduct of the Transmission Business).
Compliance Report	means a report produced in accordance with paragraphs 2.3.28 and 2.3.29 of Special Condition 2.3 (Business Separation requirements and compliance obligations).
Compliance Statement	means a statement describing the practices, procedures and systems by which the licensee will secure compliance with the specified business separation duties, as defined in paragraph 2.3.20 of Special Condition 2.3 (Business Separation requirements and compliance obligations).
Confidential EMR Administrative Information	means Confidential EMR Information disclosed to or acquired by the licensee by virtue of its role in performing EMR Administrative Functions.

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Confidential EMR Delivery Plan Information	<p>means Confidential EMR Information which comprises either:</p> <p>(a) information on the costs of low carbon electricity generation technologies; or</p> <p>(b) information, the unauthorised disclosure of which would be adverse to the commercial interests of the Information provider,</p> <p>in each case, where such information is:</p> <p>(i) disclosed to or acquired by the licensee by virtue of its role in performing EMR Data Handling Functions; and</p> <p>(ii) specific to an individual energy industry participant, plant, facility, generating station or generation set, or the owner or operator thereof.</p>
Confidential EMR Information	<p>means all information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee or any of its agents or representatives by virtue of the performance of EMR Functions by the licensee, but excluding:</p> <p>(a) all information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence;</p> <p>(b) all information which the licensee can demonstrate was lawfully in its written records prior to the date of disclosure of the same by the owner of the Confidential EMR Information or which it received from a third party independently entitled to disclose it; and</p> <p>(c) all information properly received in the usual course of the licensee's activities pursuant to paragraphs (a) to (c) of the definition of Permitted Purpose in Standard Condition A1 (Definitions and interpretation).</p>
Consumer Prices Index Including Owner Occupiers' Housing Costs	<p>means the monthly values of the "CPIH All Items", series ID "L522", published by the Office for National Statistics (or any other public body acquiring its functions).</p>
Contracts for Difference	<p>means a contract for difference under Chapter 2 of Part 2 of the Energy Act to which the licensee is the nominated delivery body.</p>
COVID-19 Bad Debt	<p>means Bad Debt owed to the licensee by one or more COVID-19 Defaulting Electricity Supplier.</p>
COVID-19 Defaulting Electricity Supplier	<p>means an Electricity Supplier who participated in the COVID-19 Scheme and whose insolvency has resulted in the licensee incurring Bad Debt. The timing and meaning of insolvency is as per the Insolvency Act 1986.</p>



COVID-19 Scheme	means the scheme set out in the document with the title ‘Transmission Operators’ (“TOs”) Covid-19 Optional Transmission Network Use of System Charges Extended Payment Terms Scheme (the “Scheme”)', published on the Electricity Network Association's website.
Covid Support Scheme	has the meaning given to that term in accordance with section 14 of the CUSC.
CUSC	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Customer	for the purposes of Special Condition 2.1 (EMR Arrangements) means any Stakeholder who pays the licensee through network charges or fees.
Customer and Stakeholder Satisfaction Survey	means an annual survey of Customers and Stakeholders conducted under Special Condition 2.1 (EMR Arrangements) to assess Customer and Stakeholder satisfaction with its Capacity Market ‘CM’ and Contracts for Different ‘CfD’ activities.
Data Best Practice Guidance	means the guidance document issued by the Authority in accordance with Part D of Special Condition 2.11 (Digitalisation).
Defaulting Connection and Use of System Code Party	means a party to the CUSC which has failed to make payments to the licensee in accordance with the requirements of that code.
Demand Side Response	means a commitment by a person to provide an amount of electricity capacity by either reducing the import of electricity or exporting electricity generated (as more fully defined in the Electricity Capacity Regulations 2014).
De Minimis Business	has the meaning given to that term in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing).
Developer Capacity	has the meaning given to that term in the CUSC.
Digitalisation Action Plan	means a document prepared and published by the licensee in accordance with Part B of Special Condition 2.11 (Digitalisation).
Digitalisation Strategy	means a document prepared and published by the licensee in accordance with Part A of Special Condition 2.11 (Digitalisation).

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Directly Attributable Costs	means costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees), that have not been otherwise funded through Transmission Network Charges or services under Special Condition 8B (Services treated as Excluded Services) of this licence as in force on 31 March 2021 or the NIC Funding Mechanism.
Directly Remunerated Services	has the meaning given to that term in Part A of Special Condition 2.9 (Services treated as Directly Remunerated Services).
Disallowed Expenditure	means revenue received (whether by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees) under the NIC Funding Mechanism, that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
Disapplication Date	means the date proposed by the licensee under a Disapplication Request on and after which the specified Relevant Special Conditions (or any part or parts of them) would cease to have effect.
Disapplication Notice	means the notice under Special Condition 2.10 (Disapplication of Relevant Special Conditions) that terminates the application of the Relevant Special Conditions (or any part or parts of them) specified in that request.
Disapplication Request	means a request under Special Condition 2.10 (Disapplication of Relevant Special Conditions) to consent to the disapplication of the Relevant Special Conditions (in whole or in part).
Distribution Licence	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
DSAP Guidance	means the guidance document issued by the Authority in accordance with Part C of Special Condition 2.11 (Digitalisation).
Dual Fuel Activities	means those activities which are conducted by the licensee in conjunction with National Grid Gas plc (company number 2006000) (and its successors in title) in its role as gas system operator in order to be delivered in a manner that provides a single combined view of energy security, insights or coordination into the interactions between the gas and electricity sectors,

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	and where such activities add value for energy consumers.
Dual Fuel Roles	means those employment roles which are engaged in Dual Fuel Activities and which are specified as such in the Compliance Statement established under Part D of Special Condition 2.3 (Business Separation requirements and compliance obligations)
Electricity Capacity Report	means the report prepared by the licensee and defined in Regulation 7 of the Electricity Capacity Regulations 2014.
Electricity Distribution Licensee	means the holder of a licence granted or treated as granted under section 6(1)(c) of the Act.
Electricity Licensee	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Electricity Supplier	means the holder of a supply licence granted or treated as granted under section 6(1)(d) of the Act.
Electricity System Restoration	means the procedure used to restore power in the event of a Total Shutdown or Partial Shutdown (each as defined in the Grid Code) of the National Electricity Transmission System.
Electricity System Restoration Assurance Framework	means an assurance framework prepared by the licensee for approval by the Authority containing, at a minimum, the information provided for under paragraph 2.2.8 (a)-(d) of Special Condition 2.2.
Electricity System Restoration Model	means the model used by the licensee to assess the capabilities of the National Electricity Transmission System and provide a range of credible Restoration Times.
Electricity System Restoration Standard	means the target Restoration Time(s) that the Secretary of State directs the licensee to have the capability to meet.
Eligible CNIA	means the amount of expenditure spent or accrued by the licensee in respect of Eligible CNIA Projects.
Eligible CNIA Internal Expenditure	means the amount of Eligible CNIA spent or accrued on the internal resources of the licensee.
Eligible CNIA Projects	means RII0-1 Network Innovation Allowance projects on which work commenced prior to 31 March 2021, pursuant to the requirements of the RII0-1 NIA Governance Document.

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Eligible SIF Project	means a project undertaken by the licensee, any other Transmission Licensee <u>or by an Electricity Distribution Licensee</u> that the Authority assesses as satisfying such requirements of the SIF Governance Document as are necessary to enable the project to be funded under the SIF Funding Mechanism.
Eligible NIC Project	means a project undertaken by the licensee, any other Transmission Licensee <u>or by an Electricity Distribution Licensee</u> that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Embedded Transmission System	means a transmission system consisting of plant and equipment that includes relevant offshore lines which forms part of the National Electricity Transmission System by utilising a connection to an electricity distribution system.
EMR	means Electricity Market Reform.
EMR Administrative Functions	means any functions conferred on the licensee by or by virtue of: (a) the Electricity Capacity Regulations 2014, other than Part 3; (b) any capacity market rules made by the Secretary of State pursuant to section 34(1) of the Energy Act and any capacity rules made by the Authority pursuant to section 34(3) of the Energy Act; (c) the Contracts for Difference (Allocation) Regulations 2014; and (d) any allocation framework made by the Secretary of State pursuant to section 13(2)(a) of the Energy Act.
EMR Administrative Team	means the team established or to be established by the licensee in accordance with paragraph 2.4.9 of Special Condition 2.4 (Electricity Market Reform).
EMR Compliance Officer	means a competent person appointed for the purpose of facilitating compliance by the licensee with the EMR Relevant Duties.
EMR Compliance Statement	means a statement describing the practices, procedures and systems by which the licensee will secure compliance with the EMR Relevant Duties.

EMR Data Handling Functions	means the data anonymisation and data aggregation functions which shall be performed in order to achieve the objective specified in paragraph 2.4.6(a) of Special Condition 2.4 (Electricity Market Reform).
EMR Data Handling Team	means the team established or to be established by the licensee in accordance with paragraph 2.4.5 of Special Condition 2.4 (Electricity Market Reform).
EMR Delivery Body Performance Report	means the report prepared by the licensee and as defined in Regulation 83 of the Electricity Capacity Regulations 2014.
EMR Functions	has the meaning given to that term in in Chapter 5 of Part 2 of the Energy Act.
EMR Relevant Duties	means the licensee's obligations pursuant to Special Condition 2.4 of Special Condition 2.4 (Electricity Market Reform).
Energy Act	means the Energy Act 2013.
Energy System Data	means facts and statistics collected together that describe the energy system (current, historic and forecast), including: the presence and state of infrastructure, its operation, associated market agreements and their operations, policy and regulation.
ESO Performance Panel	means a panel established by the Authority to make recommendations to the Authority on the performance of the licensee in a Business Plan Cycle.
ESO Price Control Financial Handbook	means the document of that name that was first published by the Authority to come into effect on 1 April 2021 and includes specific information and advice about the operation of the Annual Iteration Process and the ESO Price Control Financial Model, as modified from time to time in accordance with the provisions of Special Condition 5.1 (Governance of the ESO Price Control Financial Instruments).
ESO Price Control Financial Instrument	means the ESO Price Control Financial Handbook and the ESO Price Control Financial Model.
ESO Price Control Financial Model	means the model of that name (with a suffix referring to the month of November in Regulatory Year t-1) that was first published by the Authority to come into effect on 1 April 2021; (a) that is represented by a workbook in Microsoft Excel® format maintained under that name (with a Regulatory Year suffix) on the Authority's Website; and (b) that the Authority will use to determine the value of

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	the term SOIAR <sub>t</sub> through the application of the Annual Iteration Process in accordance with the provisions of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) and as modified from time to time in accordance with the provisions of Special Condition 5.1 (Governance of the ESO Price Control Financial Instruments).
ESO Price Control Financial Model Working Group	means the working group identified in and whose terms of reference are set out in Chapter 2 of the ESO Price Control Financial Handbook.
ESORI Arrangements Guidance Document	means a document developed and published by the Authority in accordance with Part C of Special Condition 4.4 (Electricity System Operator Reporting and Incentive Arrangements).
Exceptional Costs Support Scheme	has the meaning given to the term in accordance with section 14 of the CUSC
Expenses Policy	means the policy described in Part C of Special Condition 2.14 (Remuneration Policy and Expenses Policy).
External costs of the Balancing Services Activity Revenue	means the revenue calculated in accordance with the formula set out in Part A of Special Condition 4.3 (Balancing Services external costs (BXext <sub>t</sub> )).
Fuel Security Code	has the meaning given to that term in Standard Licence Condition A1 (Definitions and interpretation).
Funding Return	means the total amount (in respect of the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees) of any amounts arising under paragraph 3.3.4 of Special Condition 3.3 (RIIO-1 Network Innovation Competition).
Funding Return Mechanism	means the mechanism that provides for the recovery from the licensee and from other Electricity Transmission Licensees and Electricity Distribution Licensees, in each case to such extent (if any) as may be relevant, of: <ul style="list-style-type: none"> <li>(a) Halted Project Revenues;</li> <li>(b) Disallowed Expenditure;</li> <li>(c) Returned Royalty Income; and</li> <li>(d) Returned Project Revenues.</li> </ul>

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Grid Code	has the meaning given to that term in Standard Licence Condition A1 (Definitions and interpretation).
Halted Project Revenues	means revenues received (whether by the licensee or by any other Transmission Licensee and Electricity Distribution Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted, in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
Independent Examiner	means a person nominated by, and independent of, the licensee or any business or Associate of the licensee with the skill and knowledge to undertake an evaluation of the practices, procedures and systems implemented by the licensee in order to secure compliance with Special Condition 2.4 (Electricity Market Reform) and 2.3 (Business separation requirements and compliance obligations).
Interconnector Owner	means the holder for the time being of an electricity interconnector licence in relation to which licence the Authority has issued a Section G (Cap and Floor Conditions) Direction and in which Section G remains in effect (whether or not subject to any terms included in the Section G (Cap and Floor Conditions) Direction or to any subsequent variation of its terms, to which the licensee may be subject).
Joint Works Projects	means where the licensee and Transmission Owners or any successor company to each, agree to provide Commercial Operational Services so as to minimise costs on the national electricity transmission system when the costs are higher than £1,900,000.
Joint Works Projects Principles	means the following criteria that a project must meet to qualify as a Joint Works Project - that the project must: <ul style="list-style-type: none"> <li>(a) provide benefits to existing and future electricity consumers in Great Britain;</li> <li>(b) not be funded and be capable of being funded elsewhere and</li> <li>(c) must be supported by an independent review by an appropriate third-party independent expert on the licensee's analysis and conclusions on paragraph 4.5.6(a) and 4.5.6(b) of Special Condition 4.5 (SO-TO Mechanism (SOTOC<sub>t</sub>)).</li> </ul>



Licensed Activity	has the meaning given to the term “Transmission Business Activities” in Standard Condition B1 (Regulatory Accounts).
Materiality Threshold	has the value £3m.
Maximum Revenue	means the revenue calculated in accordance with the formula set out in Part B of Special Condition 3.1 (Transmission Network Revenue Restriction).
National Demand	has the meaning given to the term in the Grid Code.
National Electricity Transmission System	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Network Access Policy	means a design to facilitate efficient performance and effective liaison between the System Operator and Transmission Owners in relation to the planning, management, and operation of the National Electricity Transmission System (NETS) for the benefit of consumers.
Network Operator	has the meaning given to the term in the Grid Code.
NIA	means the network innovation allowance provided by Special Condition 4.7 (The RII0-2 network innovation allowance (NIA <sub>t</sub> )).
NIC	means the network innovation competition provided by Special Condition 3.3 (RIIO-1 Network Innovation Competition).
NIC Funding	means the total amount of funding authorised by the Authority for the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.
NIC Funding Mechanism	is the mechanism by which the licensee recovers the amount of authorised NIC Funding and apportions that amount between the licensee and other Transmission Licensees and Electricity Distribution Licensees as appropriate in accordance with the NIC Governance Document.
NIC Governance Document	means the document of that name maintained by the Authority in accordance with Part C of Special Condition 3.3 (RIIO-1 Network Innovation Competition).
NTS System Operation Activity	has the meaning given to that term in Special Condition 1A.4 of National Grid Gas plc’s gas transporter licence.

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 26 December 2022



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Offshore Transmission Licence	means a transmission licence held by an Offshore Transmission Owner.
Offshore Transmission Owner	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Outage Change	<p>means a change notified to Transmission Owners, Offshore Transmission Owners or any successor company to each, by the licensee to the Outage Plan on or after Week 49, as updated from time to time in accordance with the STC, other than:</p> <p>(a) a change to the Outage Plan requested by Transmission Owners, Offshore Transmission Owners or any successor company to each (the “original change”); and</p> <p>(b) such changes notified to Transmission Owners, Offshore Transmission Owners or any successor company to each by the licensee which:</p> <p>(i) the licensee and Transmission Owners, Offshore Transmission Owners or any successor company to each agree are necessary in order to give effect to the original change; or</p> <p>(ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change, and</p> <p>(c) without prejudice to sub-paragraphs (a) and (b) above, any change to the Outage Plan notified to Transmission Owners, Offshore Transmission Owners or any successor company to each by the licensee which the licensee and the Transmission Owner or Offshore Transmission Owner agree is not an Outage Change under this licence condition (a “non-chargeable outage change”).</p>
Outage Plan	has the meaning given to that term the STC.
Partial Shutdown	has the meaning given to that term in the Grid Code.
PCFM Guidance	means the guidance document issued by the Authority in accordance with Part E of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model).
PCFM Variable Values	means the values in the table of that name in the ESO Price Control Financial Handbook.
Peak National Demand	means the outturn peak National Demand adjusted in accordance with the Weather Correction Methodology.
Peak National Demand Forecast	means the one-year or four-year ahead forecast of Peak National Demand that is associated with the licensee’s Peak System Demand Forecast and estimate of capacity

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	to meet that Peak System Demand Forecast in the Electricity Capacity Report.
Peak System Demand Forecast	means the forecast in the Electricity Capacity Report of peak demand across the whole of the electricity system met by all forms of generation; which includes forecasts of Peak National Demand, peak demand met by distributed generation and peak demand reduction by Demand Side Response.
Pension Scheme Established Deficit	means the difference between assets and liabilities, determined at any point in time, attributable to pensionable service up to the end of the 31 March 2012 and relating to the Transmission Business under the Authority's Price Control Pension Principles, and applies equally if there is a subsequent surplus.
Permitted Purpose	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Prescribed Rates	means: (a) business rates in England and Wales; and (b) non-domestic rates in Scotland, or any equivalent tax or duty replacing those rates that is levied on the licensee in respect of its Licensed Activity.
Price Control Pension Principles	means the principles set out in the Authority's guidance note on price control pension principles issued as Appendix 3 to the decision letter, 'Decision on the Authority's policy for funding Pension Scheme Established Deficits' dated 7 April 2017.
Price Control Period	means the period of five Regulatory Years commencing on 1 April 2021.
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.
Recovered Revenue	means the revenue (measured on an accruals basis) derived from the provision of Transmission Network Services (including to any separate business, other than the Transmission Business) in the Regulatory Year, after deduction of value added tax (if any) and any other taxes charged directly by reference to such accruals.

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Regulatory Year	means a period of twelve months commencing on 1 April.
Related Undertaking	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Relevant Other Competitive Businesses	means the business of: (a) participating in, or intending to participate in, a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted; (b) an Offshore Transmission Owner; (c) undertaking carbon capture and storage activities; or (d) owning or operating an entity participating in, or intending to participate in, activities which require a licence under section 6(1)(e) of the Electricity Act 1989.
Relevant Regulated Businesses	means National Grid Electricity Transmission plc (company number 2366977) (and its successors in title) and its affiliates or related undertakings participating in the transmission of electricity pursuant to a transmission licence treated as granted to National Grid Electricity Transmission plc under section 6(1)(b) of the Act; National Grid Gas plc (company number 2006000) (and its successors in title) and its affiliates or related undertakings participating in gas transportation pursuant to a gas transporter licence treated as granted to National Grid Gas plc under section 7 of the Gas Act 1986; Western Power Distribution (South West) plc (company number 02366894) (and its successors in title) and its affiliates or related undertakings participating in the distribution of electricity pursuant to a distribution licence treated as granted to Western Power Distribution (South West) plc under section 6(1)(c) of the Act; Western Power Distribution (South Wales) plc (company number 02366985) (and its successors in title) and its affiliates or related undertakings participating in the distribution of electricity pursuant to a distribution licence treated as granted to Western Power Distribution (South Wales) plc under section 6(1)(c) of the Act; Western Power Distribution (West Midlands) plc (company number 03600574) (and its successors in

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	<p>title) and its affiliates or related undertakings participating in the distribution of electricity pursuant to a distribution licence treated as granted to Western Power Distribution (West Midlands) plc under section 6(1)(c) of the Act; and</p> <p>Western Power Distribution (East Midlands) plc (company number 02366923) (and its successors in title) and its affiliates or related undertakings participating in the distribution of electricity pursuant to a distribution licence treated as granted to Western Power Distribution (East Midlands) plc under section 6(1)(c) of the Act.</p>
Relevant Special Conditions	<p>means Special Condition 4.2 (System Operator Internal Allowed Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 4.2 to which a Disapplication Request under Special Condition 2.10 (Disapplication of Relevant Special Conditions) relates; and</p> <p>Special Condition 3.1 (Transmission Network Revenue Restriction), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 3.1 to a Disapplication Request under Special Condition 2.10 (Disapplication of Relevant Special Conditions).</p>
Relevant Valuation Agency	<p>means:</p> <p>(a) the Valuation Office Agency in England and Wales (or any other public body acquiring its functions); and</p> <p>(b) the Scottish Assessors Association in Scotland (or any other public body acquiring its functions).</p>
Remuneration Policy	<p>means the policy described in Part B of Special Condition 2.14 (Remuneration Policy and Expenses Policy).</p>
Restoration Approach	<p>means the method by which the licensee will restore the National Electricity Transmission System in the event of a Total Shutdown or Partial Shutdown (each as defined in the Grid Code).</p>
Restoration Services	<p>has the meaning given to that term in Standard Condition C1 (Interpretation of Section C)</p>
Restoration Time	<p>means the time it would take to energise a part or parts of the National Electricity Transmission System following a Total Shutdown or Partial Shutdown (each as defined in the Grid Code).</p>
Retail Prices Index	<p>means the monthly values of the “RPI All Items Index”, series ID “CHAW”, published by the Office for National</p>

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	Statistics (or any other public body acquiring its functions).
Returned Project Revenues	means (a) revenues received (whether by the licensee or any other Transmission Licensee or Electricity Distribution Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project, that the Authority determines have not been spent, and where that Eligible NIC Project has been carried out in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction; or (b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensees) other than Returned Royalty Income, that the Authority determines are payable to customers.
Returned Royalty Income	means revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees), less Directly Attributable Costs, that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
RIGs	means the document published by the Authority in accordance to Standard Condition B15 (Regulatory Instructions and Guidance).
RIIO-1	means the price control that applied to the licensee for the period of eight years beginning on 1 April 2013.
RIIO-1 Bad Debt	means the Bad Debt incurred during RIIO-1.
RIIO-1 Network Innovation Allowance	means the arrangements established by Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021.
RIIO-1 NIA Governance Document	means the document issued by the Authority in accordance with Part E of Special Condition 3H (The Network Innovation Allowance) as in force on 31 March 2021.
RIIO-2 NIA Governance Document	means the document issued by the Authority in accordance with Part B of Special Condition 4.7 (The RIIO-2 network innovation allowance (NIA <sub>t</sub> )).

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RIIO-2 NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the RIIO-2 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 4.7 (the RIIO-2 network innovation allowance (NIA <sub>r</sub> )).
RIIO-1 SO Bad Debt	means the SO Bad Debt incurred during RIIO-1.
RIIO-2 period	means the price control that applies to the licensee for the period of five Regulatory Years beginning on 1 April 2021 and ending on 31 March 2026.
Security Period	for the purposes of Special Condition 2.8 (Allowances in respect of a Security Period) means a period commencing on the date on which any direction issued by the Secretary of State under section 34(4) of the Act enters into effect and terminating on such date (being not earlier than the date such direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including, without limitation, licence holders liable to be principally affected) as it shall consider appropriate, may with the consent of the Secretary of State by notice to all licence holders determine.
Shared Services	means shared corporate services (excluding regulatory services) as specified in the EMR Compliance Statement. Except in relation to Special Condition 2.3 (Business separation requirements and compliance obligations) where it means shared corporate services (which shall not include regulatory services) as specified in the compliance statement established under Part D.
SIF	means the strategic innovation fund established by Special Condition 3.4 (The strategic innovation fund).
SIF Directly Attributable Costs	means costs relating to the maintenance and management of intellectual property generated through Eligible SIF Projects, whether undertaken by the licensee, any other Transmission Licensee <u>or by an Electricity Distribution Licensee</u> that have not been otherwise remunerated through Transmission Network Charges, Directly Remunerated Services or the SIF Funding Mechanism.
SIF Disallowed Expenditure	means revenue received, whether by the licensee, any other Transmission Licensee <u>or by an Electricity Distribution Licensee</u> , under the SIF Funding Mechanism

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	that the Authority determines has not been spent in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant Project Direction.
SIF Funding	means the total amount of funding authorised by the Authority for the licensee, any other Transmission Licensee, <a href="#">Electricity Distribution Licensees</a> and any body administering the SIF, in accordance with the provisions of the SIF Governance Document, for the purpose of funding the administration of the SIF and Eligible SIF Projects.
SIF Funding Mechanism	means the mechanism by which the licensee recovers the amount of authorised SIF Funding in any Regulatory Year and apportions that amount between the licensee, other Transmission Licensees, <a href="#">Electricity Distribution Licensees</a> and any body administering the SIF as appropriate in accordance with the SIF Governance Document.
SIF Funding Return	means the total amount, in respect of the licensee, other Transmission Licensees, <a href="#">Electricity Distribution Licensees</a> and any body administering the SIF, of any amounts arising under the SIF Funding Return Mechanism.
SIF Funding Return Mechanism	<p>means the mechanism which provides for the recovery from the licensee, from other Transmission Licensees, <a href="#">Electricity Distribution Licensees</a> and from any body administering the SIF, in each case to such extent (if any) as may be relevant, of:</p> <ul style="list-style-type: none"> <li>a) SIF Halted Project Revenues;</li> <li>b) SIF Disallowed Expenditure;</li> <li>c) SIF Returned Royalty Income;</li> <li>d) SIF Returned Project Revenues; and</li> <li>e) funds for administering the SIF.</li> </ul>
SIF Governance Document	means the document issued by the Authority under Part C of Special Condition 3.4 (The strategic innovation fund)
SIF Halted Project Revenues	means revenues received, whether by the licensee, or any other Transmission Licensee <a href="#">or by an Electricity Distribution Licensee</a> under the SIF Funding

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	Mechanism in respect of an Eligible SIF Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant Project Direction.
SIF Project Direction	means a direction issued by the Authority pursuant to the SIF Governance Document setting out the terms to be followed in relation to an Eligible SIF Project as a condition of its funding under the SIF Funding Mechanism.
SIF Returned Project Revenues	means: <ul style="list-style-type: none"> <li>(a) revenues received, whether by the licensee, any other Transmission Licensee <u>or by an Electricity Distribution Licensee</u> under the SIF Funding Mechanism in respect of an Eligible SIF Project that the Authority determines have not been spent, and where that project has been carried out in accordance with the applicable provisions of the SIF Governance Document and/or the terms of the relevant SIF Project Direction; or</li> <li>(b) revenues earned from Eligible SIF Projects, whether undertaken by the licensee, any other Transmission Licensee <u>or by an Electricity Distribution Licensee</u>, other than SIF Returned Royalty Income, that the Authority determines are payable to customers.</li> </ul>
SIF Returned Royalty Income	means revenue earned from intellectual property generated through Eligible SIF Projects, whether undertaken by the licensee, any other Transmission Licensee <u>or by an Electricity Distribution Licensee</u> , less SIF Directly Attributable Costs, and that is payable to customers under the SIF Funding Mechanism, as calculated in accordance with the provisions of the SIF Governance Document.
Single Appointed Director	means a member of the managerial board for the System Operator, for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the compliance officer set out in paragraph 2.3.27 of Special Condition 2.3 (Business Separation requirements and compliance obligations).
Single Responsible Director	means a person appointed for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the EMR Compliance Officer and the licensee's compliance with its EMR Relevant Duties.
Site-Specific Charges	means charges defined in Schedule Ten of STC.

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SO Bad Debt	means the expense incurred by the licensee when Balancing Services Activity related charges owed to the licensee are not considered recoverable and which crystallises when normal payment terms have been exceeded and the licensee has made all reasonable efforts to collect the debt but is unable to recover the amounts owed.
SO Internal Allowed Revenue	means the revenue calculated in accordance with the formula set out in Part A of Special Condition 4.2 (System Operator Internal Allowed Revenue ).
SONIA	means the daily values of the sterling overnight index average, series ID “IUDSOIA”, published by the Bank of England (or any other public body acquiring its functions).
SO-TO Optimisation Governance Document	means the document issued by the Authority under Part A of Special Condition 2.13 (SO-TO Optimisation Governance).
SO-TO Optimisation Report	means a document prepared and published by the licensee in accordance with Part B of Special Condition 2.13 (SO-TO Optimisation Governance).
SO-TO Optimisation Solutions	has the meaning given to that term in the SO-TO Governance Document.
Specified business separation duties	means Special Condition 2.3 (Business Separation requirements and compliance obligations), Standard Condition B5 (Prohibition of Cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2.6 (Prohibited Activities and Conduct of the Transmission Business).
Stakeholder	for the purposes of Special Condition 2.1 (EMR Arrangements) refers to the general body of persons (including but not limited to Customers or other actual users of GB Transmission System and Distribution System) who are affected by or have an interest in the licensee’s operations.
STC	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
System Operator - Transmission Owner Code	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

System Operator Functions	means for the purposes of Special Condition 2.3 (Business separation requirements and compliance obligations), the activities of the licensee pursuant to the obligations under Section C (System Operator Standard Conditions) of this licence for which there are no equivalent obligations under Section D (Transmission Owner Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions), of the Standard Conditions contained in a Transmission Licence.
System Operator Functions Information	means all information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee's employees, agents, contractors and advisors solely by virtue of the performance of System Operator Functions by the licensee, but excluding all information that has entered the public domain otherwise than as a direct or indirect consequence of a breach of this licence.
Tax Reconciliation	means the reconciliation between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability as reported to the Authority as part of the Price Control Financial Model.
Tax Strategy	has the meaning given to that term in Schedule 19 to the Finance Act 2016.
Time Value of Money Adjustment	has the meaning given to that term in the glossary of the ESO Price Control Financial Handbook.
Total NIA Expenditure	means expenditure that satisfies the requirements of the RII0-2 NIA Governance Document and is partly recovered by the licensee under Special Condition 4.6 (The RII0-2 network innovation allowance).
Total Shutdown	has the meaning given to that term in the Grid Code.
Transmission Area	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Transmission Business	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Transmission Business Activities	has the meaning given to that term in Standard Condition B1 (Regulatory Accounts).
Transmission Entry Capacity	has the meaning given to that term in the CUSC.
Transmission Licence	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

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Transmission Network Charges	means charges levied by the licensee in respect of the provision of Transmission Network Services.
Transmission Network Revenue	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Transmission Network Services	has the meaning given to that term in Standard Condition C1 (Interpretation of Section C).
Transmission Owner	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
Ultimate Controller	has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).
User System	has the meaning given to that term in the Grid Code.
Weather Correction Methodology	means the methodology used by the licensee at the time a Peak National Demand Forecast was produced to correct the associated outturn Peak National Demand to Annual Average Cold Spell Conditions.
Week 49	has the meaning given to that term in STC.
Working Day	means any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the United Kingdom.

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## **Special Condition 2.9 Services treated as Directly Remunerated Services**

### **Introduction**

- 2.9.1 The purpose of this condition is to set out the basis on which services provided by the licensee will be treated as Directly Remunerated Services under the special conditions.
- 2.9.2 The effect of this condition is that revenue derived by the licensee from the provision of Directly Remunerated Services is excluded from the calculation of the SO Internal Allowed Revenue.
- 2.9.3 This condition also explains the process that the Authority will follow when directing that services provided by the licensee should be treated, or should not be treated, as Directly Remunerated Services.

### **Part A: Licensee's obligation to exclude Directly Remunerated Services**

- 2.9.4 The licensee must exclude revenue derived from Directly Remunerated Services from SO Internal Allowed Revenue.
- 2.9.5 Directly Remunerated Services are:
  - (a) services that comply with the general principle set out in Part B; or
  - (b) the services listed in Part C to the extent that they comply with the general principle in Part B; or
  - (c) services that the Authority directs to be treated as Directly Remunerated Services to the extent that such direction will comply with the general principle in Part B.
- 2.9.6 Services are not to be treated as Directly Remunerated Services if the Authority so directs to the extent that such direction will comply with the general principle in Part B.

### **Part B: Statement of general principle**

- 2.9.7 The general principle is that a service provided by the licensee as part of its Transmission Business Activities is to be treated as a Directly Remunerated Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 2.9.8.
- 2.9.8 The charges referred to in paragraph 2.9.7 are:

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- (a) Transmission Network Charges, under the provisions of Special Condition 3.1 (Transmission Network Revenue Restriction);
- (b) internal balancing services activity charges, under the provisions of Special Condition 4.2 (System Operator Internal Allowed Revenue );
- (c) external balancing services activity charges, under the provisions of Special Condition 4.3 (Balancing Services external costs (BXext<sub>t</sub>)); and
- (d) charges arising from any activity carried out under the provisions of Special Condition 3.3 (RIIO-1 Network Innovation Competition) and Special Condition 3.4 (Strategic Innovation Fund) which results in Returned Royalty Income for the licensee.

### **Part C: Categories of Directly Remunerated Services**

2.9.9 The descriptions of categories of Directly Remunerated Services set out at paragraph 2.9.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that may be set out in the RIGs issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance) of this licence.

2.9.10 Directly Remunerated Services will include the following services:

DRS1. Connection services: This category consists of administration in relation to the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain electric lines, electrical plant, or meters necessary to provide any new connection or modify any existing connection to the National Electricity Transmission System (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 2.9.8).

DRS2. Diversionary works under an obligation: *(Not applicable to National Grid Electricity System Operator)*

DRS3. Works required by any alteration of premises: *(Not applicable)*

DRS4. Telecommunications and information technology infrastructure services: *(Not applicable)*

DRS5. Outage Changes: *(Not applicable)*

DRS6. Emergency Services: *(Not applicable)*

DRS7. PARCA Activities: *(Not applicable)*

DRS8. Independent System Operation: *(Not applicable)*

DRS9. Network Innovation Funding: *(Not applicable)*

DRS10. Value Added Services: *(Not applicable)*

DRS11. Top-up, standby, and enhanced system security: *(Not applicable)*

DRS12. Revenue protection services: (*Not applicable*)

DRS13. Metering Services: (*Not applicable*)

DRS14. Smart Meter Roll-out rechargeable services: (*Not applicable*)

DRS15. Miscellaneous: This category consists of the provision of any other service that:

- (a) is for the specific benefit of any third party who requests it; and
- (b) is not made available by the licensee as a normal part of its Transmission Business Activities.

#### **Part D: Authority's power to give directions**

- 2.9.11 Before issuing a direction under Part A the Authority will consider the general principle in Part B.
- 2.9.12 Any direction that the Authority issues under Part A will set out the date on which the licensee must start or cease treating services as Directly Remunerated Services.

## **Special Condition 3.3 RIIO-1 Network Innovation Competition (NICF<sub>t</sub>)**

### **Introduction**

- 3.3.1 The purpose of this condition is to set out the process for deciding the term NICF<sub>t</sub> (the Network Innovation Competition term). This contributes to the calculation of Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).
- 3.3.2 The NIC ran during the RIIO-1 price control period to fund innovative low carbon and environmental projects. Although it will no longer run for the licensee from 1 April 2021, the purpose of this condition is to make provision for the arrangements that will enable the Authority to determine the value of the NICF<sub>t</sub> and for arrangements relating to the regulation, administration, and governance of the NIC Funding.
- 3.3.3 Parts A and B are supplemented by the relevant provisions of the NIC Governance Document.

### **Part A: The Funding Return Mechanism**

- 3.3.4 The Authority may direct how the Returned Project Revenues should be paid to customers through the Funding Return Mechanism, or, where the Authority considers it to be appropriate, how they should be retained by the licensee.

### **Part B: Determination of the NICF<sub>t</sub>**

- 3.3.5 In each Regulatory Year, in accordance with the appropriate provisions set out in the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee ~~and~~ other electricity Transmission Licensees, and Electricity Distribution Licensees, specify:
  - (a) the value of NICF<sub>t</sub> for the licensee;
  - (b) the net amounts that are to be transferred between the licensee, ~~and~~ other Transmission Licensees and Electricity Distribution Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for Regulatory Year t that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
  - (c) the manner in which and the timescale over which the net amounts referred to in sub-paragraph (b) are to be transferred.
- 3.3.6 The licensee must comply with any direction issued by the Authority under paragraph 3.3.5.

### **Part C: The NIC Governance Document**

- 3.3.7 The licensee must comply with the NIC Governance Document.

- 3.3.8 The Authority will amend the NIC Governance Document by direction.
- 3.3.9 The Authority will publish the NIC Governance Document on the Authority's Website.
- 3.3.10 The NIC Governance Document makes and will continue to make provision about:
- (a) the process and procedures that will be in place for the assessment, approval, and financing of project funding (where necessary);
  - (b) arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Transmission Licensees and Electricity Distribution Licensees;
  - (c) 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 NIC Governance Document);
  - (d) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
  - (e) any other matters relating to the governance of the NIC.

#### **Part D: Procedure for revising the NIC Governance Document**

- 3.3.11 Before amending the NIC Governance Document by direction, the Authority will publish on the Authority's website:
- (a) the text of the NIC Governance Document;
  - (b) the date on which the Authority intends the amended NIC Governance Document to come into effect;
  - (c) the reasons for the amendments to the NIC Governance Document; and
  - (d) a period during which representations may be made on the amendments to the NIC Governance Document, which will not be less than 28 days.

### **Special Condition 3.4 The strategic innovation fund (SIFF<sub>t</sub>)**

#### **Introduction**

- 3.4.1 The purpose of this condition is to establish arrangements for the SIF and to provide for the calculation of the term SIFF<sub>t</sub>. This contributes to the calculation of Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).
- 3.4.2 The effect of this condition is to provide funding for Eligible SIF Projects and the administration of the SIF by means of revenues collected by the licensee through its Transmission Network Charges (as adjusted, where appropriate, by



the SIF Funding Return Mechanism) in accordance with the determination process in Part A.

- 3.4.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the SIF.

#### **Part A: Determination of the value of the SIFFt term**

- 3.4.4 The SIFFt term is the amount to be recovered by the licensee on behalf of Transmission Licensees and any body administering the SIF as determined by the Authority under paragraph 3.4.5 in relation to:

- (a) the SIF Funding specified for that Regulatory Year; and
- (b) any SIF Funding Return specified for that Regulatory Year.

- 3.4.5 In each Regulatory Year, the Authority will calculate, in accordance with the SIF Governance Document, and then by direction given to the licensee, specify:

- (a) the value of the SIFFt term for the licensee, being the amount (if any) to be recovered by the licensee in order to contribute to its own, other Transmission Licensees, [Electricity Distribution Licensees](#) and any body administering the SIF's SIF Funding for that Regulatory Year;
- (b) the net amounts that are to be transferred between the licensee, other Transmission Licensees, [Electricity Distribution Licensees](#) and any body administering the SIF in order to ensure that each receives an amount (if any) equal to the proportion of the SIF Funding for that Regulatory Year that is attributable to its Eligible SIF Projects or costs of administering the SIF (adjusted to take into account the amount of any SIF Funding Return); and
- (c) the manner in which and the timescale over which the net amounts referred to in sub-paragraph (b) are to be transferred.

- 3.4.6 The licensee must comply with any direction issued by the Authority under paragraph 3.4.5.

#### **Part B: The SIF Funding Return Mechanism**

- 3.4.7 The Authority may direct how SIF Returned Project Revenues should be paid to customers through the SIF Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.

#### **Part C: The SIF Governance Document**

- 3.4.8 The licensee must comply with the SIF Governance Document.
- 3.4.9 The Authority will issue and amend the SIF Governance Document by direction.
- 3.4.10 The Authority will publish the SIF Governance Document on the Authority's Website.

- 3.4.11 The SIF Governance Document will make provision about the regulation, governance and administration of the SIF, including:
- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed SIF projects;
  - (b) the evaluation criteria against which the funding of proposed SIF projects will be assessed and approved;
  - (c) the process and procedures that will be in place for the assessment, approval, and financing of Eligible SIF Projects, including the SIF Funding Mechanism and SIF Funding Return Mechanism;
  - (d) arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible SIF Projects can be captured and disseminated by the licensee to other Transmission Licensees and Electricity Distribution Licensees;
  - (e) the nature of the reporting obligations in respect of Eligible SIF 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 SIF Governance Document; and
  - (f) arrangements relating to the treatment of intellectual property rights including SIF Returned Royalty Income in respect of Eligible SIF Projects.

**Part D: Procedure for issuing and revising the SIF Governance Document**

- 3.4.12 Before directing that the SIF Governance Document comes into effect the Authority will publish on the Authority's Website:
- (a) the text of the proposed SIF Governance Document;
  - (b) the date that the Authority intends the SIF Governance Document to come into effect; and
  - (c) the time within which representations may be made on the content of the SIF Governance Document, which will not be less than 28 days.
- 3.4.13 Before directing an amendment to the SIF Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended SIF Governance Document;
  - (b) the date on which the Authority intends the amended SIF Governance Document to come into effect;
  - (c) the reasons for the amendment to the SIF Governance Document; and
  - (d) a period during which representations may be made on the amendment to the SIF Governance Document, which will not be less than 28 days.

- 3.4.14 Where this special condition provides for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before or after this licence condition comes into effect.

## Special Condition 3.5 Legacy adjustments to revenue

### Introduction

- 3.5.1 The purpose of this condition is to calculate the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).

### Part A: Formula for calculating total legacy adjustments ( $LAR_t$ )

- 3.5.2 The value of the  $LAR_t$  term is derived in accordance with the following formula:

$$LAR_t = LTRU_t + LPT_t - LK_t + LDIS_t + LTS_t$$

where:

- $LTRU_t$  has the value of  $TRU_t$  as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021. For Regulatory Years commencing on or after 1 April 2025, the value of  $LTRU_t$  is equal to zero;
- $LPT_t$  means the legacy pass-through term and is derived in accordance with Part B of this condition;
- $LK_t$  has the value of  $K_t$  as determined in accordance with Part E of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 and for Regulatory Years commencing on or after 1 April 2022, the value of  $LK_t$  is equal to zero;
- $LDIS_t$  means the legacy Site-Specific Charges adjustment term and has the value  $DIS_t$  as determined in accordance with Part B of Special Condition 3A (Restriction of Transmission network revenue) of this licence as in force on 31 March 2021; and
- $LTS_t$  means the legacy bilateral difference adjustment term and has the value  $DIS_t$  as determined in accordance with Part B of Special Condition 3A (Restriction of Transmission network revenue) of this licence as in force on 31 March 2021.

### Part B: Formula for calculating the RIIO-ET1 pass through items ( $LPT_t$ )

- 3.5.3 For Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of  $LPT_t$  is derived in accordance with the following formula:

$$LPT_t = LLF_t + LITC_t + LRB_t$$

where:

$LLF_t$  has the value of  $LF_t$  as determined in accordance with Part C of Special Condition 3B (Calculation of allowed pass-through items) of this licence as in force on 31 March 2021;

$LITC_t$  has the value of  $ITC_t$  as determined in accordance with Part E Special Condition 3B (Calculation of allowed pass-through items) of this licence as in force on 31 March 2021; and

$LRB_t$  has the value of  $RB_t$  as determined in accordance with Part B Special Condition 3B (Calculation of allowed pass-through items) of this licence as in force on 31 March 2021.

- 3.5.4 For Regulatory Years commencing on or after 1 April 2023, the value of  $LPT_t$  is equal to zero.

## 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).

### Part A: 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:

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

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 by 1 April of Regulatory Year  $t$ ;

$DISC_t$  is derived in accordance with 3.6.4; and

$I_t$  means the average value of SONIA.

- 3.6.4  $DISC_t$  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 included in the Maximum Revenue as most recently forecast and published by the licensee 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:

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

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.

# 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:

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

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<sub>t</sub> term which has the meaning given to it in paragraph 4.3.2 of Special Condition 4.3 (Balancing Services external costs); and

I<sub>t</sub> means the average value of SONIA in Regulatory Year t.

For Regulatory Years commencing before 1 April 2024 the value of K<sub>t</sub> is zero.

## Special Condition 4.2 System Operator Internal Allowed Revenue

### Introduction

4.2.1 The purpose of this condition is:

- (a) to calculate the term SOIAR<sub>t</sub> (the 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<sub>t</sub>.

### Part A: Formula for calculating the SO Internal Allowed Revenue term (SOIAR<sub>t</sub>)

4.2.2 The value of SOIAR<sub>t</sub> is derived in accordance with the following formula:

$$SOIAR_t = ADJR_t^* + SOLAR_t$$

where:

- ADJR<sub>t</sub><sup>\*</sup> 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<sub>t</sub> means legacy adjustments and is derived in accordance with Special Condition 4.9 (System Operator Legacy Adjustments (SOLAR<sub>t</sub>)).

### Part B: Formula for calculating Adjusted Revenue (ADJR<sub>t</sub>)

4.2.3 The value of ADJR<sub>t</sub> is derived in accordance with the following formula

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

where:

- R<sub>t</sub> means Calculated Revenue derived in accordance with Part C;
- PI<sub>t</sub> means the price index term derived in accordance with Part D; and
- ADJ<sub>t</sub> means the AIP adjustment term derived in accordance with Part E.



## Part C: Formula for calculating the Calculated Revenue term ( $R_t$ )

4.2.4 The value of  $R_t$  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 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;

$DRS_t$  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;

$ORA_t$  means other revenue allowance derived in accordance with Special Condition 4.6 (Total other revenue allowance);

$ESORI_t$  means the incentive value for the Electricity System Operator Reporting and Incentive Arrangements, as derived in accordance with Special Condition 4.4 (Electricity System Operator Reporting and Incentive Arrangements);

$TAX_t$  means the tax allowance and has the value given in sheet SystemOperator of the ESO Price Control Financial Model; and

$TAXA_t$  means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise under Part I.

## Part D: Formula for calculating the Price Index term ( $PI_t$ )

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:

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

where:

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
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- m refers to a year and month;  
RPI<sub>m</sub> means the Retail Prices Index for the year and month m; and  
CPIH<sub>m</sub> means the Consumer Prices Index Including Owner Occupiers' Housing Costs for the year and month m.

#### **Part E: Formula for calculating the AIP adjustment term (ADJ<sub>t</sub>)**

- 4.2.6 For the Regulatory Year commencing on 1 April 2021, the value of ADJ is zero.  
4.2.7 For subsequent Regulatory Years, the value of ADJ<sub>t</sub> is derived in accordance with the following formula:

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

where:

- ADJR<sub>t</sub> is derived in accordance with Part B;  
ADJR<sub>t</sub><sup>\*</sup> 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<sub>t</sub> means the time value of money term derived in accordance with paragraph 4.2.8.

- 4.2.8 The value of TVM<sub>t</sub> is derived in accordance with the following formula:

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

where:

- WACC<sub>t</sub> 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<sub>t</sub> means the price index derived in accordance with Part D.

#### **Part F: Formula for calculating the allowed pass-through items (SOPT<sub>t</sub>)**

- 4.2.9 The value of SOPT<sub>t</sub> is derived in accordance with the following formula:

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

where:

- RB<sub>t</sub> 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 G;  
EDE<sub>t</sub> 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; and

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

#### **Part G: Review of Prescribed Rates pass-through term ( $RB_t$ )**

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.

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

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 4.2.10, the Authority will adjust the value of  $RB_t$  by direction.

#### **Part H: Formula for calculating the SO Bad Debt term ( $SOBD_t$ )**

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 I: Tax Allowance Adjustment ( $TAXA_t$ )**

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.

- 4.2.15 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.
- 4.2.16 Following receipt of the Appropriately Qualified Independent Examiner's report, the Authority will:
- (a) direct any adjustment to the value of the TAXA<sub>t</sub> term that it considers should be made, taking account of said report; and
  - (b) specify the Regulatory Years to which those adjustments relate.
- 4.2.17 Before making a direction under paragraph 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 4.3 Balancing Services external costs (BXext<sub>t</sub>)**

### **Introduction**

- 4.3.1 The purpose of this condition is:
- (a) to calculate the term BXext<sub>t</sub> (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 the term BXext<sub>t</sub>.

## Part A: Formula for calculating the balancing services external costs term (BXext<sub>t</sub>)

4.3.2 The value of BXext<sub>t</sub> is derived in accordance with the following formula:

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

where:

*CSOBM<sub>t</sub>* 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<sub>t</sub> (being the System Operator BM cashflow for each settlement period j as defined in the BSC);

*BSCC<sub>t</sub>* means the costs to the licensee of contracts for the availability or use of Balancing Services and associated costs, excluding costs within CSOBM<sub>t</sub> but including charges made by the licensee for the provision of Balancing Services to itself;

*TotAdj<sub>t</sub>* means the amount of any adjustment as provided in paragraph 4.3.3;

*OM<sub>t</sub>* means an amount representing the revenue from the provision of balancing services to others, derived in accordance with Part C;

*SOTOC<sub>t</sub>* means the SO-TO cost allowance term, calculated in accordance with Special Condition 4.5 (SO-TO Mechanism);

*LOCTRU<sub>t</sub>* has the value of:

OCTRU<sub>t</sub> 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

Zero for Regulatory Years commencing on or after 1 April 2023;

*BSUoSCOVID<sub>t</sub>* 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.

*BSUoSEXC<sub>t</sub>* 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.

BSUoSFXC<sub>t</sub>      BSUoSFXC<sub>t</sub> 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<sub>t</sub>)**

4.3.3      For the purposes of paragraph 4.3.2, the term TotAdj<sub>t</sub> 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<sub>t</sub> 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 IncPayExt<sub>t</sub> 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 IncPayExt<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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 CSOBM<sub>t</sub> or BSCC<sub>t</sub>.

## **Part C: Provision of balancing services to others (OM<sub>t</sub>)**

4.3.4      The value of OM<sub>t</sub> 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 4.3.4(a)) or network operator (as defined in the Grid Code).

## **Special Condition 4.4 Electricity System Operator Reporting and Incentive Arrangements (ESORIt<sub>1</sub>)**

### **Introduction**

- 4.4.1 The purpose of this condition is to calculate the term ESORIt<sub>1</sub> (the Electricity System Operator Reporting and Incentives term). This contributes to the calculation of Calculated Revenue in Special Condition 4.2 (System Operator Internal Allowed Revenue).
- 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.
- 4.4.3 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<sub>1</sub>)**

- 4.4.4 The value of ESORIt<sub>1</sub> 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.
- 4.4.5 Before issuing a direction under paragraph 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**

- 4.4.6 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.
- 4.4.7 The licensee must comply with the Business Plan Guidance Document.
- 4.4.8 The Authority will issue and amend the Business Plan Guidance Document by direction.
- 4.4.9 The Authority will publish the Business Plan Guidance Document on the Authority's Website.
- 4.4.10 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.
- 4.4.11 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**

- 4.4.12 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 ESORI<sub>t</sub> term in respect of each Business Plan Cycle.
- 4.4.13 The licensee must comply with the ESORI Arrangements Guidance Document.
- 4.4.14 The Authority will issue and amend ESORI Arrangements Guidance Document by direction.
- 4.4.15 The Authority will publish the ESORI Arrangements Guidance Document on the Authority's Website.
- 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  $ESORI_t$ ; and
  - (f) any other matters relating to the regulation, governance, or administration of the ESORI Arrangement.
- 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 4.5 SO-TO Mechanism ( $SOTOC_t$ )**

### **Introduction**

- 4.5.1 The purpose of this condition is to establish the value of  $SOTOC_t$  (the SO-TO Cost term, which feeds into the  $BXext_t$  term in Special Condition 4.3 (Balancing Services External costs)).
- 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.
- 4.5.3 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 ( $SOTOC_t$ )**

- 4.5.4 The value of  $SOTOC_t$  is derived in accordance with the following formula:

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.  
 National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 26 December 2022

$$SOTOC_t = OC_t + COS_t + JW_t$$

where:

- $OC_t$  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;
- $COS_t$  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
- $JW_t$  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**

- 4.5.5 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.
- 4.5.6 A notice given to the Authority under paragraph 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.
- 4.5.7 Any notice submitted to the Authority under paragraph 4.5.5 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**

- 4.5.8 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.
- 4.5.9 Before issuing a direction under paragraph 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.
- 4.5.10 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 4.5.8, it must notify the Authority and explain why these costs were economically and efficiently incurred.

## **Special Condition 4.6 Total other revenue allowances ( $ORA_t$ )**

### **Introduction**

- 4.6.1 The purpose of this condition is to calculate the term  $ORA_t$  (the other revenue allowance term). This contributes to the calculation of Calculated Revenue in Special Condition 4.2 (System Operator Internal Allowed Revenue).

### **Part A: Formula for calculating total other revenue allowance ( $ORA_t$ )**

- 4.6.2 The value of  $ORA_t$  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 4.7 (RIIO-2 network innovation allowance);
- $CNIA_t$  is the carry over network innovation allowance and is derived in accordance with Special Condition 4.8 (Carry-over Network Innovation Allowance); and
- $PRPN_t$  means the pre-RIIO pension true up and has the value given in the ESO Price Control Financial Model.

## **Special Condition 4.7 The RIIO-2 network innovation allowance ( $NIA_t$ )**

### **Introduction**

- 4.7.1 The purpose of this condition is to calculate  $NIA_t$  (the network innovation allowance term) which feeds into the calculation of the Calculated Revenue in Special Condition 4.2 (System Operator Internal Allowed Revenue).
- 4.7.2 The effect of this condition is to fund investment in innovation by means of the NIA.
- 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 ( $NIA_t$ )**

- 4.7.4 Subject to paragraph 4.7.5, the value of the  $NIA_t$  term is derived in accordance with the following formula:

$$NIA_t = 90\% \times NIAE_t$$

where:

$NIAE_t$  means the Total NIA Expenditure.

- 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 4.7.4; and

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

- 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**

- 4.7.7 The licensee must comply with the RIIO-2 NIA Governance Document.
- 4.7.8 The Authority will issue and amend the RIIO-2 NIA Governance Document by direction.
- 4.7.9 The Authority will publish the RIIO-2 NIA Governance Document on the Authority's Website.
- 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.
- 4.7.11 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.
- 4.7.12 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**

- 4.7.13 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**

<b>Licensee</b>	<b>Value of TNIA (£m)</b>
ESO	20.70

## Special Condition 4.8 Carry-over Network Innovation Allowance (CNIA<sub>t</sub>)

### Introduction

- 4.8.1 The purpose of this condition is to calculate the term CNIA<sub>t</sub> (the Carry-over Network Innovation Allowance term) which feeds into the Calculated Revenue in Special Condition 4.2 (System Operator Internal Allowed Revenue).
- 4.8.2 The effect of this condition is to extend RIIO-1 Network Innovation Allowance funding.
- 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 (CNIA<sub>t</sub>)

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

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

where:

ECNIA<sub>t</sub> 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;

CNIAR<sub>t</sub> 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

PI<sub>t</sub> is the price index calculated in accordance with Part D of Special Condition 4.2 (System Operator Internal Allowed Revenue).

- 4.8.5 For Regulatory Years commencing on or after 1 April 2022, the value of CNIA<sub>t</sub> is equal to zero.
- 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)**

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

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

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**

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

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.

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

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

4.8.11 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.
- 4.8.12 The requirements of paragraph 4.8.11 may be satisfied by action taken by the Authority before or after the commencement of this condition.

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

### Introduction

- 4.9.1 The purpose of this condition is to calculate the term SOLAR<sub>t</sub> (the System Operator legacy adjustments term), which in turn feeds into SO Internal Allowed Revenue in Special Condition 4.2 (System Operator Internal Allowed Revenue).

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

- 4.9.2 The value of the SOLAR<sub>t</sub> term is derived in accordance with the following formula:

$$SOLAR_t = LSOMOD_t + LSOTRU_t + LSOEMRINC_t$$

where:

- |                        |   |
|------------------------|---|
| LSOMOD <sub>t</sub>    | has the value in sheet SystemOperator of the ESO Price Control Financial Model unless the Authority directs otherwise in accordance with <b>Parts B and C</b> ; |
| LSOTRU <sub>t</sub>    | is derived in accordance with Part <b>D</b> ; and   |
| LSOEMRINC <sub>t</sub> | is derived in accordance with Part <b>E</b> .   |

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

- 4.9.3 **For the Regulatory Years commencing on 1 April 2021 and 1 April 2022**, the value of LSOMOD<sub>t</sub> is derived in accordance with the following formula:

$$LSOMOD_t = SOMOD_t \times RPIF_t$$

where:

- SOMOD<sub>t</sub> 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 6 (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 6.14 and 6.15 of the Price Control Financial Handbook.

4.9.4 For the Regulatory Year 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;

$CWACC_t$  means compound WACC and has the value derived in accordance with Part C;

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

$PI_{2018/19}$  has the value of  $PI_t$  for the Regulatory Year commencing on 1 April 2018.

For the Regulatory Years commencing on or after 1 April 2024 the value of  $LSOMOD_t$  is zero

4.9.5 The Authority will direct revisions to  $LSOMOD_t$ , coinciding with the Annual Iteration Process.

4.9.6 Before making a direction under paragraph 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

4.9.7 For Regulatory Years commencing on or after 1 April 2022,  $CWACC_t$  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, set out in accordance with the ESO Price Control Financial Handbook.

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

4.9.8 For the three Regulatory Years commencing on 1 April 2021 to 1 April 2024, the value of LSOTRU<sub>t</sub> is derived in accordance with the following formula:

$$LSOTRU_t = SOTRU_t \times RPIF_t$$

where:

**SOTRU<sub>t</sub>** has the value of SOTRU<sub>t</sub> 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<sub>t</sub>** has the value of RPIF<sub>t</sub> 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 Price Control Financial Handbook.

4.9.9 For the Regulatory Years commencing on 1 April 2023 and 1 April 2024, the value of LSOTRU<sub>t</sub> 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<sub>t</sub>** 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<sub>t</sub>** has the value of RPIF<sub>t</sub> 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<sub>t-2</sub>** has the value of SOREV<sub>t-2</sub> 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<sub>t</sub>** 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  $PI_t$  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 E: The formula for calculating the System Operator legacy EMR incentives term ( $LSOEMRINC_t$ )

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

$$LSOEMRINC_t = SOEMRINC_t \times RPIF_t$$

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 6.14 and 6.15 of the Price Control Financial Handbook; and for Regulatory Years commencing on or after 1 April 2023 is zero.

for Regulatory Year commencing 1 April 2023  $LSOEMRINC_t$  is negative £2.03m; and

for Regulatory Years commencing on or after 1 April 2024,  $LSOEMRINC_t$  is zero.

## Special Condition 4.10 Legacy net RAV additions ( $LSORAV_t$ )

### Part A: Introduction

4.10.2 This condition explains the process the Authority will follow when directing values for the term  $LSORAV_t$  (the legacy RII0-1 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 4.2 (System Operator Internal Allowed Revenue).

- 4.10.3 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**

- 4.10.4 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.
- 4.10.5 Before making a direction under paragraph 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.

# Chapter 5: Governance

## Special Condition 5.1 Governance of the ESO Price Control Financial Instruments

### Introduction

5.1.1 The purpose of this condition is to establish:

- (a) the ESO Price Control Financial Instruments; and
- (b) a robust and transparent change control framework for the ESO Price Control Financial Instruments.

### Part A: The ESO Price Control Financial Instruments

5.1.2 Each of the following ESO Price Control Financial Instruments forms part of this condition:

- (a) the ESO Price Control Financial Handbook; and
- (b) the ESO Price Control Financial Model.

### Part B: Modification of the ESO Price Control Financial Instruments

5.1.3 The Authority may direct modifications to the ESO Price Control Financial Instruments under this Part at any time during the Price Control Period where:

- (a) it becomes aware of a modification that will improve the functionality or clarity of the ESO Price Control Financial Instruments; and
- (b) the modification will have either no impact on or an impact on the licensee's allowed revenue below the Materiality Threshold.

5.1.4 For the purposes of paragraph 5.1.3(b), it is to be presumed that a modification which serves to correct a manifest error will have no impact on the licensee's allowed revenue.

5.1.5 The following categories of modifications may be made under this Part:

- (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming or re-ordering of sections or worksheets;
- (b) deleting irrelevant material such as transitional provisions that have expired;
- (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
- (d) consequential changes required to reflect modifications made to the special conditions of this licence such as the addition or removal of PCFM Variable Values; and



- (e) correction of manifest errors such as discrepancies between the ESO Price Control Financial Instruments and between the ESO Price Control Financial Instruments and the other special conditions of this licence.

### **Part C: Circumstances in which a modification may be made**

5.1.6 Before making a direction under paragraph 5.1. 3, the Authority will:

- (a) consider any views expressed and representations made by the ESO Price Control Financial Model Working Group in relation to modifications of the type set out in paragraphs 5.1.5(a) to (d); and
- (b) publish on the Authority's Website:
  - i. the text of the proposed direction;
  - ii. the reasons for the proposed direction, including why the Authority believes that the modification meets the requirements of paragraphs 5.1.3 and 5.1.5; and
  - iii. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

5.1.7 A direction under paragraph 5.1. 3 will set out:

- (a) the modifications to the ESO Price Control Finance Instruments; and
- (b) the date from which it is to have effect or the mechanism by which that date is to be determined.

### **Part D: Availability and updating of ESO Price Control Financial Instruments**

5.1.8 This Part has effect in relation to the publication and availability of the ESO Price Control Financial Handbook, and the ESO Price Control Financial Model.

5.1.9 The Authority will ensure that any modifications of the ESO Price Control Financial Handbook, whether under Part B or otherwise, are promptly incorporated into a consolidated version of the ESO Price Control Financial Handbook maintained on the Authority's Website.

5.1.10 The Authority will ensure that any modifications of the ESO Price Control Financial Model, whether under Part B or otherwise, are promptly incorporated into a consolidated version of the ESO Price Control Financial Model maintained on the Authority's Website.

5.1.11 Without limiting the general effect of paragraph 5.1.10, the Authority will, by no later than 30 November prior to each Regulatory Year:

- (a) publish on the Authority's Website, in Microsoft Excel ® format, the version of the ESO Price Control Financial Model that will be used to calculate and publish the value of the terms  $ADJR_t$  and  $SOIAR_t$  in accordance with the calculation set out in Part B of Special Condition 4.2 (System Operator Internal Allowed Revenue);

- (b) ensure that the electronic name of the file is “ESO PCFM” followed by “November 20XX” where 20XX represents the calendar year containing the month of November prior to the Regulatory Year;
  - (c) ensure that the words “ESO Price Control Financial Model for the Annual Iteration Process that will take place by 30 November” followed by the preceding Regulatory Year expressed in the format 20XX/XX are included as text within the file itself; and
  - (d) publish an up-to-date schedule of any modifications that have been made to the ESO Price Control Financial Model, whether under Part C or otherwise, up to and including the date of such publication.
- 5.1.12 The first Regulatory Year in which the Authority will publish a version of the ESO Price Control Financial Model on the Authority’s Website for the purposes of paragraph 5.1.11 will be Regulatory Year 2021/22 and the last Regulatory Year will be 2024/25.

## **Special Condition 5.2 Annual Iteration Process for the ESO Price Control Financial Model**

### **Introduction**

5.2.1 The purpose of this condition is to set out the steps of the Annual Iteration Process that will be carried out by the licensee and the Authority each year in relation to the ESO Price Control Financial Model, in order to calculate and publish the value of the terms  $ADJR_t$  and  $SOIAR_t$  in accordance with the calculation set out in Special Condition 4.2 (System Operator Internal Allowed Revenue).

5.2.2 This condition also explains the process the Authority will follow in issuing and amending the PCFM Guidance.

### **Part A: Steps comprising the Annual Iteration Process**

5.2.3 The paragraphs in this Part set out the steps that comprise the Annual Iteration Process.

5.2.4 Step 1: The licensee must, by 31 August prior to each Regulatory Year:

- (a) use the version of the ESO Price Control Financial Model published by the Authority in accordance with paragraph 5.1.12 or where there has been a republication, the version most recently published to complete the PCFM Variable Values Table with the PCFM Variable Values in accordance with the PCFM Guidance;
- (b) run the macro on the “UserInterface” sheet of the ESO Price Control Financial Model to calculate the terms  $ADJR_t$  and  $SOIAR_t$ ;
- (c) save the ESO Price Control Financial Model; and
- (d) submit the ESO Price Control Financial Model to the Authority.

- 5.2.5 Step 2: The Authority will, taking into account any decisions made by it in relation to PCFM Variable Values under Chapters 4 of this licence:
- (a) review the ESO Price Control Financial Model submitted by the licensee and confirm or amend any PCFM Variable Values; or
  - (b) where the licensee has not complied with Step 1, complete the PCFM Variable Values Table.
- 5.2.6 Step 3: The Authority will run the macro on the “UserInterface” sheet of the ESO Price Control Financial Model to calculate the terms  $ADJR_t$  and  $SOIAR_t$ .
- 5.2.7 Step 4: The Authority will publish the value of the terms  $ADJR_t$  and  $SOIAR_t$  on its website in accordance with Part B.
- 5.2.8 In relation to Step 1 in paragraph 5.2.4:
- (a) where a PCFM Variable Value is not known at the time of submission, the licensee must calculate that value in accordance with the ESO Price Control Financial Handbook or the PCFM Guidance, as applicable and otherwise provide its best estimate using the information available at the time; and
  - (b) where any PCFM Variable Value relies on a third-party publication that ceases to be published or no longer contains the value required, the value from the most recent publication that did contain the value, or an alternate input agreed to by the Authority must be used.

**Part B: Publication of the value of the terms  $ADJR_t$  and  $SOIAR_t$**

- 5.2.9 The value of the terms  $ADJR_t$  and  $SOIAR_t$  will be published by the Authority no later than 30 November prior to each Regulatory Year. The published or republished values for the terms  $ADJR_t$  and  $SOIAR_t$  must be used by the licensee when setting Balancing Services Activity related charges in accordance with Special Condition 4.2 (System Operator Internal Allowed Revenue).
- 5.2.10 The Authority may re-publish the values of the terms  $ADJR_t$  and  $SOIAR_t$ , before the end of January prior to the Regulatory Year  $t$ .
- 5.2.11 Before publishing or re-publishing the value of the terms  $ADJR_t$  and  $SOIAR_t$ , the Authority will:
- (a) send to the licensee:
    - (i) a notice stating the value for  $ADJR_t$  and  $SOIAR_t$  that it proposes to publish; and
    - (ii) a copy of the ESO Price Control Financial Model, which will contain the data used to calculate the value proposed for  $ADJR_t$  and  $SOIAR_t$ ; and
  - (b) specify a period during which representations may be made on the value of  $ADJR_t$  and  $SOIAR_t$ , which will not be less than 14 days.

## **Part C: What if the Annual Iteration Process is not completed by 30 November?**

- 5.2.12 If the Authority does not publish a value for the terms  $ADJR_t$  and  $SOIAR_t$  by 30 November prior to any Regulatory Year, then the Annual Iteration Process will not have been completed and the provisions set out in paragraphs 5.2.13 and 5.2.14 will apply.
- 5.2.13 The Authority will complete the Annual Iteration Process as soon as is reasonably practicable after 30 November by publishing a value for the terms  $ADJR_t$  and  $SOIAR_t$ .
- 5.2.14 In the intervening period (between the 30 November and the date the value of the terms  $ADJR_t$  and  $SOIAR_t$  is published under paragraph 5.2.13), the value of  $SOIAR_t$  will be held to be equal to a value ascertained by:
- (a) taking a copy of the ESO Price Control Financial Model in its state following the last completed Annual Iteration Process or re-publication which, for the avoidance of doubt, will exclude the effect of any functional modifications under paragraph 5.1.3 of Special Condition 5.1 (Governance of the ESO Price Control Financial Instruments) made after the completion of that Annual Iteration Process;
  - (b) using the selection facilities on the User Interface sheet contained in that copy of the ESO Price Control Financial Model to select:
    - (i) the name of the licensee; and
    - (ii) the Regulatory Year equating to the Regulatory Year  $t$ ;
  - (c) pressing the “Run for One” macro button on the “UserInterface” sheet; and
  - (d) recording the value of the terms  $ADJR_t$  and  $SOIAR_t$  for the licensee that is shown as an output value in the “SavedResults” sheet.

## **Part D The final year of the ESO Annual Iteration Process and other clarifications**

- 5.2.15 The last Regulatory Year in which there will be an Annual Iteration Process for the ESO Price Control Financial Model is 2024/2025 for the purpose of determining the value of the terms  $ADJR_t$  and  $SOIAR_t$  for Regulatory Year 2025/26.
- 5.2.16 For the avoidance of doubt, neither:
- (a) an Annual Iteration Process for the ESO Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A; nor
  - (b) a change to the Regulatory Year included in the name of and text within the ESO Price Control Financial Model (as referred to at paragraphs 5.1.12(b) and (c) of Special Condition 5.1 (Governance of the ESO Price Control Financial Instruments),

will constitute a modification of the ESO Price Control Financial Model within the meaning of Part C of Special Condition 5.1.

Where any PCFM Variable Values are revised for years earlier than Regulatory Year  $t$ , the effect of using those revised values in the Annual Iteration Process will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the terms  $ADJR_t$  and  $SOIAR_t$  for Regulatory Year  $t$  and, for the avoidance of doubt, it will not have any retrospective effect on a previously published value of the terms  $ADJR_t$  and  $SOIAR_t$ .

## **Part E The PCFM Guidance**

- 5.2.17 The licensee must comply with the PCFM Guidance when completing the Annual Iteration Process.
- 5.2.18 The Authority will issue and amend the PCFM Guidance by direction.
- 5.2.19 The Authority will publish the PCFM Guidance on the Authority's Website by the PCFM functional change cut-off date set out in the ESO Price Control Financial Handbook.
- 5.2.20 The PCFM Guidance will make provision about:
  - (a) instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;
  - (b) instructions and guidance on the process and timeframe for reporting and submitting the required data; and
  - (c) any requirements for supporting information, documentation or commentary that are to be submitted.
- 5.2.21 Before directing that the PCFM Guidance comes into effect, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed PCFM Guidance;
  - (b) the date on which the Authority intends the PCFM Guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the PCFM Guidance, which will not be less than 28 days.
- 5.2.22 Before directing an amendment to the PCFM Guidance, the Authority will publish on the Authority's Website:
  - (a) the text of the amended PCFM Guidance;
  - (b) the date on which the Authority intends the amended PCFM Guidance to come into effect;
  - (c) the reasons for the amendments to the PCFM Guidance; and
  - (d) a period during which representations may be made on the amendments to the PCFM Guidance, which will not be less than 28 days.