

To:
National Grid Electricity System Operator Limited

Electricity Act 1989
Section 11A(2)

Notice of statutory consultation on a proposal to modify the Special Conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited

1. The Gas and Electricity Markets Authority (“the Authority”)¹ proposes to modify the electricity transmission licence held by National Grid Electricity System Operator Limited (“the licensee”), granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 by modifying:
 - a. Special Condition 1.1 (‘SpC 1.1’);
 - b. Special Condition 4.2 (‘SpC 4.2’); and,
 - c. inserting a new Special Condition, Special Condition 2.15 (‘SpC 2.15’).We further propose housekeeping modifications to:
 - d. Special Condition 3.6 (‘SpC 3.6’);
 - e. SpC 4.2; and,
 - f. Special Condition 4.9 (‘SpC 4.9’).
2. We are proposing these modifications to implement funding arrangements for the transition to a Future System Operator (FSO)² and improve the clarity of the licence.
3. The reasons and effects of the proposed modifications, together with the full text of the proposed modifications, are published alongside this notice on our website (www.ofgem.gov.uk), alternatively they are available from information.rights@ofgem.gov.uk. In addition, further details and background on these proposed changes are set out in our Business Plan 2 Final Determinations³ and our consultation on funding the transition to a FSO⁴.
4. The full text of the proposed modifications is set out below in Annex 1, with the text to be deleted marked with purple strikethrough and new text to be inserted shown underscored and in the colour blue (with the exception of new text on formulae, which is marked up in blue only). Cyan highlighted text indicates changes coming into effect from the Decision on the Statutory Consultation⁵ we published on 11 August 2023.
5. Any representations with respect to the proposed licence modifications must be made on or before 4 October 2023 to: David Beaumont, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to FSO@ofgem.gov.uk.
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We

¹ The terms “the Authority”, “we” and “us” are used interchangeably in this document.

² The Future System Operator means means the body that will be designated as the Independent System Operator and Planner (ISOP) (as defined in the Energy Bill) under the Energy Bill that was introduced into Parliament in July 2022, as and when this bill comes into effect.

³ Chapter 7 of [Business Plan 2 Final Determinations - Electricity System Operator | Ofgem](#)

⁴ [Funding the transition to a Future System Operator | Ofgem](#)

⁵ [Decision on modifications to the Special Conditions of the Electricity Transmission licence held by National Grid Electricity System Operator Limited | Ofgem](#)

prefer to receive responses in an electronic form so they can be placed easily on our website.

7. If we decide to make the proposed modifications, they will take effect not less than 56 days after the decision is published.

Grendon Thompson
Interim Deputy Director
Institutions for Net Zero, Energy Systems Management and Security
Duly authorised on behalf of the
Gas and Electricity Markets Authority

06/09/2023

Annex 1

Special Condition 1.1 Interpretation and definitions

Part B: Definitions

We are adding the following definitions in their respective locations alphabetically

<u>FSO Day 1</u>	<u>means the date on which the designation of the Future System Operator as the Independent System Operator and Planner (ISOP) (as defined in the Energy Bill) has effect under the Energy Bill that was introduced into Parliament in July 2022, as and when this bill comes into effect.</u>
<u>FSO Day 1 Deliverables</u>	<u>means the key interim and final delivered outputs from FSO Transition Activities that the licensee and National Grid Holdings One plc need to achieve to enable the timely and successful establishment of the FSO by FSO Day 1, which are time-bound, measurable, and in line with the requirements in the FSO Transition Funding Governance Document.</u>
<u>FSO Day 1 Delivery Schedule</u>	<u>means a document containing the FSO Day 1 Deliverables, as established under Part B of Special Condition 2.15.</u>
<u>FSO Day 1 Report</u>	<u>means a report produced in accordance with Part F of Special Condition 2.15.</u>
<u>FSO Day 1 Transition Activities</u>	<u>means the FSO Transition Activities carried out prior to FSO Day 1.</u>
<u>FSO NG Cost Recovery Principles</u>	<u>means principles and conditions, set by the Authority, to prescribe which costs associated with FSO Transition Activities carried out by National Grid Holdings One plc are allowed to be recovered by the licensee following approval by the Authority, as established in the FSO Transition Funding Governance Document.</u>
<u>FSO Transition Activities</u>	<u>means activities carried out by the licensee and/or National Grid Holdings One plc to separate the licensee's business from National Grid Holdings One plc and other companies in National Grid plc's group, transform the licensee so it has the capabilities needed to perform the roles and responsibilities of the FSO (including with respect to gas), and to</u>

support the development of the governance and regulatory arrangements for the FSO.

Special Condition 2.15 Obligations related to the implementation of the Future System Operator

Introduction

- 2.15.1 This condition sets out obligations on the licensee associated with the implementation of the FSO, including the arrangements it must follow to make any payments to National Grid Holdings One plc associated with the term FSONG_t in Part J of Special Condition 4.2.
- 2.15.2 The condition also provides clarity on the licensee's obligations associated with the delivery of the FSO and puts in place consumer protections and governance arrangements for any associated payments to National Grid Holdings One plc.
- 2.15.3 This condition also establishes the FSO Transition Funding Governance Document and explains the process the Authority will follow in issuing and amending the FSO Transition Funding Governance Document.

Part A: FSO Transition Funding Governance Document

- 2.15.4 The licensee must comply with the FSO Transition Funding Governance Document.
- 2.15.5 The Authority will issue and may amend the FSO Transition Funding Governance Document by direction.
- 2.15.6 The Authority will publish the FSO Transition Funding Governance Document and any amendments to it on the Authority's Website.
- 2.15.7 The FSO Transition Funding Governance Document may make provision about the arrangements for the recovery of costs for FSO Transition Activities or impose requirements on the licensee related to the recovery of costs for FSO Transition Activities, which may include, but will not be limited to:
 - (a) The FSO Day 1 Delivery Schedule;
 - (b) The FSO Transition Activities;
 - (c) the FSO Transition Intragroup Contract, or any documents associated with the FSO Transition Intragroup Contract;
 - (d) the payments made or to be made to National Grid Holdings One plc in association with FSONG_t;
 - (e) the FSO NG Cost Recovery Principles;

- (f) reporting requirements; and
 - (g) any other matters relating to the regulation of or arrangements for the recovery of costs for FSO Transition Activities.
- 2.15.8 Before issuing new or amending the FSO Transition Funding Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the proposed FSO Transition Funding Governance Document;
 - (b) the date on which the Authority intends the FSO Transition Funding Governance Document, or the amendment to it, to come into effect; and
 - (c) a period during which representations may be made on the content of the FSO Transition Funding Governance Document, which will not be less than 28 days.
- 2.15.9 The steps required to issue or amend the FSO Transition Funding Governance Document may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.

Part B: FSO Day 1 Delivery Schedule

- 2.15.10 The licensee must use reasonable best endeavours within its control to establish a FSO Day 1 Delivery Schedule containing the FSO Day 1 Deliverables by a point in time that enables the licensee to meet its obligations under Part C to Part F of this condition and no later than the date on which this condition comes into effect, or another date agreed with the Authority.
- 2.15.11 The FSO Day 1 Delivery Schedule must be agreed with the Authority and the Secretary of State and meet the requirements in the FSO Transition Funding Governance Document.

Part C: FSO Transition Intragroup Contract

- 2.15.12 The licensee must establish and maintain a FSO Transition Intragroup Contract with National Grid Holdings One plc.
- 2.15.13 The FSO Transition Intragroup Contract, or any documents associated with the FSO Transition Intragroup Contract, must meet the requirements set out in the FSO Transition Funding Governance Document and this Condition.
- 2.15.14 The FSO Transition Intragroup Contract, or any documents associated with the FSO Transition Intragroup Contract, must contain:
- a) A schedule for when payments will become due from the licensee to National Grid Holdings One plc, subject to the conditions in Part D of this Condition.

- b) Details of the information National Grid Holdings One plc must provide to or on behalf of the licensee to support the licensee's requirements under part F of this condition;
 - c) Any other required contents set out in the FSO Transition Funding Governance Document.
- 2.15.15 The FSO Transition Intragroup Contract and any amendment to it or to any document associated with the FSO Transition Intragroup Contract must be approved by the Authority and the Secretary of State before it is signed.
- 2.15.16 The licensee must provide a copy of the fully executed, legally binding and unconditional FSO Transition Intragroup Contract to the Authority and the Secretary of State no later than the date on which this condition comes into effect, or another date agreed with the Authority.
- 2.15.17 The licensee must use reasonable endeavours to procure that the FSO Transition Intragroup Contract is amended to comply with any change required by any amendment to the FSO Transition Funding Governance Document.

Part D: Payments to National Grid Holdings One plc

- 2.15.18 The licensee must only make payments to National Grid Holdings One plc if:
- a) The payment is in compliance with the terms of the fully executed and legally binding FSO Transition Intragroup Contract which has been approved by the Secretary of State and the Authority;
 - b) The Secretary of State has confirmed that they are satisfied that National Grid Holdings One plc has sufficiently demonstrated that it has taken the necessary actions within its control to achieve or make sufficient progress towards achieving the FSO Day 1 Deliverables, accounting for any changes to the FSO Day 1 Deliverables that are made through the processes set out in the FSO Transition Funding Governance Document;
 - c) The Authority has approved that the values National Grid Holdings One plc proposes to send as invoices to the licensee are eligible for recovery according to the FSO NG Cost Recovery Principles set out in the FSO Transition Funding Governance Document; and
 - d) The Authority is satisfied that National Grid Holdings One plc has provided the information the licensee requires under paragraph 2.15.14 (b), to comply with Part F of this condition.
- 2.15.19 The Authority may direct the licensee to make a payment of a different value to the amount National Grid Holdings One plc proposes to invoice the licensee for FSO Transition Activities, including where the Authority has deemed that not all proposed costs are consistent with the FSO Cost Recovery Principles.

Part D: General expectations for the delivery of the FSO Transition Activities

- 2.15.20 The licensee must, so far as is reasonably practicable, deliver its FSO Day 1 Deliverables and take all reasonable steps, as are within its power or control and necessary or desirable to achieve the final milestone in the FSO Day 1 Delivery Schedule by the scheduled time for that milestone.
- 2.15.21 The licensee must carry out its FSO Transition Activities in an efficient, co-ordinated and economic manner. This includes, but is not limited to, the following:
- (a) sharing accurate, and timely information with the Authority and the Secretary of State, at such times as the Authority or the Secretary of State may reasonably require;
 - (b) coordinating and cooperating with the Authority and the Secretary of State, and, in so far as is necessary, National Grid Holdings One plc and all other relevant stakeholders, to ensure economic and efficient delivery of FSO Day 1; and
 - (c) providing transparency and engagement, where appropriate, with relevant stakeholders that are impacted by the delivery and cost recovery for FSO Transition Activities on the progress made on the delivery of FSO Transition Activities.

Part E: Reporting Requirements

- 2.15.22 The licensee must regularly report to the Authority and Secretary of State on its and National Grid Holdings One plc's progress against the FSO Day 1 Delivery Schedule and relevant costs associated with the FSO Transition Activities, in accordance with the requirements in the FSO Transition Funding Governance Document.
- 2.15.23 The licensee must regularly publish on its website, reports summarising the key information provided to the Authority and Secretary of State under paragraph 2.15.22 up until FSO Day 1.
- 2.15.24 Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph 2.15.23, it must seek the Authority's approval to publish redacted versions of the reports required under paragraph 2.15.23.
- 2.15.25 The licensee must provide the Authority and Secretary of State with a FSO Day 1 Report that confirms the final values the licensee expects to recover through FSOESO_t and FSONG_t and a final assessment of the licensee's and National Grid Holdings One plc's progress against the FSO Day 1 Delivery Schedule, in line with the requirements in the FSO Transition Funding Governance Document, by no later than two months following FSO Day 1 or another date agreed with the Authority.

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:

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

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 4.2 System Operator Internal Allowed Revenue

Introduction

4.2.1 The purpose of this condition is:

- (a) to calculate the term $SOIAR_t$ (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 $SOIAR_t$.

Part A: Formula for calculating the SO Internal Allowed Revenue term ($SOIAR_t$)

4.2.2 The value of $SOIAR_t$ is derived in accordance with the following formula:

$$SOIAR_t = ADJR_t^* + SOLAR_t$$

where:

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

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

Part B: Formula for calculating Adjusted Revenue ($ADJR_t$)

4.2.3 The value of $ADJR_t$ is derived in accordance with the following formula

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

where:

R_t means Calculated Revenue derived in accordance with Part **C**;

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

ADJ_t 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) 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:

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

where:

- m refers to a year and month;
- RPI_m means the Retail Prices Index for the year and month m ; and
- $CPIH_m$ means the Consumer Prices Index Including Owner Occupiers' Housing Costs for the year and month m .

Part E: Formula for calculating the AIP adjustment term (ADJ_t)

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_t is derived in accordance with the following formula:

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

where:

- $ADJR_t$ is derived in accordance with Part B;

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

TVM_t means the time value of money term derived in accordance with paragraph 4.2.8.

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

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

where:

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

PI_t means the price index derived in accordance with Part D.

Part F: Formula for calculating the allowed pass-through items ($SOPT_t$)

4.2.9 The value of $SOPT_t$ is derived in accordance with the following formula:

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

where

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

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

$SOBD_t$ is derived in accordance with Part H; ~~and~~

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

FSO_t means the licensee's costs in effecting the delivery of FSO Transition Activities and is derived in accordance with Part J.

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 RBt 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
- (c) 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_t term that it considers should be made, taking account of said report, in accordance with Chapter 5 of the ESO Price Control Financial Handbook; and
 - (b) specify the Regulatory Years to which those adjustments relate.
- 4.2.17 Before making a direction under paragraph 4.1.16, 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.

Part J: Formula for calculating the Future System Operator Transition Funding term (FSO_t)

4.2.18 The value of FSO_t is derived in accordance with the following formula:

$$FSO_t = FSOESO_t + FSONG_t$$

where:

- FSOESO_t means the costs the licensee incurs to carry out the FSO Transition Activities (excluding any costs in association with FSONG_t or costs for FSO Transition Activities carried out by National Grid Holdings One plc) and is in accordance with paragraph 4.2.19; and
- FSONG_t means the payments from the licensee to National Grid Holdings One plc for the FSO Day 1 Transition Activities, made under the FSO Transition Intragroup Contract, and is in accordance with paragraph 4.2.21.

- 4.2.19 The licensee's costs for FSO Day 1 Transition Activities recovered under FSOESO_t must not exceed a maximum value of £75,000,000 or such other value directed by the Authority under Part K.
- 4.2.20 The Authority may disallow expenditure under FSOESO_t that is demonstrably wasteful or inefficient, in line with the procedures in the Regulatory Instructions and Guidance.
- 4.2.21 Payments made to National Grid Holdings One plc as part of FSONG_t must first be approved by the Authority pursuant to the arrangements set out in Special Condition 2.15 and must not exceed £114,500,000 or such other value directed by the Authority under Part K.

Part K: Revising the maximum value of FSOESO_t and/or FSONG_t

- 4.2.22 On receipt of a request by the licensee, Ofgem may direct changes to the maximum value of FSOESO_t and/or FSONG_t in Special Condition 4.2 Part J where sufficient information is provided by the licensee to justify such a change.
- 4.2.23 The licensee must submit the following information to allow the Authority to review a maximum value for FSOESO_t and/or FSONG_t:
- (a) the suggested new maximum value;
 - (b) a breakdown of estimated costs which make up the new maximum value; and
 - (c) justification for differences in estimated costs between the estimated costs which made up the existing maximum value and those in the suggested new maximum value.
- 4.2.24 A request under this Part K must be confined to costs incurred or expected to be incurred for delivering the FSO Day 1 Transition Activities.
- 4.2.25 The licensee must notify the Authority that it intends to make a request under this Part K as soon as practically possible once it becomes aware that a change in the maximum value is likely to be required.
- 4.2.26 The Authority may only make modifications to the licence under this Part K by direction where:
- (a) the requirements in paragraphs 4.2.23 to 4.2.24 have been met; and
 - (b) the Authority is satisfied that the request under Part K is sufficiently well evidenced and justified and that the licensee and National Grid Holdings One plc would be unable to recover economic and efficient costs for FSO Transition Activities without a change in the maximum value for FSOESO_t and/or FSONG_t.

Special Condition 4.9 System Operator Legacy Adjustments (SOLAR_t)

Introduction

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

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

- 4.9.2 The value of the SOLAR_t term is derived in accordance with the following formula:

$$SOLAR_t = LSOMOD_t + LSOTRU_t + LSOEMRINC_t$$

where:

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

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

4.9.3 For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LSOMOD_t is derived in accordance with the following formula:

$$LSOMOD_t = SOMOD_t \times RPIF_t$$

where:

SOMOD_t has the value directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the ESO Price Control Financial Model, performed in accordance with Chapter 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:

$$LSOMOD_t = COA \times CWACC_t \times \frac{PI_{t2018/19}}{PI_{\#2018/19}}$$

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 [DE](#) of Special Condition 4.2; 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:
- the text of the proposed direction;
 - the reasons for the proposed direction; and
 - 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:

$WACC_t$ 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 ($LSOTRU_t$)

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

$$LSOTRU_t = SOTRU_t \times RPIF_t$$

where:

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

$RPIF_t$ has the value of $RPIF_t$ determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 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 $LSOTRU_t$ is derived in accordance with the following formula:

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

where:

- RPIA_t has the value given to it by Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021;
- RPIF_t has the value of RPIF_t determined in accordance with paragraph 3A.7 of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021 as amended by sections 6.14 and 6.15 of the ESO Price Control Financial Handbook;
- SOREV_{t-2} has the value of SOREV_{t-2} as determined in accordance with Part C of Special Condition 4A (Restriction of System Operator Internal Revenue) of this licence as in force on 31 March 2021. For this calculation the component SOPS (SO Opening Base Revenue Allowance) is zero;
- LPVF_t has the value derived in accordance with paragraph 4.9.10;
- PI_t has the value given to it by Part D of Special Condition 4.2; 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;

for Regulatory Years commencing on or after 1 April 2023 the value of $LSOEMRINC_t$ is zero.