

To:

National Grid Electricity Transmission plc

SP Transmission plc

Scottish Hydro Electric Transmission plc

**Electricity Act 1989
Section 11A(2)**

Notice of statutory consultation on proposal to modify special conditions of the electricity transmission licence held by each of the above licensees

1. The Gas and Electricity Markets Authority ("the Authority")¹ proposes to modify the electricity transmission licence held by each of the above licensees ("the licensees"), granted or treated as granted under 6(1)(b) of the Electricity Act by modifying Special Condition 4.7 *SO-TO optimisation output delivery incentive* ("the SO-TO incentive") and Special Condition 1.1 *Interpretation and definitions*.
2. The reason we are proposing these modifications is to give effect to our decision², published on 28 June 2023, to retain and amend the SO-TO incentive for the remainder of the RIIO-2 electricity transmission price control ("the June decision"). The SO-TO incentive was introduced into RIIO-2 in April 2021 on a trial basis for two years and would end at the close of the trial unless we decided to retain it.
3. The effects of the proposed modifications are to:
 - a. continue operating the SO-TO incentive for the remainder of the RIIO-2 electricity transmission price control;
 - b. change the licensees' reporting on the SO-TO incentive to the annual Regulatory Reporting Pack cycle;
 - c. adopt a blended approach to calculating constraint costs savings with an equal weighting on the forecast and estimated outturn constraint costs savings;
 - d. calculate the reward as ten percent of the blended constraint cost savings, with a back up mechanism to guard against windfall gains;

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

² [Decision on the System Operator: Transmission Owner Optimisation Output Delivery Incentive in RIIO-2 | Ofgem](#)

- e. remove the annual financial cap on the amount of reward that the licensees can earn; and
 - f. delete the defined term "SO-TO Optimisation Report" in Special Condition 1.1.
4. We informally consulted on the proposed text to implement our decisions into Special Condition 4.7 of the electricity transmission licence alongside our June decision. We received three responses to the informal consultation on the draft text. All three respondents agreed with the proposed modification text to Special Condition 4.7. One respondent suggested that the term "SO-TO Optimisation Report" defined in Special Condition 1.1 *Interpretation and definitions* should also be deleted. This is because the term is only used in Part C of Special Condition 4.7 and will be redundant as a consequence of the proposed modification. We agree that the suggested modification to Special Condition 1.1 is appropriate.
5. The full text of the proposed modifications to Special Condition 4.7 are set out in the Annex 1 to this notice. Proposed additions and deletions to the licence text are respectively indicated by a double underline and a strikethrough. Annex 2 sets out the proposed deletion of the defined term "SO-TO Optimisation Report" as it is the only modification we propose to make to Special Condition 1.1.
6. Any representation with respect to the proposed licence modifications must be made on or before 10 December 2023 to: rioelectricitytransmission@ofgem.gov.uk
7. We normally publish all responses on our website. If you do not wish your response to be made public, please clearly mark it as not for publication. We prefer to receive responses in an electronic format so they can be placed easily on our website.
8. If we decide to make the proposed modifications, after considering any representations to this statutory consultation, we will publish the decision on our website and they will take effect not less than 56 days after the decision is published.

Jourdan Edwards

Interim Deputy Director, Major Projects Delivery

Duly authorised on behalf of the Gas and Electricity Markets Authority

10 November 2023

Annex 1

Special Condition 4.7 SO-TO optimisation output delivery incentive (SOTO_t)

Introduction

- 4.7.1 The purpose of this condition is to calculate the term SOTO_t (the SO-TO optimisation output delivery incentive term). This contributes to the calculation of the term ODI_t (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.7.2 The effect of this incentive is to reward the licensee where it has delivered SO-TO Optimisation Solutions under the STCP11.4 Enhanced Service Provision.

Part A: Formula for calculating the SO-TO optimisation output delivery incentive term (SOTO_t)

- 4.7.3 For Regulatory Years commencing on 1 April ~~2021~~ 2023, 1 April 2024 and 1 April ~~2022~~2025, the value of the term SOTO_t is derived in accordance with the following formula:

$$SOTO_t = \min(SOTOSF_t \cdot 0.5 \cdot (SOTOS_t + SOTOQ_t), SOTOSF_t \cdot SOTOCAP_t)$$

where:

SOTOSF _t	means the SO-TO optimisation sharing factor which has the value of 0.1;
SOTOS _t	means the total constraint savings forecasted by NGESO for the solutions delivered by the licensee in accordance with the SO-TO Optimisation Governance Document; and
<u>SOTOQ_t</u>	<u>means the total outturn constraint savings estimated by NGESO after the solutions delivered by the licensee in accordance with the SO-TO Optimisation Governance Document.</u>
SOTOCAP_t	means the cap of rewards for the SO-TO optimisation output delivery incentive and has the value of £5m.

~~4.7.4 For Regulatory Years commencing on or after 1 April 2023, the value of the SOTO_t term will be zero, unless the Authority directs that the value is to continue being derived in accordance with the formula in paragraph 4.7.3.~~

Part B: SO-TO Optimisation Governance Document

~~4.7.5~~4.7.4 The licensee must comply with the SO-TO Optimisation Governance Document.

~~4.7.6~~4.7.5 The Authority will issue and amend the SO-TO Optimisation Governance Document by direction.

~~4.7.7~~4.7.6 The Authority will publish the SO-TO Optimisation Governance Document on the Authority's Website.

~~4.7.8~~4.7.7 The SO-TO Optimisation Governance Document will make provision about the governance and administration of the SO-TO Optimisation output delivery incentive, including:

- (a) the definition of 'SOTO Optimisation Solutions'; and
- (b) the reporting obligations in respect of the SO-TO optimisation output delivery incentive.

~~4.7.94.7.8~~ 4.7.8 Before issuing the SO-TO Optimisation Governance Document the Authority will publish on the Authority's Website:

- (a) the text of the proposed SO-TO Optimisation Governance Document;
- (b) the date on which the Authority intends the SO-TO Optimisation Governance Document to come into effect;
- (c) a period during which representations may be made on the content of the SO-TO Optimisation Governance Document, which will not be less than 28 days.

~~4.7.104.7.9~~ 4.7.9 Before amending the SO-TO Optimisation Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended SO-TO Optimisation Governance Document;
- (b) the date on which the Authority intends the amended SO-TO Optimisation Governance Document to come into effect;
- (c) the reasons for the amendments to the SO-TO Optimisation Governance Document; and
- (d) a period during which representations may be made on the amendments to the SO-TO Optimisation Governance Document, which will not be less than 28 days.

~~Part C: SO-TO Optimisation Report~~

~~4.7.114.7.10~~ 4.7.10 The licensee must prepare a SO-TO Optimisation Report in accordance with the SO-TO Optimisation Governance Document.

Annex 2

Special Condition 1.1 Interpretation and Definitions

~~SO TO Optimisation Report means a document prepared and published by the licensee in accordance with Part C of Special Condition 4.7 (SOTO optimisation output delivery incentive).~~
