

To:

National Grid Electricity Transmission plc

SP Transmission plc

Scottish Hydro Electric Transmission plc

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

**Modification of the special conditions of the Electricity Transmission licence held
by each of the above licensees**

1. Each of the above licensees is the holder of an Electricity Transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 10 November 2023 ('the Notice') that we propose to modify Special Condition 4.7 *SO-TO optimisation output delivery incentive (SOTO_t)* ("the SO-TO incentive") and Special Condition 1.1 *Interpretation and definitions* of the Licence.² We stated that any representations to the modification proposal must be made on or before 10 December 2023.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received three responses to the Notice, which we carefully considered. We have placed all the responses on our website. We note that all three responses supported the proposed modification set out in the Notice.
5. We are making these licence modifications to give effect to our decision³, 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").
6. The effect of the modifications will be 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;

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

² [Statutory notice to modify special conditions of the electricity transmission licence | Ofgem](#)

³ [Decision on the System Operator: Transmission Owner Optimisation Output Delivery Incentive in RIIO-2 | Ofgem](#)

- 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 backup mechanism to guard against windfall gains;
 - 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.
7. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.6 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules⁴ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.
8. Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the Special Conditions of the Electricity Transmission Licence held by National Grid Electricity Transmission plc, SP Transmission plc and Scottish Hydro Electric Transmission plc in the manner specified in Schedule 1. This decision will take effect from 8 March 2024.
9. This document is notice of the reasons for the decision to modify the Electricity Transmission licence held by National Grid Electricity Transmission plc, SP Transmission plc and Scottish Hydro Electric Transmission plc as required by section 49A(2) of the Act.

Jourdan Edwards
Interim Deputy Director, Major Projects Delivery
Duly authorised on behalf of the Gas and Electricity Markets Authority

11 January 2024

⁴ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Schedule 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:

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

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>SOTOO_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.

~~4.7.84.7.7~~ 4.7.94.7.7 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~~ 4.7.94.7.8 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~~ 4.7.94.7.9 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~~ 4.7.94.7.10 The licensee must prepare a SO-TO Optimisation Report in accordance with the SO-TO Optimisation Governance Document.

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).
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Schedule 2

Relevant licence holders

- National Grid Electricity Transmission plc
- SP Transmission plc
- Scottish Hydro Electric Transmission plc