

To:

Electricity North West Limited
Northern Powergrid: Northeast
Northern Powergrid: Yorkshire
SP Energy Networks: Distribution
SP Energy Networks: Manweb
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution
Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution
UK Power Networks: London Power Networks
UK Power Networks: South East Power Networks
UK Power Networks: Eastern Power Networks
National Grid Electricity Distribution (West Midlands) plc
National Grid Electricity Distribution (East Midlands) plc
National Grid Electricity Distribution (South Wales) plc
National Grid Electricity Distribution (South West) plc

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

Modification of the Special Condition ("SpC") 1.2 and 4.8 of the electricity distribution licence held by each of the above licensees

1. Each of the licensees to whom this document is addressed ("the licensees") has a electricity distribution licence which has been granted or treated as granted under 6(1)(c) 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 29 July 2024 ('the Notice') that we proposed to modify SpC 1.2 and 4.8 of the electricity distribution licence held by the licensees.² We stated that any representations to the proposed licence modifications must be made on or before 26 August 2024.
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 five responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in our accompanying decision letter.
5. We are making these licence modifications because they implement our decision on 26 April 2024 to not switch on the DSO incentive outturn performance metrics during RIIO-ED2. Further reasoning around this decision can be found in the publicly available decision document,³ and the accompanying letter
6. The effect of the modifications will be to:

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

² [Proposal to modify Electricity Distribution Licence Special Conditions 1.2 and 4.8 granted or treated as granted under section 6\(1\)\(c\) of the Electricity Act 1989](#)

³ [RIIO-ED2 DSO incentive - decision on outturn performance metrics](#)

- a. Amend or remove references to the DSO outturn performance metrics in Part A of SpC 1.2;
 - b. Remove references to the DSO outturn performance metrics in paragraphs 4.8.4, 4.8.8, 4.8.9 and 4.8.14 of SpC 4.8;
- and
- c. Update the licence values in Year 2 (2024/25) to Year 5 (2027/28) of RIIO-ED2 in Appendices 1, 2, 3, 4, 5, 6, 7 and 8 of SpC 4.8.
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 3 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'.

Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the special licence conditions for the electricity distribution licence held by the licensees in the manner specified in attached Schedule 1 and Schedule 2. This decision will take effect from 21 November 2024.

This document is notice of the reasons for the decision to modify the electricity distribution licences as required by section 49A(2) of the Act.

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Nathan Macwhinnie, Deputy Director, Price Control Operations
Duly authorised on behalf of the
Gas and Electricity Markets Authority

26/09/2024

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

Schedule 1

Proposed modifications to Special Condition 1.2 Definitions and references to the Electricity Distributors

Part A: The use of definitions in these special conditions

C

Curtailment Efficiency Outturn Performance Metric	has the meaning given to that term in the Distribution System Operation Incentive Governance Document.
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D

Distribution System Operation Incentive Governance Document	means the document of that name issued by the Authority in accordance with Part EF of Special Condition 4.8 (Distribution System Operation output delivery incentive).
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F

Flexibility Reinforcement Deferral Outturn Performance Metric	has the meaning given to that term in the Distribution System Operation Incentive Governance Document.
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S

Secondary Network Visibility Outturn Performance Metric	has the meaning given to that term in the Distribution System Operation Incentive Governance Document.
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Schedule 2

Proposed modifications to Special Condition 4.8 Distribution System Operation output delivery incentive (DSOI_t)

Introduction

- 4.8.1 The purpose of this condition is to calculate the term DSOI_t (the Distribution System Operation 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).
- 4.8.2 The effect of this condition is to reward or penalise the licensee's performance of its Distribution System Operation functions, unless such performance falls within the deadband.
- 4.8.3 This condition also establishes the Distribution System Operation Incentive Governance Document.

Part A: Formula for calculating the Distribution System Operation output delivery incentive term (DSOI_t)

- 4.8.4 The value of the term DSOI_t is derived in accordance with the following formula:

$$DSOI_t = DSOS_t + DSOP_t - DSOM_t$$

where:

DSOS_t means the Distribution System Operation Stakeholder Satisfaction Survey term and is derived in accordance with Part B; and

DSOP_t means the Distribution System Operation Performance Panel assessment term and is derived in accordance with Part C; and

~~DSOM_t means the Distribution System Operation outturn performance metrics term and is derived in accordance with Part D.~~

Part B: Formulae for calculating the Distribution System Operation Stakeholder Satisfaction Survey term (DSOS_t)

- 4.8.5 The value of DSOS_t is derived in accordance with the following formulae:

If $DSOSDL_t \leq DSOSAS_t \leq DSOSDU_t$ then:

$$DSOS_t = 0$$

If $DSOSAS_t > DSOSDU_t$ then:

$$DSOS_t = \min(DSOSAU_t, ((DSOSAS_t - DSOSDU_t) \times DSOSRIR_t))$$

If $DSOSAS_t < DSOSDL_t$ then:

$$DSOS_t = \max(-DSOSAD_t, ((DSOSAS_t - DSOSDL_t) \times DSOSPIR_t))$$

where:

DSOSAS_t means the licensee's actual performance for the Distribution System Operation Stakeholder Satisfaction Survey term, as

	measured in accordance with the Distribution System Operation Incentive Governance Document;
$DSOSDL_t$	means the lower deadband for the Distribution System Operation Stakeholder Satisfaction Survey term and equals 7.50;
$DSOSDU_t$	means the upper deadband for the Distribution System Operation Stakeholder Satisfaction Survey term and equals 7.90;
$DSOSAU_t$	means the maximum reward in respect of the Distribution System Operation Stakeholder Satisfaction Survey term for the licensee, as specified in Appendix 1, which is awarded when $DSOSAS_t$ is greater than or equal to 9.00;
$DSOSRIR_t$	means the licensee's reward incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term, as specified in Appendix 2;
$DSOSAD_t$	means the maximum penalty in respect of the Distribution System Operation Stakeholder Satisfaction Survey term for the licensee, as specified in Appendix 3, which is awarded when $DSOSAS_t$ is less than or equal to 6.40; and
$DSOSPIR_t$	means the licensee's penalty incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term, as specified in Appendix 4.

- 4.8.6 The Authority may keep $DSOSDL_t$ and $DSOSDU_t$ under review and any modifications must be made under section 11A (modifications of conditions of licences) of the Act.

Part C: Formulae for calculating the Distribution System Operation Performance Panel assessment term ($DSOP_t$)

- 4.8.7 The value of $DSOP_t$ is derived in accordance with the following formulae:

If $DSOPDL_t \leq DSOPAS_t \leq DSOPDU_t$, then:

$$DSOP_t = 0$$

If $DSOPAS_t > DSOPDU_t$ then:

$$DSOP_t = \min(DSOPAU_t, ((DSOPAS_t - DSOPDU_t) \times DSOPRIR_t))$$

If $DSOPAS_t < DSOPDL_t$ then:

$$DSOP_t = \max(-DSOPAD_t, ((DSOPAS_t - DSOPDL_t) \times DSOPPIR_t))$$

where:

$DSOPAS_t$	means the licensee's Distribution System Operation Performance Panel actual score as determined by the Authority in accordance with the Distribution System Operation Incentive Governance Document;
$DSOPDL_t$	means the lower deadband for the Distribution System Operation Performance Panel term and equals 5;
$DSOPDU_t$	means the upper deadband for the Distribution System Operation Performance Panel term and equals 6;
$DSOPAU_t$	means the maximum reward in respect of the Distribution System Operation Performance Panel term for the licensee, as specified in

	Appendix 5, which is awarded when $DSOPAS_t$ is greater than or equal to 8;
$DSOPRIR_t$	means the licensee's reward incentive rate for the Distribution System Operation Performance Panel term, as specified in Appendix 6;
$DSOPAD_t$	means the maximum penalty in respect of the Distribution System Operation Performance Panel term for the licensee, as specified in Appendix 7, which is awarded when $DSOPAS_t$ is less than or equal to 3; and
$DSOPPIR_t$	means the licensee's penalty incentive rate for the Distribution System Operation Performance Panel term, as specified in Appendix 8.

Part D: [Not Used]

4.8.8 [Not Used]

4.8.9 [Not Used]

Part E: Requirement to prepare and publish a Distribution System Operation Performance Panel Submission

4.8.10 With effect from the Regulatory Year beginning on 1 April 2024, the licensee must provide a Distribution System Operation Performance Panel Submission in accordance with the Distribution System Operation Incentive Governance Document.

4.8.11 The licensee must prepare and publish a Distribution System Operation Performance Panel Submission for the preceding Regulatory Year on, or before, the date specified in the Distribution System Operation Incentive Governance Document.

4.8.12 The licensee must publish its Distribution System Operation Performance Panel Submission on the licensee's Website where it is readily accessible to the public.

Part F: The Distribution System Operation Incentive Governance Document

4.8.13 The licensee must comply with the Distribution System Operation Incentive Governance Document in relation to the Distribution System Operation output delivery incentive.

4.8.14 The Distribution System Operation Incentive Governance Document may make provision about the governance of this output delivery incentive, including:

- (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;
- (c) the requirements the licensee must fulfil as part of the assessment process, including the information the licensee must provide to determine the value of $DSOS_t$, ~~FD_t , NV_t and CE_t~~ and its attendance at Distribution System Operation Performance Panel meetings;

- (d) the information that will be used for the performance assessment, including how reporting will be used in that evaluation;
 - (e) the methodology the Authority will use to determine an incentive reward or penalty, including the manner and process by which the licensee's Distribution System Operation Performance Panel Submission will be used by the Authority to determine the value of DSOP_t;
 - (f) the role of the Distribution System Operation Performance Panel; and
 - (g) the process for the appointment, by the Authority, of persons who will make up the Distribution System Operation Performance Panel.
- 4.8.15 The procedure for issuing and amending the Distribution System Operation Incentive Governance Document is provided in Special Condition 1.3 (Common procedure).

Appendix 1

Maximum reward for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSAU_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.396	1.745	1.745	1.745	1.745
NPgN	1.037	1.296	1.296	1.296	1.296
NPgY	1.431	1.789	1.789	1.789	1.789
WMID	1.802	2.252	2.252	2.252	2.252
EMID	1.844	2.305	2.305	2.305	2.305
SWALES	0.921	1.152	1.152	1.152	1.152
SWEST	1.399	1.749	1.749	1.749	1.749
LPN	1.211	1.513	1.513	1.513	1.513
SPN	1.253	1.566	1.566	1.566	1.566
EPN	1.956	2.445	2.445	2.445	2.445
SPD	1.329	1.661	1.661	1.661	1.661
SPMW	1.479	1.849	1.849	1.849	1.849
SSEH	0.992	1.240	1.240	1.240	1.240
SSES	1.871	2.338	2.338	2.338	2.338

Appendix 2

Reward incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSRIR_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.269	1.586	1.586	1.586	1.586
NPgN	0.943	1.179	1.179	1.179	1.179
NPgY	1.301	1.626	1.626	1.626	1.626
WMID	1.638	2.047	2.047	2.047	2.047
EMID	1.677	2.096	2.096	2.096	2.096
SWALES	0.837	1.047	1.047	1.047	1.047
SWEST	1.272	1.590	1.590	1.590	1.590
LPN	1.101	1.376	1.376	1.376	1.376
SPN	1.139	1.423	1.423	1.423	1.423
EPN	1.778	2.223	2.223	2.223	2.223
SPD	1.208	1.510	1.510	1.510	1.510
SPMW	1.344	1.680	1.680	1.680	1.680
SSEH	0.902	1.128	1.128	1.128	1.128
SSSES	1.701	2.126	2.126	2.126	2.126

Appendix 3

Maximum penalty for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSAD_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.872	0.872	0.872	0.872
NPgN	0.519	0.648	0.648	0.648	0.648
NPgY	0.716	0.894	0.894	0.894	0.894
WMID	0.901	1.126	1.126	1.126	1.126
EMID	0.922	1.153	1.153	1.153	1.153
SWALES	0.461	0.576	0.576	0.576	0.576
SWEST	0.700	0.874	0.874	0.874	0.874
LPN	0.605	0.757	0.757	0.757	0.757
SPN	0.626	0.783	0.783	0.783	0.783
EPN	0.978	1.222	1.222	1.222	1.222
SPD	0.665	0.831	0.831	0.831	0.831
SPMW	0.739	0.924	0.924	0.924	0.924
SSEH	0.496	0.620	0.620	0.620	0.620

SSES	0.935	1.169	1.169	1.169	1.169
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Appendix 4

Penalty incentive rate for the Distribution System Operation Stakeholder Satisfaction Survey term (DSOSPIR_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.634	0.793	0.793	0.793	0.793
NPgN	0.471	0.589	0.589	0.589	0.589
NPgY	0.650	0.813	0.813	0.813	0.813
WMID	0.819	1.024	1.024	1.024	1.024
EMID	0.838	1.048	1.048	1.048	1.048
SWALES	0.419	0.523	0.523	0.523	0.523
SWEST	0.636	0.795	0.795	0.795	0.795
LPN	0.550	0.688	0.688	0.688	0.688
SPN	0.569	0.712	0.712	0.712	0.712
EPN	0.889	1.111	1.111	1.111	1.111
SPD	0.604	0.755	0.755	0.755	0.755
SPMW	0.672	0.840	0.840	0.840	0.840
SSEH	0.451	0.564	0.564	0.564	0.564
SSES	0.850	1.063	1.063	1.063	1.063

Appendix 5

Maximum reward for the Distribution System Operation Performance Panel term (DSOPAU_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	1.396	1.745	1.745	1.745	1.745
NPgN	1.037	1.296	1.296	1.296	1.296
NPgY	1.431	1.789	1.789	1.789	1.789
WMID	1.802	2.252	2.252	2.252	2.252
EMID	1.844	2.305	2.305	2.305	2.305
SWALES	0.921	1.152	1.152	1.152	1.152
SWEST	1.399	1.749	1.749	1.749	1.749
LPN	1.211	1.513	1.513	1.513	1.513
SPN	1.253	1.566	1.566	1.566	1.566
EPN	1.956	2.445	2.445	2.445	2.445
SPD	1.329	1.661	1.661	1.661	1.661
SPMW	1.479	1.849	1.849	1.849	1.849

SSEH	0.992	1.240	1.240	1.240	1.240
SSES	1.871	2.338	2.338	2.338	2.338

Appendix 6

Reward incentive rate for the Distribution System Operation Performance Panel assessment term (DSOPRIR_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.872	0.872	0.872	0.872
NPgN	0.519	0.648	0.648	0.648	0.648
NPgY	0.716	0.894	0.894	0.894	0.894
WMID	0.901	1.126	1.126	1.126	1.126
EMID	0.922	1.153	1.153	1.153	1.153
SWALES	0.461	0.576	0.576	0.576	0.576
SWEST	0.700	0.874	0.874	0.874	0.874
LPN	0.605	0.757	0.757	0.757	0.757
SPN	0.626	0.783	0.783	0.783	0.783
EPN	0.978	1.222	1.222	1.222	1.222
SPD	0.665	0.831	0.831	0.831	0.831
SPMW	0.739	0.924	0.924	0.924	0.924
SSEH	0.496	0.620	0.620	0.620	0.620
SSES	0.935	1.169	1.169	1.169	1.169

Appendix 7

Maximum penalty in respect of the Distribution System Operation Performance Panel assessment term (DSOPAD_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.698	0.872	0.872	0.872	0.872
NPgN	0.519	0.648	0.648	0.648	0.648
NPgY	0.716	0.894	0.894	0.894	0.894
WMID	0.901	1.126	1.126	1.126	1.126
EMID	0.922	1.153	1.153	1.153	1.153
SWALES	0.461	0.576	0.576	0.576	0.576
SWEST	0.700	0.874	0.874	0.874	0.874
LPN	0.605	0.757	0.757	0.757	0.757
SPN	0.626	0.783	0.783	0.783	0.783
EPN	0.978	1.222	1.222	1.222	1.222

SPD	0.665	0.831	0.831	0.831	0.831
SPMW	0.739	0.924	0.924	0.924	0.924
SSEH	0.496	0.620	0.620	0.620	0.620
SSES	0.935	1.169	1.169	1.169	1.169

Appendix 8

Penalty incentive rate for the Distribution System Operation Performance Panel assessment term (DSOPPIR_t) (£m)

Licensee	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	0.349	0.436	0.436	0.436	0.436
NPgN	0.259	0.324	0.324	0.324	0.324
NPgY	0.358	0.447	0.447	0.447	0.447
WMID	0.450	0.563	0.563	0.563	0.563
EMID	0.461	0.576	0.576	0.576	0.576
SWALES	0.230	0.288	0.288	0.288	0.288
SWEST	0.350	0.437	0.437	0.437	0.437
LPN	0.303	0.378	0.378	0.378	0.378
SPN	0.313	0.391	0.391	0.391	0.391
EPN	0.489	0.611	0.611	0.611	0.611
SPD	0.332	0.415	0.415	0.415	0.415
SPMW	0.370	0.462	0.462	0.462	0.462
SSEH	0.248	0.310	0.310	0.310	0.310
SSES	0.468	0.585	0.585	0.585	0.585

Schedule 3

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