

To:

**Scottish Hydro Electric Transmission
Scottish Power Transmission
National Grid Electricity Transmission**

**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 licensees to whom this document is addressed 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 3 April 2025 ('the Notice') that we propose to modify the Network Asset Risk Metric (NARM) Handbook ('NARM Handbook') which forms part of Special Condition 3.1 (Baseline Network Risk Outputs) in the manner described in the statutory modification decision published alongside this notice². We stated that any representations to the modification proposal must be made on or before 10 May 2025.³
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 seven 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 the statutory modification decision published alongside this notice.
5. It is necessary to make a number of minor alterations to the modifications set out in the Notice. Additions are shown in underlined red text and deletions in red strikethrough in the Word version of the NARM Handbook, available on the Ofgem website along with a clean PDF version. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in the decision document published alongside this notice:
 - a. To correct an error in the definition of the calculation term, which appears twice in the NARM Handbook—once in Section E and once in Section F, with differing definitions. These should be treated as two distinct defined calculation terms. This amendment ensures consistency in terminology and aligns with the overview described in Section 5 of the NARM Handbook, 'NARM Funding Adjustment and Penalty Mechanism – Overview'. The previous inconsistency caused confusion among respondents regarding how to calculate the value of the term in question, which features in two calculations used to determine a licensee's Final Allowed Expenditure. We

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

² <https://www.ofgem.gov.uk/decision/narm-handbook-updates-threshold-justifying-clearly-identifiable-over-or-under-delivery-and-related-amendments>

³ [Network Asset Risk Metric handbook: clearly identifiable threshold statutory consultation | Ofgem](#)

have renamed the term in Section F to align with the subscripts used for other terms in that section. The term in Section E will also adopt a subscript consistent with the other terms in that section

6. We are making these licence changes to give effect to implement our policy decision of 8 November 2024 on the 'Threshold for justifying Clearly Identifiable Over or Under Delivery under the NARM Funding Adjustment and Penalty Mechanism' ('Clearly Identifiable Threshold').⁴ These changes will enable the full operation of the NARM mechanism.
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 Rules⁵ 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. 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 of the licensees to whom this document is addressed in the manner specified in the NARM Handbook provided alongside this Decision document. This decision will take effect from 26/08/2025.
9. This document is notice of the reasons for the decision to modify the electricity transmission licence held by the licensees to whom this document is addressed as required by section 49A(2) of the Act.

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Pete Wightman, Deputy Director, Network Price Controls
Duly authorised on behalf of the
Gas and Electricity Markets Authority

30th June 2025

⁴ [Qualifying criteria for Clearly Identifiable Over-Delivery and Clearly Identifiable Under-Delivery under the NARM Mechanism | Ofgem](#)
CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf