

To: National Grid Electricity Transmission

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

**MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE HELD BY NATIONAL GRID
ELECTRICITY TRANSMISSION PLC**

Whereas –

1. National Grid Electricity Transmission PLC (“the Licence Holder”) 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. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 07 March 2014 (“the Notice”) that it proposed to make modifications to the Special Conditions of the Licence set out in Schedule 1 including the insertion of new Special Condition 4K and by requiring any representations to the modification to be made on or before 04 April 2014.
3. In accordance with section 11A(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modifications.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received two responses. All non-confidential responses have been placed on the Ofgem website.
5. The Authority has carefully considered in relation to the proposed modifications all representations received.
6. In accordance with section 49A of the Act the Authority gives the following reasons for making the licence modifications:

In summary, the reason why the Authority makes these licence modifications is to establish the funding arrangements to allow NGET to recover the economic and efficient external costs it incurs for the provision of Supplemental Balancing Reserve (“SBR”) and Demand Side Balancing Reserve (“DSBR”).

Further details on the reasons for these modifications are set out in the following documents:

- a) Initial Proposals consultation on funding arrangements for the new balancing services, 19 December 2013. <https://www.ofgem.gov.uk/ofgem-publications/85276/informalconsultationonfundingarrangementsfornewbalancingservices.pdf>
- b) Final Proposals on funding arrangements for the new balancing services SBR and DSBR, 07 March 2014. <https://www.ofgem.gov.uk/publications-and-updates/funding-arrangements-new-balancing-services-final-proposals>

7. The effect of the modification(s) will be to:

Implement the funding arrangements for the recovery and regulation of external costs incurred in relation to the procurement and use of SBR and DSBR.

Further details on the effect of these modifications are set out in the following documents:

- a) Initial Proposals consultation on funding arrangements for the new balancing services, 19 December 2013. <https://www.ofgem.gov.uk/ofgem-publications/85276/informalconsultationonfundingarrangementsfornewbalancingervices.pdf>
- b) Final Proposals on funding arrangements for the new balancing services SBR and DSR, 07 March 2014. <https://www.ofgem.gov.uk/publications-and-updates/funding-arrangements-new-balancing-services-final-proposals>

8. The Authority considers it necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in blue in the attached Schedule 1. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Schedule 1 are to correct typographical issues.

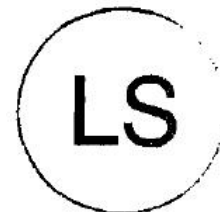
9. Where an application for permission to appeal the Authority's decision is made to the Competition and Markets Authority under section 11C of the Act, Rule 5.7 of the Competition Commission's Energy Licence Modifications Appeal Rules¹ requires that appellant to send notice setting out the matters required in Rule 5.2. National Grid Electricity Transmission PLC is the relevant licence holder in relation to this modification. The meaning of 'relevant licence holder' is set out at section 11A(10) of the Act.

Now therefore

In accordance with the powers contained in section 11(1)(a) of the Act, the Authority hereby modifies the licence of National Grid Electricity Transmission PLC in the manner specified in attached Schedule 1. This decision will take effect on and from 06 June 2014.

This document constitutes notice of the reasons for the decision to modify the Licence as required by section 49A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**



.....
Rachel Fletcher
Interim Senior Partner Duly authorised on behalf of the
Gas and Electricity Markets Authority

11 April 2014

¹ This guidance was published by the Competition Commission in September 2012. From 1 April 2014, the Competition Commission is abolished and its functions transferred to the Competition and Markets Authority (CMA).

Schedule 1

Amendment of existing definition of Balancing Services Activity Revenue Restriction in Special Condition 1A.5

The text set out in red below constitutes the proposed amendment to existing definition "Balancing Services Activity Revenue Restriction" at Special Condition 1A.5.

Balancing Services Activity Revenue Restriction means Special Conditions 4A (Restriction of System Operator Internal Revenue) and 4C (Balancing Services Activity Revenue Restriction on External Costs), together with such parts of Special Conditions 4B (Balancing Services Activity Conditions: Interpretation) and Special Conditions 4D (Restriction on Contracting with BSC Parties) to ~~4KJ (The System Operator Innovation Roll-out Mechanism)~~ 4KJ (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs) inclusive as are ancillary thereto.

Amendment of existing definition of Relevant Year t in Special Condition 1A.5

The text set out in red below constitutes the proposed amendment to existing definition "Relevant Year t" at Special Condition 1A.5.

Relevant Year t for the purposes of the Special Conditions in Chapters 5, 6, and 7, means the Relevant Year in which the values for the terms MOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out in Special Condition 3A (Restriction of Transmission Network Revenue) and Special Condition 4A (Restriction on System Operator Internal Revenue) respectively and references to Relevant Year t-1 and Relevant Year t-2 are to be construed accordingly. For the purposes of Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to ~~4KJ (The System Operator Innovation Roll-out Mechanism)~~ 4KJ (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs) inclusive Relevant Year t means that Relevant Year for the purposes of which any calculation falls to be made and references to Relevant Year t-1 and t-2 are to be construed accordingly.

Amendment of existing Special Condition 4B

The text set out in red below constitutes the proposed amendments to existing Special Condition 4B.

- 4B.1 In this Special Condition and in Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to 4KJ (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs) inclusive, all revenue shall be measured on an accruals basis, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
- 4B.2 Any term used in the formulae appearing in Special Conditions 4C to 4KJ inclusive and defined for the purposes of those formulae shall have the same meaning if used in any other formulae in those Special Conditions.
- 4B.3 In this Special Condition and in Special Conditions 4C to 4KJ, any cost, charge, payment or amount may either be positive or negative.

Amendment of existing Special Condition 4C

The text set out in red below constitutes the proposed amendments to existing Special Condition 4C.

Part A: Balancing services activity revenue restriction on external costs

- 4C.1 The licensee shall use its best endeavours to ensure that in respect of Relevant Year t the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + ET_t - OM_t + IncPayExt_t + RFIIR_t + ROV_t + BSFS_t + NC_t + IONT_t + LBS_t$$

where:

$BXext_t$ represents the maximum allowed revenue derived in Relevant Year t from and associated with procuring and using balancing services;

$CSOBM_t$ which represents the cost to the licensee of bids and offers in the Balancing Mechanism (excluding those relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve) accepted by the licensee in Relevant Year t less the total non-delivery charge for that Relevant Year, is the sum across Relevant Year t of the values of $CSOBM_j$ (being the daily System Operator BM cashflow for each settlement period j as defined in Table X-2 of Section X of the BSC in

force immediately prior to 1 April 2001) less any costs incurred within these values of CSOBM_j relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve;

BSCC _t	means the costs to the licensee of contracts for the availability or use of balancing services during the Relevant Year t, excluding costs within CSOBM _t <u>and LBS_t</u> but including charges made by the licensee for the provision of balancing services to itself in the Relevant Year t;
ET _t	means the amount of any adjustment to be made during the Relevant Year t in respect of any Relevant Year prior to Relevant Year t as provided in paragraph 4C.2;
OM _t	means an amount representing the revenue from the provision of balancing services to others during the Relevant Year t, calculated in accordance with paragraph 4C.3;
IncPayExt _t	means an incentive payment for Relevant Year t calculated in accordance with paragraph 4C.4;
NC _t	means the Outage Change cost allowance in each Relevant Year t in accordance with 4C.22;
IONT _t	means the amount of any allowed outage cost adjustments in each Relevant Year t in accordance with paragraph 4C.32;
BSFS _t	means the amount which the licensee may recover in respect of the costs of Feasibility Studies for the provision of Black Start services in accordance with paragraph 4G.5 of Special Condition 4G (Black Start Cost Incentive);
RFIIR _t	means the incentive payment which the licensee may derive from the Wind Generation Forecasting Incentive in Relevant Year t in accordance with Special Condition 4H (Wind Generation Forecasting Incentive);
ROV _t	means the Roll-out Value which the licensee may derive from the System Operator Innovation Roll-out Mechanism in Relevant Year t in

accordance with Special Condition 4J (System Operator Innovation Roll-out Mechanism); and

LBS_t means the allowed revenue derived in Relevant Year t from and associated with procuring and using Demand Side Balancing Reserve and Supplemental Balancing Reserve services in accordance with Special Condition 4K (Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs).

j shall mean a settlement period (being half an hour) as defined in the BSC.

Part B: Balancing Services Activity adjustments

4C.2 For the purposes of 4C.1, the term ET_t which relates to prior period adjustments in respect of the Relevant Year t shall mean:

(a) the costs, whether positive or negative, to the licensee of:

- (i) bids and offers in the Balancing Mechanism (excluding those relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve) accepted by the licensee in any period before Relevant Year t less the total non-delivery charge for that period; and
- (ii) contracts for the availability or use of balancing services during any period before Relevant Year t, excluding costs within CSOBM_t and LBS_t for that period, but including charges made by the licensee for the provision of balancing services to itself in that period;

in each case after deducting such costs to the extent that they have been taken into account in any Relevant Year in computing the terms CSOBM_t or BSCC_t; and

Insertion of new Special Condition 4K

The text set out in red below constitutes the proposed drafting in respect of the proposed insertion of Special Condition 4K.

Special Condition 4K: Demand Side Balancing Reserve and Supplemental Balancing Reserve Revenue Restriction on External Costs

- 4K.1. The objective of this condition is to establish arrangements to determine the allowed revenue derived from procuring and using Demand Side Balancing Reserve (“DSBR”) and Supplemental Balancing Reserve (“SBR”) for the purposes of the Balancing Services Activity (being the external costs of those balancing services for the purposes of the Balancing Services Activity), that the licensee may recover in each Relevant Year t through the term LBS_t in paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).
- 4K.2. The term LBS_t shall take the value zero, except for Relevant Years 2014/15 and 2015/16 and any other such Relevant Years as directed by the Authority in accordance with paragraph 4K.3, in respect of which it shall be calculated in accordance with the following formula:

$$LBS_t = DSBR_t + SBR_t$$

where:

$$DSBR_t = DSBRSt + DSBRSA_t + DSBRAd_t + DSBRAdA_t + DSBRtT_t + DSBRtA_t + DSBRUt_t$$

$$SBR_t = SBRc_t + SBRCA_t + SBRtT_t + SBRtA_t + SBRAt_t + SBRUt_t$$

LBS_t means the allowed revenue derived in Relevant Year t from and associated with procuring and using DSBR and SBR;

$DSBR_t$ means the costs to the licensee of DSBR Set Up Payments, DSBR Administration Payments, DSBR Testing Payments and DSBR Utilisation Payments in the Relevant Year t determined in accordance with this condition;

SBR_t means the costs to the licensee of SBR Capability Payments, SBR Availability Payments, SBR Testing Payments and SBR Utilisation Payments during the Relevant Year t determined in accordance with this condition;

- $DSBRS_t$ means the costs to the licensee in respect of DSBR Set Up Payments in the Relevant Year t incurred in accordance with this condition;
- $DSBRSA_t$ means the amount of any adjustments to $DSBRS_t$, directed by the Authority in accordance with paragraph 4K.32;
- $DSBRAd_t$ means the costs to the licensee in respect of DSBR Administration Payments incurred in the Relevant Year t in accordance with this condition;
- $DSBRAdA_t$ means the amount of any adjustments to $DSBRAd_t$, directed by the Authority in accordance with paragraph 4K.32;
- $DSBRT_t$ means the costs to the licensee in respect of DSBR Testing Payments in the Relevant Year t incurred in accordance with this condition;
- $DSBRTA_t$ means the amount of any adjustments to $DSBRT_t$, directed by the Authority in accordance with paragraph 4K. 32;
- $DSBRU_t$ means the costs the Authority directs under paragraph 4K.25 that the licensee may recover in respect of DSBR Utilisation Payments in Relevant Year t , following a determination of the Authority in accordance with paragraph 4K.24 of this condition. If no such determination has been made in respect of Relevant Year t , it shall take the value zero;
- $SBRC_t$ means the costs to the licensee in respect of SBR Capability Payments in the Relevant Year t incurred in accordance with this condition;
- $SBRCA_t$ means the amount of any adjustments to $SBRC_t$, directed by the Authority in accordance with paragraph 4K.32;
- $SBRT_t$ means the costs to the licensee in respect of SBR Testing Payments in the Relevant Year t incurred in accordance with this condition;
- $SBRTA_t$ means the amount of any adjustments to $SBRT_t$ directed by the Authority in accordance with paragraph 4K.32;
- $SBRA_t$ means the costs the Authority directs under paragraph 4K.25 that the licensee may recover in respect of SBR Availability Payments in Relevant Year t following a determination by the Authority in accordance with paragraph

4K.24. If no such determination has been made in respect of Relevant Year t , it shall take the value zero; and

$SBRU_t$ means the costs the Authority directs under paragraph 4K.25 that the licensee may recover in respect of SBR Utilisation Payments in Relevant Year t following a determination by the Authority in accordance with paragraph 4K.24. If no such determination has been made in respect of Relevant Year t , it shall take the value of zero.

4K.3. The Authority may direct any changes to the Relevant Years to which the provisions of this condition apply, which shall be deemed to be reflected in paragraphs 4K.2 and 4K.4 – 8 by virtue of that direction.

Part A: Volume Requirement Methodology

4K.4. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “Volume Requirement Methodology”) which is to be applied in the Relevant Years 2014/15 and 2015/16, (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for determining the aggregate required volume of DSBR and SBR that the licensee will seek to procure (the “Volume Requirement”). The Volume Requirement Methodology must include, but need not be limited to:

- (a) the methodology for determining the Volume Cap for Relevant Year t ; and
- (b) the methodology for determining the minimum aggregate volume of DSBR and SBR that would be necessary to meet the Reliability Standard in Relevant Year t , subject to the Volume Cap.

Part B: DSBR Procurement Methodology

4K.5. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “DSBR Procurement Methodology”) which is to be applied in the Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3) for the purposes of determining that any procurement of DSBR is economic and efficient, including that it provides value for money

for electricity consumers in Great Britain. The DSBR Procurement Methodology must include, but need not be limited to:

- (a) the methodology for determining the DSBR Cost Threshold;
- (b) the process by which tenders submitted to the licensee for the provision of DSBR (“DSBR Tenders”), will be assessed by the licensee to determine that:
 - (i) the Volume Requirement will be met in respect of each Relevant Year t (subject to the Volume Cap and DSBR Cost Threshold) at least cost; and
 - (ii) any DSBR Tenders that are accepted by the licensee are demonstrably economic and efficient, including by providing value for money for electricity consumers in Great Britain;
- (c) the processes set out at (b) must take account of:
 - (i) DSBR Set Up Payments;
 - (ii) DSBR Testing Payments;
 - (iii) DSBR Administration Payments; and
 - (iv) DSBR Utilisation Payments;
- (d) the process by which the licensee will determine the optimal balance between the procurement of SBR and DSBR for the purpose of delivering value for money for electricity consumers in Great Britain; and
- (e) the steps the licensee will take with the aim of ensuring that the DSBR procurement process is economic, efficient and competitive.

Part C: DSBR Operational Methodology

4K.6. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “DSBR Operational Methodology”), which is to be applied in the Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for the purposes of determining that DSBR Testing and utilisation of DSBR is economic and efficient, including that it provides value for money for electricity consumers in Great Britain. The DSBR Operational Methodology must include, but need not be limited to:

- (a) the process by which the licensee will identify whether utilisation of DSBR is:
 - (i) required;
 - (ii) economic and efficient, including whether it provides value for money for electricity consumers in Great Britain; and
 - (iii) compliant with the principles and considerations relating to the use of DSBR set out in the document prepared by the licensee pursuant to paragraph 5 of Standard Condition C16 (Procurement and use of balancing services)
- (b) the principles regarding the order in which DSBR shall be utilised by the licensee;
- (c) the process by which the licensee will identify how to utilise DSBR, including the order in which DSBR pursuant to individual contracts for the provision of DSBR will be utilised, in an efficient and economic manner, including providing value for money for electricity consumers;
- (d) the criteria for determining:
 - (i) whether DSBR Testing is required; and
 - (ii) the level of DSBR Testing that will promote the reliability of DSBR in an economic and efficient manner, including providing value for money for electricity consumers in Great Britain; and
- (e) the steps the licensee will take to minimise any distortion of the electricity market in Great Britain as a result of its utilisation of DSBR and DSBR Testing.

Part D: SBR Procurement Methodology

4K.7. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “SBR Procurement Methodology”) which is to be applied in the Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for the purposes of determining that any procurement of

SBR is economic and efficient, including that it provides value for money for electricity consumers in Great Britain. The SBR Procurement Methodology must include, but need not be limited to:

- (a) the methodology for determining the SBR Cost Threshold;
- (b) the process by which tenders submitted to the licensee for the provision of SBR (“SBR Tenders”), will be assessed by the licensee to determine that:
 - (i) the Volume Requirement is met in respect of each Relevant Year *t* (subject to the Volume Cap and SBR Cost Threshold) at least cost; and
 - (ii) any SBR Tenders that are accepted by the licensee are demonstrably economic and efficient, including by providing value for money for electricity consumers in Great Britain,
- (c) The process set out at (b) must take account of:
 - (i) SBR Capability Payments;
 - (ii) SBR Testing Payments;
 - (iii) SBR Availability Payments; and
 - (iv) SBR Utilisation Payments;
- (d) the process by which the licensee will determine the optimal balance between the procurement of SBR and DSBR for the purpose of providing value for money for electricity consumers in Great Britain; and
- (e) the steps the licensee will take with the aim of ensuring that the SBR procurement process is economic, efficient and competitive.

Part E: SBR Operational Methodology

4K.8. The licensee must, by the next working day following this condition coming into effect (unless otherwise directed by the Authority), submit to the Authority for approval, a methodology (the “SBR Operational Methodology”) which is to be applied in Relevant Years 2014/15 and 2015/16 (or such other Relevant Year as directed by the Authority in accordance with paragraph 4K.3), for the purposes of determining that SBR Testing,

instructing SBR Availability and utilisation of SBR is economic and efficient, including that it provides value for money for electricity consumers in Great Britain. The SBR Operational Methodology must include but need not be limited to:

- (a) the process by which the licensee will identify whether utilisation of SBR is:
 - (i) required;
 - (ii) economic and efficient, including whether it provides value for money for electricity consumers in Great Britain; and
 - (iii) compliant with the principles and considerations relating to the use of SBR set out in the document prepared by the licensee pursuant to paragraph 5 of Standard Condition C16;
- (b) the principles regarding the order in which SBR shall be used by the licensee;
- (c) the process by which the licensee will identify how to utilise SBR, including the order in which SBR pursuant to individual contracts for the provision of SBR will be utilised, in an efficient and economic way, including providing value for money for electricity consumers;
- (d) the process by which the licensee will identify whether instructing SBR Availability is:
 - (i) required;
 - (ii) economic and efficient, including whether it provides value for money for electricity consumers in Great Britain;
- (e) the criteria for determining:
 - (i) whether SBR Testing is required; and
 - (ii) the level of SBR Testing that will promote the reliability of SBR in an economic and efficient manner, including providing value for money for electricity consumers in Great Britain; and

- (f) the steps that the licensee will take to minimise any distortion of the electricity market in Great Britain as a result of SBR Testing, instructing SBR Availability or utilisation of the SBR service.

Part F: Authority Approval of Methodologies

- 4K.9. The Authority shall determine, following receipt of any of the methodologies referred to in Parts A to E above (“the Methodologies”) whether to approve or reject those Methodologies.
- 4K.10. If the Authority rejects any of the Methodologies in accordance with paragraph 4K.9 it may direct the licensee to resubmit a revised Methodology to the Authority for approval, within the time specified in that direction.
- 4K.11. If the Authority approves any of the Methodologies in accordance with paragraph 4K.9, the licensee must publish the approved Methodologies (the “Approved Methodologies”) on its website as soon as practicable following approval, unless in the licensee’s view it would not be appropriate to do so.

Part G: Revision to Methodologies

- 4K.12. The licensee may by, no later than 31 March of Relevant Year t, submit to the Authority for approval proposals for the revision of any of the relevant Approved Methodologies, except for the Volume Cap specified in the Volume Requirement Methodology, for implementation at the commencement of the next following Relevant Year t. Where the licensee submits revisions for approval the licensee must send a copy of the proposed revisions to the Authority and, unless in the licensee’s view it would not be appropriate to do so, to any person who requests a copy.
- 4K.13. Following receipt of a notification under paragraph 4K.12 the Authority may direct the licensee to revise the relevant Approved Methodology to reflect the proposed revision, where the Authority is satisfied that the revisions are economic and efficient and will provide value for money for electricity consumers in Great Britain. Unless the Authority, within 3 months of their submission under paragraph 4K.12, issues such a direction, the proposed revisions shall be deemed not to be approved.
- 4K.14. If the Authority directs changes to any of the relevant Approved Methodologies in accordance with paragraph 4K.13, the licensee must revise the relevant Approved Methodologies. The licensee must also publish them on its website within 7 days of receipt of that direction unless in the licensee’s view it would not be appropriate to do so.

- 4K.15. If the licensee considers that an exceptional change in circumstances arises that materially affects the basis upon which the relevant Approved Methodologies were approved by the Authority in a significant way (other than in relation to the Volume Cap as set out in the Volume Requirement Methodology), the licensee must promptly notify the Authority of the change in circumstances and its materiality and significance.
- 4K.16. Following receipt of a notification under paragraph 4K.15 the Authority may direct the licensee to revise the relevant Approved Methodology to reflect the change in circumstances notified by the licensee where the Authority is satisfied that the revisions are economic and efficient and will provide value for money for electricity consumers in Great Britain. Unless the Authority, within 3 months of their a submission under paragraph 4K.14, issues such a direction, the proposed revisions shall be deemed not to be approved.
- 4K.17. If the Authority directs changes to the relevant Approved Methodologies in accordance with paragraph 4K.16, the licensee must revise the relevant Approved Methodologies. The licensee must also publish them on its website within 7 days of receipt of the relevant direction unless in the licensee's view it would not be appropriate to do so.

Part H: Authority Determinations

Part H1: Notice of SBR Availability Payments, SBR Utilisation Payments and DSBR Utilisation Payments

- 4K.18. Where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year t, it has incurred DSBR Utilisation Payments, SBR Utilisation Payments or SBR Availability Payments for the first time following this condition coming into effect, it may provide notice of these payments to the Authority within the period up to and including 31 March of the Relevant Year t.
- 4K.19. Thereafter, where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year t, it has incurred in aggregate DSBR Utilisation Payments, SBR Utilisation Payments and SBR Availability Payments in excess of £2.5 million, or such lower amount as the Authority may direct, it may provide notice of those payments to the Authority within the period up to and including ~~the~~31 March of the Relevant Year t.
- 4K.20. Notwithstanding the above, the licensee must provide a notice setting out all other DSBR Utilisation Payments, SBR Utilisation Payments and SBR Availability Payments it considers, and can provide supporting evidence that, it has incurred in respect of Relevant Year t, to the Authority by 31 March of the Relevant Year t.

4K.21. A notice provided to the Authority under paragraphs 4K.18, 4K.19 or 4K.20 must give particulars of:

- (a) the events to which the notice relates;
- (b) the amount of any payments that have been made as a result of those events, and how the amount of those payments has been calculated;
- (c) how the payments are in accordance with the relevant Approved Methodologies; and
- (d) any other analysis or information which the licensee considers to be relevant to enable the Authority to fully assess the event to which the notice relates.

4K.22. If the Authority considers that the analysis or information provided in accordance with paragraph 4K.21 is insufficient to enable it to assess whether it should direct the recovery of the relevant costs, the Authority may direct that it be provided within a reasonable period with such additional information as it considers appropriate in order to enable it to make such an assessment. Where the licensee fails to comply with such a direction in accordance with the time scale set out in such direction, the Authority may extend the deadline for determination provided for in paragraph 4K.25.

4K.23. If the Authority considers that, taking account of:

- (a) the nature and extent of the information and analysis provided to it by the licensee in accordance with paragraph 4K.21,
- (b) the nature and extent of any further information and analysis provided to it in response to a direction under paragraph 4K.22,
- (c) the materiality of the costs incurred,

it requires further time to reach a determination, it may by way of a direction extend the deadline for determination provided for in paragraph 4K.25.

Part H2: The Authority's Determination – SBR Availability Payments, SBR Utilisation Payments and DSBR Utilisation Payments

4K.24. The Authority shall determine following receipt of a notice in accordance with paragraph 4K.21 whether DSBR Utilisation Payments, SBR Availability Payments or SBR Utilisation Payments were incurred in accordance with the relevant Approved Methodologies.

4K.25. Unless the Authority, within 28 days of receipt of a notice in accordance with paragraph 4K.21, determines that the DSBR Utilisation Payments, SBR Availability Payments or SBR Utilisation Payments were incurred in accordance with the relevant Approved Methodologies, and directs that these costs may be recovered, the terms SBRA_t, SBRU_t, DSBRU_t, shall take the value zero.

Part H3: DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments Report

4K.26. Where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year *t*, it has incurred in aggregate DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments in excess of £2.5 million, or such lower amount as the Authority may direct, it may provide notice of those payments to the Authority within the period up to and including 31 March of the Relevant Year *t*.

4K.27. Notwithstanding the above, the licensee must provide a notice setting out all other DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments it considers, and can provide supporting evidence that, it has incurred in respect of Relevant Year *t*, to the Authority by 31 March of the Relevant Year *t*.

4K.28. A notice provided to the Authority under paragraphs 4K.26 or 4K.27 must give particulars of:

- (a) the amount of any DSBR Set Up Payments, DSBR Administration Payments, DSBR Testing Payments, SBR Capability Payments and SBR Testing Payments that have been made in Relevant Year *t*, and how the amount of those payments has been calculated;
- (b) whether those payments have been made in accordance with the relevant Approved Methodologies; and
- (c) any other analysis or information which the licensee considers relevant.

4K.29. If the Authority considers that the analysis or information provided in accordance with paragraph 4K.28 is insufficient to enable it to assess whether it should direct an adjustment to the recovery of the relevant costs, the Authority may direct that it be provided within a reasonable period with such additional information as it considers appropriate in order to enable it to make such an assessment. Where the licensee fails to comply with such a

direction in accordance with the time scale set out in such direction the Authority may extend the deadline for determination provided for in paragraph 4K.32.

4K.30. If the Authority considers that, taking account of:

- (a)-(d) the nature and extent of the information and analysis provided to it by the licensee in accordance with paragraph 4K.28,
- (b)-(e) the nature and extent of any further information and analysis provided to it in response to a direction under paragraph 4K.29,
- (c)-(f) the materiality of the costs incurred,

it requires further time to reach a determination, it may by way of a direction extend the deadline for determination provided for in paragraph 4K.32.

Part H4: The Authority's Determination – DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, SBR Testing Payments and DSBR Testing Payments

4K.31. The Authority shall determine following receipt of a notice in accordance with paragraph 4K.28 whether the DSBR Set Up Payments, SBR Capability Payments, DSBR Administration Payments, DSBR Testing Payments and SBR Testing Payments were incurred in accordance with the relevant Approved Methodologies.

4K.32. Where the Authority determines that the relevant payments were not made in accordance with the relevant Approved Methodologies, it shall, within 28 days of receipt of a notice in accordance with paragraph 4K.28, direct that the recovery of the relevant costs shall be adjusted accordingly.

4K.33. In this condition:

Demand Side Balancing Reserve (or “DSBR”) means the balancing service of that name as described in the document the licensee is required to establish in accordance with paragraph 3 of Standard Condition C16;

DSBR Administration Payments means payments made by the licensee pursuant to a contract for the provision of DSBR, to a person in respect of the provision by such person of DSBR by causing one or more other persons to

	provide DSBR;
DSBR Cost Threshold	means the mechanism set out in the DSBR Procurement Methodology for determining the maximum cost of a contract for DSBR that could be deemed to be economic and efficient and as providing value for money for electricity consumers in Great Britain;
DSBR Set Up Payments	means payments made by the licensee pursuant to a contract for the provision of DSBR, to a DSBR service provider in relation to costs incurred by such DSBR service provider in preparing to be able to provide the DSBR service;
DSBR Testing	means actions taken to verify that DSBR is capable of delivery in accordance with the terms of the relevant DSBR contract;
DSBR Testing Payments	means payments made by the licensee pursuant to a contract for the provision of DSBR, in respect of DSBR Testing;
DSBR Utilisation Payments	means payments made by the licensee pursuant to a contract for the provision of DSBR, in respect of delivery of DSBR in response to instructions received from the licensee instructing such delivery;
Reliability Standard	means the reliability standard as specified by the Secretary of State pursuant to powers in the Energy Act 2013, or prior to such specification coming in to force, the draft version of the same, as published by the Secretary of State in July 2013;
SBR Availability	means actions taken by the SBR provider

to make SBR available for delivery within operational timescales, in response to instructions received from the licensee instructing the SBR provider to take those actions;

SBR Availability Payments

means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of SBR Availability;

SBR Capability Payment

means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of SBR being capable of delivery in accordance with the terms of the relevant SBR contract, in the event that the licensee issues instructions for delivery;

SBR Cost Threshold

means the mechanism set out in the SBR Procurement Methodology for determining the maximum cost of a contract for the SBR service that could be deemed to be economic and efficient and as providing value for money for electricity consumers in Great Britain;

SBR Testing

means actions taken to verify that the SBR service is capable of delivery in accordance with the terms of the relevant SBR contract;

SBR Testing Payments

means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of SBR Testing;

SBR Utilisation Payments

means payments made by the licensee pursuant to a contract for the provision of SBR, in respect of delivery of the SBR service in response to instructions received

from the licensee instructing such delivery;

Supplemental Balancing Reserve (or “SBR”) means the balancing service of that name as described in the document the licensee is required to establish in accordance with paragraph 3 of Standard Condition C16;

Volume Cap means the mechanism identified and determined in accordance with the Volume Requirement Methodology for determining the maximum aggregate volume of DSBR and SBR that the licensee could seek to procure.