

**MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF NATIONAL GRID  
ELECTRICITY TRANSMISSION  
PLC GRANTED UNDER SECTION 6(1)(b) OF  
THE ELECTRICITY ACT 1989**

Whereas –

1. National Grid Electricity Transmission PLC (“NGET”) is the holder of an electricity transmission licence (“the Licence”) granted under section 6(1)(b) of the Electricity Act 1989 (“the Act”) to participate in the transmission of electricity for the term and subject to the conditions contained in the Licence.
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 12 March 2014 (“the Notice”)<sup>1</sup> that it proposed to modify special condition 4A (Restriction of System Operator Internal Revenue) of the Licence held by NGET and by requiring any representations to the modification to be made on or before 9 April 2014.
3. In accordance with section 11A(4)(b) of the Act the Authority gave notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received one response.
5. The Authority has carefully considered in relation to the proposed modification the representation received. The overall proposed modifications are set out in Schedule 4 to this Notice and are underlined in black. The Authority considers it necessary to make one (non- substantive) additional change to the proposed modifications set out in the Notice to correct a minor typographical omission. This additional change to the proposed modifications and the reason for making it is set out in Schedule 3 and shown in red in Schedule 4.
6. In accordance with section 49A of the Act the Authority sets out its reasons, which are that it is in the consumer’s interest for NGET to prepare for its functions in Electricity Market Reform (EMR) and to collect its costs for doing so, for making the licence modifications in Schedule 2.
7. The effect of the modifications, which is to allow recovery of the efficient and economic costs NGET incurs in preparing for its enduring role in the EMR, is also set out in Schedule 2.
8. 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 and Markets Authority’s Energy Licence Modification Appeals Rules<sup>2</sup> requires that appellant to send to any relevant licence holder who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. NGET is the only relevant licence holder for the purposes of section 11A. The meaning of ‘relevant licence holder’ is set out in section 11A of the Act.

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<sup>1</sup> <https://www.ofgem.gov.uk/ofgem-publications/86555/noticeundersection11a2oftheelectricityact1989.pdf>

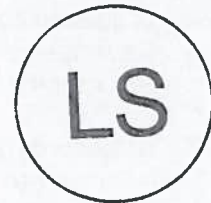
<sup>2</sup> This guidance was published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the Competition and Markets Authority (CMA).

**Now therefore**

In accordance with the powers contained in section 11A(1)(a) of the Act, the Authority hereby modifies special condition 4A (Restriction of System Operator Internal Revenue) in the manner specified in attached Schedule 4. This decision will take effect on and from 5 July 2014.

This document constitutes notice of the reasons for the decision to modify special condition 4A (Restriction of System Operator Internal Revenue) of the Licence held by NGET 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**



A handwritten signature in blue ink, appearing to read 'M Crouch', is positioned above a dotted line.

.....  
**Martin Crouch**

**Interim Senior Partner Smarter Grids and Governance – Transmission  
Duly authorised on behalf of the Gas and Electricity Markets Authority,  
9 May 2014**

## Schedule 1

**Special Conditions to be amended, updated and re-numbered (reasons for proposed amendments set out in Schedule 2 and revised text in Schedule 4)**

<b>Current Special Condition</b>	<b>To be amended, updated and renumbered as set out in Schedule 4</b>
Introduction: 4A.1	Introduction: 4A.1
Part B: Calculation of Maximum SO Internal Revenue	Part B: Calculation of Maximum SO Internal Revenue
Part C: Calculation of $SOTRU_t$	Part C: Calculation of $SOTRU_t$
Part D: Calculation of $SOEMRCOt$	Part D: Calculation of $SOEMRCOt$
Part E: Interpretation	Part E: Interpretation

## Schedule 2

### Reasons and effects of the proposed changes to NGET's transmission licence

1. While EMR delivery functions will not formally be given to NGET until secondary legislation comes into force, the Authority believes it is appropriate and in consumers' interests to allow NGET to recover its preparatory costs (subject to rigorous scrutiny) before formally taking on the EMR delivery functions, because:
  - it is important that NGET prepares to deliver EMR before formal assignment of its EMR delivery functions. This is because performance of those functions is expected to begin as soon as they are assigned through secondary legislation. If NGET waited with preparation until the functions are assigned, the overall EMR timetable is likely to be delayed which may lead to increased costs to the consumer; and
  - preparing for delivery in advance of assignment of functions, will give NGET the opportunity to consider its approach to delivery.
2. The effect of the proposed modification was set out in the Authority's consultation letter. The modification of special condition 4A adds two terms to the internal revenue calculation. Firstly, the term 'SOEMR' sets an initial allowance, based on actual and forecasted costs, to enable NGET to prepare for its role in the EMR. Secondly, the term 'SOEMRCO' adds several safeguards to protect the consumer from inefficient and uneconomic costs being passed on, through:
  - a scrutiny exercise of the costs to ensure that NGET can only recover efficient and economic costs if they are formally given the role in legislation. Once completed, we will consult on the total level of costs proposed for remuneration, allowing stakeholders to provide their comments; and
  - a provision to ensure that all efficient costs can be repaid if the EMR delivery functions are not conferred on NGET.

### Schedule 3

Paragraph reference	Comment by Ofgem	Changes made to Licence (Y/N)	Reasons for differences between the modifications and those set out in the Notice
Part B: Calculation of Maximum SO Internal Revenue, 4A.4 SOEMRCO term	The wording for this paragraph to include the wording "...by the Authority as a result of a calculation which compares SOEMRt with the licensee's actual incremental..." after the word 'determined'. This is to provide consistency between the draft licence condition published alongside the consultation on 20 December 2013.	Yes. This is marked-up in 4A.4	Correction of typographical omission.

## Schedule 4

### Special Condition 4A - Restriction of System Operator Internal Revenue

#### Introduction

- 4A.1 The purpose of this condition is to:
- establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs in relation to Balancing Services Activity and its additional internal costs associated with preparing for the performance of EMR Functions; and
  - set out the obligations of the licensee in respect of those charging restrictions.

#### Part A: Licensee's obligation

- 4A.2 The licensee must use its best endeavours to ensure that, in Relevant Year t, the revenue collected by the licensee from the Balancing Services Activity associated with internal costs (i.e. excluding the revenue associated with procuring and using balancing services) does not exceed the amount derived in accordance with the Maximum SO Internal Revenue (SOI) formula set out in Part B below.

#### Part B: Calculation of Maximum SO Internal Revenue

- 4A.3 The Maximum SO Internal Revenue is calculated using the following formula (in this condition, the "Principal Formula"):

$$SOI_t = (SOPU_t + SOMOD_t + \underline{SOEMR_t} + \underline{SOEMRCO_t} + SOTRU_t) \times RPIF_t$$

- 4A.4 In the Principal Formula:

- $SOI_t$  means the amount of Maximum SO Internal Revenue in Relevant Year t.
- $SOPU_t$  means the amount set out against the licensee's name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year t determined by the Authority.
- $SOMOD_t$  has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year is the value of the incremental change for Relevant Year t from the licensee's SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
- $SOEMR_t$  means the initial amount of allowed revenue for the licensee's internal costs associated with preparing for the performance of EMR Functions in Relevant Year t and has the value as set out in Appendix 2.
- $SOEMRCO_t$  means the adjustment to allowed revenue in Relevant Year t and will be determined by the Authority as a result of a calculation which compares  $SOEMR_t$  with the licensee's actual incremental and efficiently incurred internal costs associated with preparing for the performance of EMR Functions that are conferred upon the licensee.  $SOEMRCO_t$  will have the value of zero until such time as the EMR Functions either are or are not conferred on the licensee under the Energy Act 2013, thereafter:
- where the EMR Functions are not conferred on the licensee then  $SOEMRCO_t$  will have a value which is equal and opposite to the value for  $SOEMR_t$ , so that the net impact of these two terms on  $SOI_t$  is zero, or
  - where the EMR Functions are conferred on the licensee then

SOEMRCO<sub>t</sub> will be calculated by 31 March 2016 in respect of Relevant Year 2016/17 and will have the value of zero for all other Relevant Years.

SOTRU<sub>t</sub> has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4A.5 of this condition.

RPIF<sub>t</sub> has the value given to it by Part C of Special Condition 3A.

#### **Part C: Calculation of SOTRU<sub>t</sub>**

4A.5 For the purposes of the Principal Formula, SOTRU<sub>t</sub> is derived in accordance with the following formula:

$$\text{SOTRU}_t = \left( \frac{\text{RPIA}_{t-2} - \text{RPIF}_{t-2}}{\text{RPIA}_{t-2}} \right) \times \text{SOREV}_{t-2} \times \text{PVF}_{t-2} \times \text{PVF}_{t-1}$$

4A.6 In the above formula for SOTRU<sub>t</sub>:

RPIA<sub>t-2</sub> has the value given to it by Part C of Special Condition 3A.

RPIF<sub>t-2</sub> has the value given to it by Part C of Special Condition 3A.

SOREV<sub>t-2</sub> means the amount (in 2009/10 prices), for Relevant Year t-2, of the combined value of all revenue adjustments under the Relevant SO Special Conditions that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 4A.7 or 4A.8 of this condition.

PVF<sub>t</sub> has the value given to it by Part C of Special Condition 3A.

4A.7 For the purposes of paragraph 4A.6 of this condition, but subject to paragraph 4A.8, SOREV<sub>t-2</sub> is derived in accordance with the following formula:

$$\text{SOREV}_{t-2} = \text{SOPU}_{t-2} + \text{SOMOD}_{t-2} + \text{SOEMR}_{t-2} + \text{SOEMRCO}_{t-2} + \text{SOTRU}_{t-2}$$

where:

SOPU<sub>t-2</sub> means an amount set out against the licensee's name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year t-2 determined by the Authority.

SOMOD<sub>t-2</sub> means the value of the incremental change for Relevant Year t-2 from the licensee's SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B.

SOTRU<sub>t-2</sub> means the revenue adjustment made in Relevant Year t-2 in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 4A.5 of this condition.

SOEMR<sub>t-2</sub> means the initial amount of allowed revenue for the licensee's internal costs associated with preparing for the performance of EMR Functions and has the value as set out in Appendix 2 for the Relevant Year t-2.

SOEMRCO<sub>t-2</sub> means the adjustment to allowed revenue determined by the Authority as a result of a calculation which compares SOEMR<sub>t</sub> with the licensee's actual incremental and efficiently internal costs incurred associated with preparing for the performance of EMR Functions that are conferred upon the licensee.

4A.8 For the purposes of paragraph 4A.6 of this condition, in Relevant Year 2014/15 only  $SOREV_{t-2}$  is derived in accordance with the following formula:

$$SOREV_{t-2} = \frac{CSOC_{t-2} + NC_{t-2}}{RPIF_{t-2}}$$

where:

- $CSOC_{t-2}$  means, in respect of the Relevant Year commencing 1 April 2012, the Base Transmission Revenues derived in accordance with Part 2 (ii) of Special Condition AA5A (Balancing Services Activity Revenue Restriction) of this licence in the form in which it was in force at 31 March 2013.
- $NC_{t-2}$  means, in respect of the Relevant Year commencing 1 April 2012, the non-incentivised costs as derived in accordance with Part 2 (ii) of Special Condition AA5A (Balancing Services Activity Revenue Restriction) of this licence in the form in which it was in force at 31 March 2013.

#### Part D: Calculation of $SOEMRCO_t$

4A.9  $SOEMRCO_t$  will be determined, using 2009/10 prices, by comparing the actual efficient incremental costs incurred by the licensee in preparing for the performance of EMR Functions with the sum allowed for  $SOEMR_t$ . The calculation will be performed by using a workbook agreed between the licensee and the Authority.

4A.10 The value of  $SOEMRCO_t$ , as determined by the Authority in accordance with condition 4A.9, will be directed by the Authority by 31 March 2016.

#### Part E: Interpretation

For the purposes of this condition 'EMR Functions' has the same meaning as in Chapter 5 of the Energy Act 2013.

#### Appendix 1

#### Value of the $SOPU_t$ term (2009/10 prices)

(see paragraph 4A.4 of this condition)

Licensee	SOPU (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	113.976	113.533	114.357	116.705	122.833	117.524	124.731	126.191

