

To: National Grid Electricity Transmission plc

NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the Authority) hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (the Act), as follows:

1. The Authority proposes to modify the electricity transmission licence held by National Grid Electricity Transmission plc (NGET) (Company number: 02366977) granted or treated as granted under section 6(b) of the Act by:
 - amending special condition 4A (Restriction of System Operator Internal Revenue), and
 - inserting new special condition 4L (EMR Dispute Resolution Incentive),(together the "Conditions") in the manner set out in Annex 1 to this Notice.
2. The reason the Authority is proposing to modify the Conditions is to ensure that suitable performance incentives are in place when NGET carries out its role as the Electricity Market Reform (EMR) Delivery Body.
3. The effect of the proposed modification is set out in our 17 April 2014 consultation¹. In summary, the modification introduces a new term relating to dispute resolution decisions ('SOEMRDRI') that allows the Authority to adjust NGET's revenue depending on how it performs. This term can either have a positive or negative effect on NGET's revenues to the values set out in Schedule 1 of special condition 4L.
4. A copy of the proposed modification and other documents referred to in this Notice are available on the Ofgem website (www.ofgem.gov.uk).
5. Any representations on the proposed modification must be made on or before 14 July 2014 to Sujitra Krishnanandan, Ofgem, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to: sujitra.krishnanandan@ofgem.gov.uk.
6. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic format so that these can easily be published on the Ofgem website.
7. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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

13 June 2014

¹ <https://www.ofgem.gov.uk/publications-and-updates/strategy-consultation-revenue-incentives-and-outputs-national-grids-role-electricity-market-reform>

Annex 1

Special Condition 4A. Restriction of System Operator Internal Revenue

Part B: Calculation of Maximum SO Internal Revenue

4A.1 The Maximum SO Internal Revenue is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$SOI_t = (SOPU_t + \text{SOEMRDRI}_t + \text{SOMOD}_t + \text{SOEMR}_t + \text{SOEMRCO}_t + \text{SOTRU}_t) \times \text{RPIF}_t$$

4A.2 In the Principal Formula:

SOEMRDRI_t means the adjustment in Relevant Year t to the licensee’s SO Opening Base Revenue Allowance (either positive or negative) determined by the Authority as a result of the calculation made under Parts A and B of Special Condition 4L (EMR Dispute Resolution Incentive);

Special Condition 4L. EMR Dispute Resolution Incentive

Introduction

- 4L.1 The purpose of this condition is to establish arrangements to determine an adjustment to the licensee's SO Opening Base Revenue Allowance in Relevant Year t by means of the term $SOEMRDRI_t$ for the purposes of paragraphs 4A.3 and 4A.4 of Special Condition 4A (Restriction of System Operator Internal Revenue) as a result of the financial incentive placed upon the licensee to accurately determine certain disputes referred to it under the Regulations.
- 4L.2 The adjustments to the licensee's SO Opening Base Revenue Allowance (either positive or negative) in Relevant Year t derived under this condition will depend on how many of the Reviewable Decisions made by the licensee in Relevant Year t-2 under the Regulations are overturned by the Authority.
- 4L.3 The "Regulations" for the purposes of this condition are:
- (a) The Contracts for Difference (Allocation) Regulations 2014 (the "CfD Regulations"); and
 - (b) The Electricity Capacity Regulations 2014 (the "CM Regulations")

Part A: Calculation of $SOEMRDRI_t$

- 4L.4 For the purposes of paragraphs 4A.3 and 4A.4 in Special Condition 4A, and subject to Part B of this condition, $SOEMRDRI_t$ has the value zero in all years except for 2016/17 and 2017/18 when it is derived in accordance with the following formula:

$$SOEMRDRI_t = (CfDQD_t + CMQD_t + CANMR_t)$$

- 4L.5 In the above formula $SOEMRDRI_t$:

$CfDQD_t$ means the amount shown in column 1 of the table in Schedule 1 of this condition against the number of decisions made in relation to CfD Qualification Decisions under the CfD Regulations in Relevant Year t-2, which have been overturned by the Authority under regulation [46]² of the CfD Regulations.

$CMQD_t$ means the amount shown in column 2 of the table in Schedule 1 of this condition against the number of decisions made in relation to CM Qualification Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation [71] of the CM Regulations.

$CANMR_t$ means the amount shown in column 3 of the table in Schedule 1 of this condition against the number of decisions made in relation to CM Capacity Agreement Notice ("CAN") Decisions and CM Capacity Market Register ("CMR") Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation [71] of the CM Regulations.

The values of the terms in the table in Schedule 1 of this condition are expressed in 2009/10 prices.

Part B: Determination of $SOEMRDRI_t$

- 4L.6 The Authority shall, after consultation with the licensee, and having regard to Part A of this condition, direct the value of $SOEMRDRI_t$ for the Relevant Year t.
- 4L.7 The direction made pursuant paragraph 4L.6 shall be made by the Authority on or before 30 November in the year preceding Relevant Year t.

² For the purposes of this statutory consultation, the references to regulation numbers in square brackets are based on the drafts of the CfD Regulations and the CM Regulations seen by Ofgem, and may be subject to change if the final version of those regulations are in a different form.

Part C: Definitions

4L.8 The Definitions in this condition will have the following meaning:

Capacity Agreement Notice		as defined in regulation 2 of the CM Regulations;
Capacity Market Register		as defined in regulation 2 of the CM Regulations;
CfD Qualification Decisions		means decisions made by the licensee under regulation [20(4)] of the CfD Regulations to uphold Non-qualification Determinations;
CM Capacity Agreement Notice (“CAN”) Decisions		means decisions made by the licensee under regulation [69(3)] of the CM Regulations to uphold the decision not to amend the Capacity Agreement Notice;
CM Capacity Market Register (“CMR”) Decisions		means decisions made by the licensee under regulation [69(3)] of the CM Regulations to uphold the decision not to rectify the Capacity Market Register;
CM Qualification Decisions		means decisions made by the licensee under regulation [69(3)] of the CM Regulations to uphold Prequalification Decisions;
Non-qualification Determinations		as defined in regulation 19(2)(b) of the CfD Regulations;
Prequalification Decisions		as defined in regulation 2 of the CM Regulations;
Reviewable Decisions		means CfD Qualification Decisions, CM Qualification Decisions, CM Capacity Agreement Notice Decisions and CM Capacity Market Register Decisions

Schedule 1

Components of the term $SOEMRDRI_t$ in 2009/10 prices

	(1)	(2)	(3)
Number of overturned decisions	$CfDQD_t$ £000s	$CMQD_t$ £000s	$CANMR_t$ £000s
No overturned decisions	50	50	25
1 overturned decision	0	0	0
2 overturned decisions	-10	-10	-5
3 overturned decisions	-20	-20	-10
4 overturned decisions	-30	-30	-15
5 overturned decisions	-40	-40	-20
6 or more overturned decisions	-50	-50	-25