

**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 13 June 2014 (“the Notice”)<sup>1</sup> that it proposed to modify Special Condition 4A (Restriction of System Operator Internal Revenue) and introduce a new Special Condition 4L (EMR Dispute Resolution Incentive) to the Licence held by NGET and by requiring any representations to the modification to be made on or before 14 July 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 modifications.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received one representation, which is published alongside this Modification on the Ofgem website.
5. The Authority has considered the representation received in relation to the numbering and presentation of Special Condition 4A in the proposed modifications set out in the Notice. The Authority considers it necessary to make two additional non-substantive changes to the proposed modifications in light of the representation. These additional changes to correct format style and numbering are highlighted in red in the Schedule to this Modification.
6. In accordance with section 49A of the Act the reason for making these modifications is to ensure that suitable performance incentives are in place when NGET carries out its role as the Electricity Market Reform (EMR) Delivery Body.
7. The effect of the modifications is to introduce a new term relating to dispute resolution decisions (‘SOEMRDRI’) that allows the Authority to adjust NGET’s revenue depending on how it performs. The adjustment can either have a positive or negative effect on NGET’s revenues.
8. Further detail on the reason and effect of these modifications are set out in the Authority’s ‘Decision on Incentives for National Grid Electricity Transmission’s (NGET) Role in Electricity Market Reform (EMR)’ and ‘Statutory Consultation on Proposed Licence Modifications to NGET’s Special Conditions’ dated 13 June 2014.<sup>2</sup>
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 and Markets Authority’s Energy Licence Modification Appeals

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-licence-modifications-nget%E2%80%99s-special-conditions-incentives-and-outputs-national-grid-electricity-transmissions-nget-role-electricity-market-reform>

<sup>2</sup> <https://www.ofgem.gov.uk/ofgem-publications/88153/decisiononemrstrategyfinal.pdf>

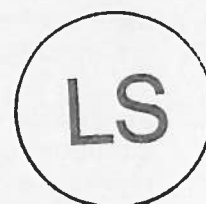
Rules<sup>3</sup> requires the appellant to send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. NGET is the only relevant licence holder for the purposes of section 11A. The meaning of 'relevant licence holder' is set out in section 11A of the Act.

**Now therefore**

In accordance with the powers contained in section 11A(1)(a) of the Act, the Authority hereby modifies Special Condition 4A and Special Condition 4L in the manner specified in the attached Schedule. This decision will take effect on and from 16 September 2014.

This document constitutes notice of the reasons for the decision to modify 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**



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**Adam Cooper**  
**Associate Partner, Markets**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**  
**18 July 2014**

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<sup>3</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).

## Schedule

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

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

4A.3 The Maximum SO Internal Revenue is derived in accordance with the following formula (in this condition, the “Principal Formula”):

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

4A.4 In the Principal Formula:

*[Insert the following text after the definition of ‘SOPU\_t’]*

SOEMRDRI<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub>

- 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<sub>t</sub> has the value zero in all years except for 2016/17 and 2017/18 when it is derived in accordance with the following formula:

$$\text{SOEMRDRI}_t = (\text{CfDQD}_t + \text{CMQD}_t + \text{CANMR}_t)$$

- 4L.5 In the above formula SOEMRDRI<sub>t</sub>:

CfDQD<sub>t</sub> 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 of the CfD Regulations.

CMQD<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub>

- 4L.6 The Authority shall, after consultation with the licensee, and having regard to Part A of this condition, direct the value of SOEMRDRI<sub>t</sub> 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.

## Part C: Definitions

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

<b>Capacity Agreement Notice</b>	as defined in regulation 2 of the CM Regulations;
<b>Capacity Market Register</b>	as defined in regulation 2 of the CM Regulations;
<b>CfD Qualification Decisions</b>	means decisions made by the licensee under regulation 20(4) of the CfD Regulations to uphold Non-qualification Determinations;
<b>CM Capacity Agreement Notice (“CAN”) Decisions</b>	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;
<b>CM Capacity Market Register (“CMR”) Decisions</b>	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;
<b>CM Qualification Decisions</b>	means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions;
<b>Non-qualification Determinations</b>	as defined in regulation 19(2)(b) of the CfD Regulations;
<b>Prequalification Decisions</b>	as defined in regulation 2 of the CM Regulations;
<b>Reviewable Decisions</b>	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<sub>t</sub> in 2009/10 prices**

	(1)	(2)	(3)
<b>Number of overturned decisions</b>	<b>CfDQD<sub>t</sub></b> <b>£000s</b>	<b>CMQD<sub>t</sub></b> <b>£000s</b>	<b>CANMR<sub>t</sub></b> <b>£000s</b>
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