

**To: National Grid Electricity Transmission plc**  
(Company Number: 02366977)

**SP Transmission Ltd**  
(Company Number: SC189126)

**Scottish Hydro Electric Transmission plc**  
(Company Number: SC213461)

(each a "licensee")

**Modification of the ET1 Price Control Financial Instruments (the "Price Control Financial Model" (PCFM) and the "Financial Handbook") as required under part B of Special Condition 5A (Governance of ET1 Price Control Financial Instruments) of the electricity transmission licence issued under Section 6(1)(b) of the Electricity Act 1989 ("the Act")**

1. Whereas each licensee operates an electricity transmission network and is the holder of an electricity transmission licence (the "licence") granted or treated as granted under Section 6(1)(b) of the Act.
2. In accordance with part B of Special Condition 5A (Governance of ET1 Price Control Financial Instruments) of the licence, the Gas and Electricity Markets Authority (the Authority) gave notice on 18 July 2014 (the Notice) that it proposed to modify the Price Control Financial Model and the Financial Handbook of each licensee and by requiring any representations to the proposed modification to be made on or before 15 August 2014.
3. Prior to the close of the consultation period in respect of the Notice, the Authority received 3 representation responses.
4. The Authority has carefully considered in relation to the proposed modification all representations received. Further changes have been incorporated into the marked up version of the Financial Handbook attached as Appendix 3 to this modification to reflect the responses.
5. The Authority gives the following reasons for making the modifications to the PCFM and Financial Handbook.

**PCFM Modifications**

- to ensure that the correct values for the term MOD, calculated by the PCFM, are used in the formula for Base Transmission Revenue set out in Special Condition 3A (Restriction of Transmission Network Revenue), and are produced for each Transmission Network under the Annual Iteration Process.

**Financial Handbook Modifications**

- to set out the process for updating the PCFM for the new uncertainty mechanism SOEMRES and to reflect that there may be in some circumstances, a more appropriate value than the existing Pension Scheme Established Deficit (PSED) to use for the purposes of the calculations in the Financial Handbook. This is to ensure that the value that the Authority and the licensees consider to be the most appropriate is used.

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

- make minor modelling changes
- to make changes to the sections of the Financial Handbook which explain how the new Electricity Market Reform variable value (SOEMRES) will be updated for the annual iteration process and
- align the PSED, contained in the Financial Handbook, with a value considered to be more reasonable by both the licensees and the Authority.

7. With regards to paragraph 4 of this modification, the Authority considers it necessary to make additional minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Appendix 3. The reasons for any differences between the modifications set out in the Notice and the modifications shown in yellow highlight in Appendix 3 are to make minor corrections to omissions in the Financial Handbook outstanding from last year's modification process.

**Now therefore**

In accordance with the powers contained in Special Condition 5A, paragraph 5A.12, the Authority hereby modifies the Price Control Financial Model and the Financial Handbook of each licensee in the manner specified in Appendices 2 and 3. All modifications to the Financial Handbook are shown in track changes. This decision will take effect on and from 15 September 2014.

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**Ian Rowson**  
**Associate Partner, Regulatory Finance and Compliance**  
**Smarter Grids and Governance**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**  
**15 September 2014**