

To the Company Secretary:

National Grid Electricity Transmission plc
(Company Number: 02366977)

DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO NATIONAL GRID ELECTRICITY TRANSMISSION PLC UNDER THE SPECIAL CONDITIONS OF ITS ELECTRICITY TRANSMISSION LICENCE IN RESPECT OF THE ANNUAL ITERATION PROCESS FOR THE ET1 PRICE CONTROL FINANCIAL MODEL

WHEREAS

1. National Grid Electricity Transmission plc ('the licensee') is the holder of a electricity transmission licence ('the licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. For the purposes of these directions:
 - (a) the expression 'Relevant Year t' has the same meaning as is given to it in Special Condition 1A (Definitions and Interpretation) of the licence, and references to Relevant Year t-1 are to be construed accordingly; and
 - (b) Relevant Year t for the purposes of these Directions is the Relevant Year that commences on 1 April 2016 and ends on 31 March 2017 ('Relevant Year 2016/17').
3. Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model) requires the Gas and Electricity Markets Authority ('the Authority') to:
 - (a) carry out the Annual Iteration Process for the ET1 Price Control Financial Model; and
 - (b) direct the value of the term MOD and SOMOD for Relevant Year t, for the purposes of the formulae that are specified in Special Condition 3A (Restriction of Transmission Network Revenue) and Special Condition 4A (Restriction of System Operator Internal Revenue);by 30 November in Relevant Year t-1.
4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values for the licensee for the purpose of the Annual Iteration Process for the ET1 Price Control Financial Model that forms part of Special Condition 5B of the licence:
 - (a) Special Condition 6A (Legacy price control adjustments – Transmission Owner) in respect of LAR, (and its component term values IAR, TAR, CAR, and SAR), LRAV,(and its component term values IRAV, CRAV, and SRAV and/or Special Condition 7A (Legacy price control adjustments – System Operator) in respect of SOLAR and SOLRAV (and its component term value SOCRAV);
 - (b) Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) in respect of ALC, ARC, AOC, ACO and ANC values and/or Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator) in respect of SOANC and SOACO values;
 - (c) Special Condition 6D (Specified financial adjustments – Transmission Owner) in respect of EDE, APFE, TTE, TGIE and CDE values and/or Special Condition 7C (Specified financial adjustments – System Operator) in respect of SOEDE, SOAPFE, SOTTE, and SOTGIE and SOCDE values;
 - (d) Special Condition 6E (The Innovation Roll-out Mechanism) in respect of IRM values;
 - (e) Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver) in respect of GCE;

- (f) Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) in respect of EPIE values;
- (g) Special Condition 6H (Arrangements for the recovery of uncertain costs) in respect of IAEEPS values and/or Special Condition 7D (Arrangements for the recovery of SO uncertain costs) in respect of SOIAEEPS and SOEMRES values;
- (h) Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) in respect of WWE values;
- (i) Special Condition 6J (Allowed Expenditure for Incremental Wider Works) in respect of WWI values;
- (j) Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) in respect of UCE values; and
- (k) Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) in respect of DRI values.

5. Each of the Special Conditions referred to in paragraph 4:

- (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and
- (b) where applicable, specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the ET1 Price Control Financial Handbook containing that methodology.

6. The reason for these directions is to revise PCFM Variable Values as used in the Annual Iteration Process for the ET1 Price Control Financial Model (as each of those terms is defined in Special Condition 1A). The Annual Iteration Process is used to calculate values for the terms MOD and SOMOD that are used in the formulae set out in Special Condition 3A (Restriction of Transmission Network Revenue) and Special Condition 4A (Restriction of System Operator Internal Revenue) respectively.

7. In accordance with requirements set out in the Special Conditions referred to in paragraph 4, on 9 November 2015, the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November in Relevant Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days of receiving the notice.

8. The Authority received no representations.

NOW the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS** that:

- the PCFM Variable Values and component term values referred to in paragraph 4 are to be revised as shown in Schedule 1 to these directions; and
- the terms MOD and SOMOD for the licensee for Relevant Year (2016/17) are to take the values -£185.4m and £20.9m, respectively.

Schedule 2 to these directions shows the complete PCFM Variable Values Table (as that term is defined in Special Condition 1A) including the values revised under these directions (in bold font) and the values that have not been revised under these directions.

This constitutes notice for the reasons for the Authority's decision pursuant to section 49A of the Act.



Ian Rowson
Associate Partner, Regulatory Finance and Governance
Duly authorised on behalf of the Gas and Electricity Markets Authority
30 November 2015

National Grid Electricity Transmission plc	<i>Revised PCFM Variable Values</i>							
	<i>PCFM Variable Value Name and determination provision</i>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
IAEPS Part B of Special Condition 6H	17.5	25.5	17.2	39.0	60.6	75.6	45.4	7.0
IAEWL Part B of Special Condition 6H	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
WWE Part G of Special Condition 6I	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IWW Part C of Special Condition 6J	475.3	324.2	No revision	No revision	No revision	No revision	No revision	No revision
UCE Parts B and C of Special Condition 6K	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
DRI Part B of Special Condition 6L	24.6	35.3	No revision	No revision	No revision	No revision	No revision	No revision
SOLAR Parts A and B of Special Condition 7A	No revision							
SOLRAV Parts A and B of Special Condition 7A	No revision							
SOANC Part B of Special Condition 7B	No revision	34.4	No revision	No revision	No revision	No revision	No revision	No revision
SOACO Part B of Special Condition 7B	No revision	77.1	No revision	No revision	No revision	No revision	No revision	No revision
SOEDE Part A of Special Condition 7C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOAPFE Part A of Special Condition 7C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOTTE Part B of Special Condition 7C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOTGIE Part B of Special Condition 7C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOCDE Part C of Special Condition 7C	No revision	No revision	No revision	2.38%	2.38%	2.38%	2.38%	2.38%
SOIAEPS Part B of Special Condition 7D	12.6	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOEMRES Part B of Special Condition 7D	No revision	2.8	7.9	6.0	5.7	5.6	5.6	5.4

Component term values used to determine the values for LAR and LRAV in the table above:

SAR	=	-4.0
TAR	=	0.0
CAR	=	63.4
IAR	=	36.1
SRAV	=	13.7
CRAV	=	-182.0
IRAV	=	-8.5

Schedule 2 to Directions issued by the Gas and Electricity Markets Authority to National Grid Electricity Transmission plc dated 30 November 2015

PCFM Variable Values Table (as that term is defined in Special Condition 1A) including the values revised under these directions (in bold font) and the values that have not been revised under these directions.

National Grid Electricity Transmission TO

	Licence Condition	Price Base	Licence term	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021
Allowed percentage cost of debt	6D	annual real %	CDE	2.92%	2.72%	2.55%	2.38%	2.38%	2.38%	2.38%	2.38%
Actual load related capex expenditure	6C	£m 09/10 prices	ALC	573.5	439.8	-	-	-	-	-	-
Actual asset replacement capex expenditure	6C	£m 09/10 prices	ARC	220.0	158.7	-	-	-	-	-	-
Actual other capex expenditure	6C	£m 09/10 prices	AOC	175.0	56.2	-	-	-	-	-	-
Actual controllable opex	6C	£m 09/10 prices	ACO	200.0	219.6	-	-	-	-	-	-
Actual non-operational capex	6C	£m 09/10 prices	ANC	30.4	24.2	-	-	-	-	-	-
Uncertain costs - enhanced security	6H	£m 09/10 prices	IAEEPS	17.5	25.5	17.2	39.0	60.6	75.6	45.4	7.0
Uncertain costs – workforce renewal (SPTL only)	6H	£m 09/10 prices	IAEWR	-	-	-	-	-	-	-	-
Uncertain costs – BT 21st Century (SHETPLC only)	6H	£m 09/10 prices	IAEBT	-	-	-	-	-	-	-	-
Uncertain costs – compensation costs for landowners for wayleave (SHETPLC only)	6H	£m 09/10 prices	IAEWL	-	-	-	-	-	-	-	-
Baseline and strategic wider works outputs	6I	£m 09/10 prices	WWE	161.7	230.4	208.9	20.1	-	-	-	-
Network development and wider works volume driver (NGET only)	6J	£m 09/10 prices	WWI	475.3	324.2	264.3	283.2	133.2	70.3	27.3	8.6
Enhancements to pre-existing infrastructure	6G	£m 09/10 prices	EPIE	-	-	-	-	-	-	-	-
Demand related infrastructure volume driver	6L	£m 09/10 prices	DRI	24.6	35.3	32.4	32.8	50.6	41.4	12.5	0.9
Undergrounding volume driver	6K	£m 09/10 prices	UCE	-	-	-	-	-	-	-	-
Generation connections volume driver	6F	£m 09/10 prices	GCE	124.5	174.6	184.1	220.7	117.4	96.0	42.5	20.7
Innovation roll out mechanism	6E	£m 09/10 prices	IRM	-	-	-	-	-	-	-	-
Exceptional sub sea cable fault costs (SHETPLC only)	6H	£m 09/10 prices	IAESSCM	-	-	-	-	-	-	-	-
Non-load related work costs (SPTL only)	6H	£m 09/10 prices	IAENLUM	-	-	-	-	-	-	-	-
Tax liability - gearing/interest costs	6D	£m nominal	TGIE	-	-	-	-	-	-	-	-
Tax liability - tax trigger events	6D	£m 09/10 prices	TTE	-	-	-	-	-	-	-	-
Pension scheme administration and Pension Protection Fund Levy	6D	£m 09/10 prices	APFE	1.5	1.3	1.3	1.5	1.3	1.3	1.5	1.3
Pension Scheme Established Deficit	6D	£m 09/10 prices	EDE	28.9	28.9	32.6	32.6	32.6	32.6	32.6	32.6
Legacy price control adjustments to allowed revenue	6A	£m 09/10 prices	LAR	95.5							
Legacy price control adjustments to RAV	6A	£m 09/10 prices	LRAV	(176.8)							

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	Licence Condition	Price Base	Licence term	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021
Actual non-operational capex expenditure	7B	£m 09/10 prices	SOANC	32.2	34.4	-	-	-	-	-	-
Actual controllable opex	7B	£m 09/10 prices	SOACO	79.7	77.1	-	-	-	-	-	-
Uncertain costs - enhanced security	7D	£m 09/10 prices	SOIAEEPS	12.6	-	-	-	-	-	-	-
Uncertain costs - Electricity Market Reform Enduring Solution	7D	£m 09/10 prices	SOEMRES	-	2.8	7.9	6.0	5.7	5.6	5.6	5.4
Tax liability allowance adjustments - gearing/interest costs	7C	£m nominal	SOTGIE	-	-	-	-	-	-	-	-
Tax liability allowance adjustments - driven by tax trigger events	7C	£m 09/10 prices	SOTTE	-	-	-	-	0.0	0.0	0.0	0.0
Pension scheme administration and Pension Protection Fund Levy	7C	£m 09/10 prices	SOAPFE	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.4
Pension scheme deficit revenue allowances	7C	£m 09/10 prices	SOEDE	8.8	8.8	9.9	9.9	9.9	9.9	9.9	9.9
Legacy price control allowed revenue adjustment	7A	£m 09/10 prices	SOLAR	15.7							
Legacy price control RAV additions adjustment	7A	£m 09/10 prices	SOLRAV	2.9							