

To: National Grid Electricity Transmission plc

**Electricity Act 1989
Section 11A(1)(a)**

**Modification of special condition 4C of the electricity transmission licence held by
National Grid Electricity Transmission plc**

1. National Grid Electricity Transmission plc ('NGET') is the holder of an electricity transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 17 February 2016 ('the Notice') that we propose to modify special condition 4C (Balancing Services Activity Revenue Restriction on External Costs) of the Licence.
3. We stated that any representations to the modification proposal must be made on or before 16 March 2016.
4. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the changes should not be made.
5. We received one response to the Notice, which we carefully considered and have placed the response on our website.
6. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are highlighted in yellow in the Annex. The reasons for the alterations and modifications are to make clarifications and to correct minor typographical errors and omissions raised in the consultation response.
7. The reason for this licence modification is to allow NGET to make adjustments to the system operator external costs incentive scheme that may arise from model or data errors in the previous six years in some circumstances.
8. The effect of the licence modification is to adjust the system operator external costs incentive scheme payments either upwards or downwards where errors are caused by third parties and downwards when errors are caused by NGET.
9. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules² requires that the appellant must 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. The relevant licence holder in relation to this modification is NGET.

Under the powers set out in section section 11A(1)(a) of the Act, we hereby modify special conditions 4C of the Licence of NGET in the manner specified in the Annex. This decision will take effect on **20 May 2016**.

This document is notice of the reasons for the decision to modify special conditions 4C of the Licence of NGET as required by section 49A(2) of the Act.

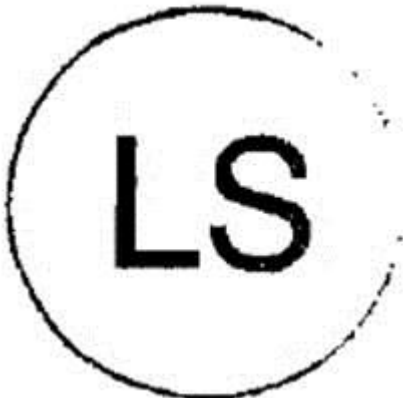
¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of

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Mark Copley, Associate Partner, Wholesale Markets
Duly authorised on behalf of the Gas and Electricity Markets Authority

29 March 2016



Annex to Modification of special condition 4C

[Deleted text is in strikethrough. Additional text is underlined. Changes since the statutory consultation are highlighted in yellow]

1. Paragraph 4C.1 of Part A of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) is modified in the following manner:

Part A: Balancing services activity revenue restriction on external costs

4C.1 The licensee shall use its best endeavours to ensure that in respect of Relevant Year t the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + IncPayExt_t + RFIIR_t + ROV_t + BSFS_t + NC_t + IONT_t + LBS_t$$

[ET_t has been replaced with TotAdj_t in the formula above]

ET_t TotAdj_t means the amount of any adjustment to be made during the Relevant Year t ~~in respect of any Relevant Year prior to Relevant Year t~~ as provided in paragraph 4C.2;

2. Paragraph 4C.2 of Part B of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) is modified in the following manner:

Part B: Balancing Services Activity adjustments

4C.2 For the purposes of paragraph 4C.1, the term ~~ET_t TotAdj_t~~ which relates to prior period adjustments in respect of the Relevant Year t shall mean be derived from the following formula:

$$\underline{TotAdj_t = ET_t + IncAdj_t}$$

where:

ET_t means the amount of any adjustment to be made during the Relevant Year t in respect of any Relevant Year prior to Relevant Year t as provided in paragraph 4C.3.

IncAdj_t means the amount of any adjustment to be made during the Relevant Year t in respect of any of the six Relevant Years prior to Relevant Year t as provided in paragraph 4C.4.

4C.3 For the purposes of paragraph 4C.2, the term ET_t which relates to prior period adjustments in respect of the Relevant Year t shall mean:

(a) the costs, whether positive or negative, to the licensee of:

- (i) bids and offers in the Balancing Mechanism (excluding those relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve) accepted by the licensee in any period before Relevant Year t less the total non-delivery charge for that period; and
- (ii) contracts for the availability or use of balancing services during any period before Relevant Year t, excluding costs within CSOBM_t and LBS_t for that period, but including charges made by the licensee for the provision of balancing services to itself in that period;

in each case after deducting such costs to the extent that they have been taken into account in any Relevant Year in computing the terms CSOBM_t or BSCC_t; and

(b) any amount within the term ET_t as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

4C.4 For the purposes of paragraph 4C.2, the term IncAdj_t shall mean incentive adjustments in respect of Relevant Year t where all of the following criteria have been fulfilled:

(a) where there has been one or more related errors for the same event (for the purposes of this Part B the “error”) in the calculation of the term IncPayExt_t in one of the six Relevant Years prior to Relevant Year t where one of the following criteria have been fulfilled:

- (i) where the error in the calculation of the term IncPayExt_t was caused by or occurred as a result of an action or inaction of the licensee (including any employees, agents, contractors or advisers of the licensee), Affiliate or Related Undertaking which, if corrected, results in a negative adjustment to the term IncAdj_t; and or
- (ii) where the error in the calculation of the term IncPayExt_t was caused by or occurred as a result of an action or inaction of a person other than the licensee (including any employees, agents, contractors or advisers of such person), which, if corrected, results in a positive or negative adjustment to the term IncAdj_t; and

- (b) where the absolute value of the adjustment for each error in sub-paragraph 4C.4(a) (whether positive negative) is greater than the value of one percent of the upper limit of the term IncPayExt_t in the Relevant Year in which the error occurred; and
- (c) where the cumulative adjustment for the errors in sub-paragraph 4C.4(a) in a Relevant Year do not lead to payments to or from the licensee outside of the scheme cap and scheme collar as set out in Table 3 in paragraph 4C.39 46 of this condition, for the Relevant Year in which the error occurred.

4C.5 The licensee shall give notice to the Authority as soon as reasonably practicable and in any event no later than 10 working days of it after becoming aware of any error that meets the criteria laid out in paragraph 4C.4 in the calculation of the term IncPayExt_t in any of the six Relevant Years prior to Relevant Year t.

4C.6 Unless the Authority directs otherwise, where the licensee gives notice to the Authority pursuant to paragraph 4C.5, the licensee shall provide the Authority with a written report on any proposed error within two months of such notice, containing the following:

- (a) evidence of how an error identified by the licensee meets the criteria set out in paragraph 4C.4;
- (b) the proposed value of the term IncAdj_t and evidence of how a proposed correction is consistent with this licence condition and the SO Methodologies established under paragraph 4C.42 (and in the case of the SO Methodologies, those in effect at the time when the error was made); and or
- (c) any other information that is relevant for calculating the value of the term IncAdj_t.

4C.7 On receiving a report pursuant paragraph 4C.6, the Authority will have three months to direct that the term IncAdj_t shall not take the value proposed by the licensee pursuant to sub-paragraph 4C.6(b) but shall take an alternative value.

4C.8 If the Authority has not made a direction under paragraph 4C.7 within three months of the date on which the report was provided to the Authority pursuant to paragraph 4C.6, then the term IncAdj_t shall take the value proposed by the licensee in the report provided to the Authority.

4C.9 If the Authority requests any further information from the licensee during the three months period under paragraph 4C.7, the period will stop while the licensee compiles that information and will not commence again until the Authority receives the information requested.

3. Consequential changes

- a. Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) is modified to include consequential changes to paragraph references resulting from the modifications to Part A and Part B of that**

condition – paragraphs 4C.3 to 4C.40 have become paragraphs 4C.10 to 4C.47.

- b. The reference to paragraph 4C.20 in the definition of Outage Change in Special Condition 1A (Definitions and Interpretation) has become paragraph 4C.27.**
- c. The reference to paragraph 4C.40 in paragraph 4G.2 in Special Condition 4G (Black Start Cost Incentive) has become paragraph 4C.47.**