

**To: National Grid Electricity Transmission plc**

**Electricity Act 1989  
Section 11A(2)**

**Notice of statutory consultation on a proposal to modify the special conditions of the electricity transmission licence held by National Grid Electricity Transmission plc**

1. The Gas and Electricity Markets Authority (the Authority)<sup>1</sup> proposes to modify the special conditions of the electricity transmission licence held by National Grid Electricity Transmission plc (NGET) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 by amending Part D of Special Condition 3D: Stakeholder Satisfaction Output.
2. The reason why we propose to make these licence modifications is explained in our decision letter dated 4 August 2016 which is published alongside this Notice.<sup>2</sup> In summary, the purpose of these licence modifications is to:
  - (a) implement our decision on the values that are to be used for the stakeholder satisfaction output arrangements in the RIIO-T1 price control. We must determine the values that are used to calculate the financial rewards or penalties that are due to the licensee under the incentive.
  - (b) modify the formula used to derive the incentive calculation in order to introduce a time-varying weight for the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the stakeholder satisfaction survey in respect of each Relevant Year t-2 of the price control.
  - (c) make a housekeeping change in two places of Part D so that the incentive calculation correctly references Relevant Year t-2 instead of Relevant Year t. The incentive calculation operates with a two year lag.
3. The effect of the proposed modifications has been set out in our decision letter which accompanies this Notice. In summary, the effect of these licence modifications is to replace the terms X, Y and Z and the terms AA, BB, CC, DD, EE, FF, GG and HH in Part D with the values we have determined. The placeholder terms represent the stakeholder satisfaction survey target, the stakeholder satisfaction survey scoring cap and collar, and the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the customer satisfaction survey in respect of each Relevant Year t-2 of the price control. As part of the modifications, we are also amending the formula which is used to derive the value of the  $SSS_{t-2}$  term. This will reference a new time-varying term which is the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the stakeholder satisfaction survey in respect of Relevant Year t-2 of the price control. The weighting term on the stakeholder satisfaction survey will be set to zero in the Relevant Years 1-3.
4. The proposed modifications are set out in the Appendix to this Notice and are shown in tracked changes. A copy of the proposed modifications and other documents referred to in this Notice are also published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE

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

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-on-values-stakeholder-satisfaction-output-arrangements>

(020 7901 7003).

5. Any representations with respect to the proposed licence modifications must be made on or before 1 September 2016 to: Anna Kulhavy, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [anna.kulhavy@ofgem.gov.uk](mailto:anna.kulhavy@ofgem.gov.uk).
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
7. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

**Kersti Berge**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**4 August 2016**

## **Appendix – Draft Special Condition 3D Part D of National Grid Electricity Transmission plc's electricity transmission licence**

### **Special Condition 3D. Stakeholder Satisfaction Output**

#### **Part D: Adjustments arising from the customer and stakeholder satisfaction surveys**

3D.11. The  $SSS_{t-2}$  term (relating to the customer and stakeholder satisfaction surveys) is derived from the following formula:

$$SSS_{t-2} = (BR_{t-2} + TIRG_{t-2}) \times [(CSSAF_{t-2} \times CSSPRO_{t-2}) + (SSSAF_{t-2} \times (1 - CSSPRO_{t-2}))]$$

where:

$BR_{t-2}$  means the amount of Base Transmission Revenue in Relevant Year t-2 and will be calculated in accordance with Part C of Special Condition 3A.

$TIRG_{t-2}$  is derived in accordance with the provisions of Special Condition 3J (Transmission Investment for Renewable Generation).

$CSSAF_{t-2}$  is the revenue adjustment factor based on the licensee's performance against the customer satisfaction survey as described in Part E in the Relevant Year t-2, and is derived from the following formula:

If  $CSSP_{t-2} > CSST$ :

$$CSSAF_{t-2} = \min \left( CSSUPA, CSSUPA \times \left[ \frac{CSSP_{t-2} - CSST}{CSSCAP - CSST} \right] \right)$$

If  $CSSP_{t-2} < CSST$ :

$$CSSAF_{t-2} = \max \left( CSSDPA, CSSDPA \times \left[ \frac{CSST - CSSP_{t-2}}{CSST - CSSCOL} \right] \right)$$

Otherwise:

$$CSSAF_{t-2} = 0$$

where:

CSST is the customer satisfaction survey target, and will have the value of 6.9.

CSSCAP is the customer satisfaction survey cap, and will have the value of 8.5.

CSSUPA is the customer satisfaction maximum upside percentage adjustment, and will have the value of 1%.

CSSCOL is the customer satisfaction survey collar, and will have the value of 5.3.

CSSDPA is the customer satisfaction maximum downside percentage adjustment, and will have the value of -1%.

$CSSP_{t-2}$  is the overall customer satisfaction survey result in Relevant Year t-2.

Min(A,B) means the value equal to the lesser of A and B; and

Max(A,B) means the value equal to the greater of A and B.

$SSSAF_{t-2}$  is the revenue adjustment factor based on the licensee's performance against the stakeholder satisfaction survey as described in Part E in the Relevant Year t-2, and is derived from the following formula:

If  $SSSP_{t-2} > SSST$ :

$$SSSAF_{t-2} = \min \left( SSSUPA, SSSUPA \times \left[ \frac{SSSP_{t-2} - SSST}{SSSCAP - SSST} \right] \right)$$

If  $SSSP_{t-2} < SSST$ :

$$SSSAF_{t-2} = \max \left( SSSDPA, SSSDPA \times \left[ \frac{SSST - SSSP_{t-2}}{SSST - SSSCOL} \right] \right)$$

Otherwise:

$$SSSAF_{t-2} = 0$$

where:

SSST	is the stakeholder satisfaction survey target, and will have the value of <del>X</del> 7.4.
SSSCAP	is the stakeholder satisfaction survey cap, and will have the value of <del>Y</del> 9.
SSSUPA	is the stakeholder satisfaction maximum upside percentage adjustment, and will have the value of 1%.
SSSCOL	is the stakeholder satisfaction survey collar, and will have the value of <del>Z</del> 5.8.
SSSDPA	is the stakeholder satisfaction maximum downside percentage adjustment, and will have the value of -1%.
SSSP <sub>t-2</sub>	is the overall stakeholder satisfaction survey result in Relevant Year t-2.
Min(A,B)	means the value equal to the lesser of A and B; and
Max(A,B)	means the value equal to the greater of A and B.

CSSPRO<sub>t-2</sub> is the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the Customer Satisfaction Survey in respect of Relevant Year t-2, which has the value as specified in the following table:

Relevant year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
CSSPRO <sub>t</sub>	<del>AA</del> 0.7	<del>BB</del> 0.7	<del>CC</del> 0.7	<del>DD</del> 0.7	<del>EE</del> 0.7	<del>FF</del> 0.7	<del>GG</del> 0.7	<del>HH</del> 0.7

SSSPRO<sub>t-2</sub> is the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the stakeholder satisfaction survey in respect of Relevant Year t-2, and is derived from the following formula:

In Relevant Years 2013/14, 2014/15 and 2015/16:  
SSSPRO<sub>t</sub> = 0

In Relevant Year 2016/17 and all following Relevant Years:  
SSSPRO<sub>t</sub> = 1 - CSSPRO<sub>t</sub>