To: Scottish Hydro Electric Transmission plc (SC213461)
   SP Transmission plc (SC189126)
   (the 'licensees')

Electricity Act 1989
Section 11A(2)

Notice of statutory consultation on a proposal to modify the special conditions of the electricity transmission licences held by the licensees

1. The Gas and Electricity Markets Authority (the 'Authority')[1] proposes to modify the special conditions of the electricity transmission licences held by Scottish Hydro Electric Transmission plc (SHE Transmission) and SP Transmission plc (SP Transmission) granted or treated as granted under section 6(1)(b) of the Act by amending Special Condition 3D: Stakeholder Satisfaction Output.

2. We are proposing these modifications for the reasons set out in our decision letter dated 4 August 2016 which is published alongside this Notice.[2] 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) amend the licence algebra to include an explicit scoring cap and collar mechanism for two components of the stakeholder satisfaction incentive in order that the licensees are able to obtain the full potential upside of the incentive, whilst maintaining the full potential downside. The amendment also introduces a time-varying weights for the proportion of the Stakeholder Satisfaction Incentive which will be based on the different components in respect of each Relevant Year t-2 of the price control.

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:

   (a) set a value for the stakeholder satisfaction survey target (AA) and key performance indicators target (BB) with the values we have determined.

   (b) replace the single weighting values (X, Y and Z) in the licence with time-varying weightings to set the proportion of the Stakeholder Satisfaction Incentive which will be based on the stakeholder satisfaction survey, key performance indicators and external assurance components in respect of each Relevant Year t-2 of the price control.

4. The proposed modifications are set out in Appendix 1 and Appendix 2 to this Notice and are shown in tracked changes. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003).

5. Any representations with respect to the proposed licence modifications must be made

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[1] The terms "the Authority", "we" and "us" are used interchangeably in this document.
[2] https:// www.ofgem.gov.uk/publications-and-updates/decision-on-values-stakeholder-satisfaction-output-arrangements

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.

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 1 – Draft Special Condition 3D Part D of Scottish Hydro Electric Transmission plc's electricity transmission licence

Special Condition 3D. Stakeholder Satisfaction Output

Part D: Adjustments arising from Stakeholder Satisfaction survey

3D.11 The value of the SSI_{t-2} term (relating to the Stakeholder Satisfaction Incentive) is derived in accordance with the following formula:

SSI_{t-2}= ((~~X~~$SSPRO_{t-2}$ * SS_{t-2}) + (~~Y~~$SKPIPRO_{t-2}$ * $SKPI_{t-2}$) + (~~Z~~$SEAPRO_{t-2}$ * SEA_{t-2})) * $(BR_{t-2} + TIRG_{t-2})$ * 0.01

where:

SS_{t-2} means the adjustment factor in respect of the licensee's performance in Relevant Year t-2 in the Stakeholder Satisfaction Survey as provided for in Part E of this condition. The value of SS_{t-2} will be determined by the formula:

~~SS_{t-2} = max(min((SSC$_{t-2}$ – AA) x 0.25),1), -1)~~

If SSC_{t-2} > SST:

$$SS_{t-2} = \min\left(SSUPA, SSUPA \times \left[\frac{SSC_{t-2} - SST}{SSCAP - SST}\right]\right)$$

If SSC_{t-2} < SST:

$$SS_{t-2} = \max\left(SSDPA, SSDPA \times \left[\frac{SST - SSC_{t-2}}{SST - SSCOL}\right]\right)$$

Otherwise:

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

where

~~SSC_{t-2} means the licensee's Stakeholder Satisfaction Score in respect of Relevant Year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in paragraph 3D.15 of this condition.~~

SST   is the Stakeholder Satisfaction Survey target, and will have the value 7.4.

SSCAP   is the Stakeholder Satisfaction Survey cap and will have the value 9.

SSUPA   is the stakeholder satisfaction maximum upside percentage point adjustment and will have the value 1.

SSCOL   is the Stakeholder Satisfaction Survey collar and will have the value 5.8.

SSDPA   is the stakeholder satisfaction maximum downside percentage point adjustment, and will have the value -1.

SSC_{t-2} is the licensee's Stakeholder Satisfaction Score in respect of Relevant Year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in paragraph 3D.15 of this condition.

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.

SSPRO$_{t-2}$ is the proportion of the Stakeholder Satisfaction Incentive which will be based on the Stakeholder 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
SSPRO$_t$	0	0	0	0.6	0.6	0.6	0.6	0.6

SKPI$_{t-2}$ means the adjustment factor in respect of the licensee's performance in Relevant Year t-2 against the Key Performance Indicators as provided for in Part F of this condition. The value of SKPI will be determined by the formula:

~~SKPI$_{t-2}$ = max(min((KPI$_{t-2}$ – BB) x 0.025),1), 1)~~

If SKPIC$_{t-2}$> SKPIT:
$$SKPI_{t-2} = \min\left(SKPIUPA, SKPIUPA \times \left[\frac{SKPIC_{t-2}-SKPIT}{SKPICAP-SKPIT}\right]\right)$$

If SKPIC$_{t-2}$< SKPIT:
$$SKPI_{t-2} = \max\left(SKPIDPA, SKPIDPA \times \left[\frac{SKPIT-SKPIC_{t-2}}{SKPIT-SKPICOL}\right]\right)$$

Otherwise:

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

where

~~KPI$_{t-2}$ means the licensee's measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.~~

SKPIT   is the Key Performance Indicators target, and will have the value 89.
SKPICAP   is the Key Performance Indicators cap and will have the value 100.
SKPIUPA   is the Key Performance Indicators maximum upside percentage point adjustment and will have the value 1.
SKPICOL   is the Key Performance Indicators collar and will have the value 78.
SKPIDPA   is the Key Performance Indicators maximum downside percentage point adjustment, and will

$SKPIC_{t-2}$ is the licensee's measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.

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.

$SKPIPRO_{t-2}$ is the proportion of the Stakeholder Satisfaction Incentive which will be based on the Key Performance Indicators 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
$SKPIPRO_t$	0	0	0	0.3	0.3	0.3	0.3	0.3

SEA_{t-2} means the adjustment in respect of the licensee's performance in Relevant Year t-2 in its External Assurance of its Stakeholder Engagement as provided for in Part G of this condition. The value of SEA will be determined by the banding table below:

SEA Band	SEA_{t-2} value
Non-Compliant with stakeholder strategy	-1.0
Compliant with stakeholder Strategy	0.5
Exceeding stakeholder strategy	1.0

$SEAPRO_{t-2}$ is the proportion of the Stakeholder Satisfaction Incentive which will be based on the stakeholder external assurance 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
$SEAPRO_t$	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

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

$TIRG_{t-2}$ means the value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation)

Appendix 2 – Draft Special Condition 3D Part D of SP Transmission plc's electricity transmission licence

Special Condition 3D. Stakeholder Satisfaction Output

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

3D.12 The value of the SSI_{t-2} term (relating to the Stakeholder Satisfaction Incentive) is derived in accordance with the following formula:

SSI_{t-2}= ((~~X~~$SSPRO_{t-2}$ * SS_{t-2}) + (~~Y~~$SKPIPRO_{t-2}$ * $SKPI_{t-2}$) + (~~Z~~$SEAPRO_{t-2}$ * SEA_{t-2})) * (BR_{t-2} + $TIRG_{t-2}$) * 0.01

where:

SS_{t-2} means the adjustment factor in respect of the licensee's performance in Relevant Year t-2 in the Stakeholder Satisfaction Survey as provided for in Part E of this condition. The value of SS_{t-2} will be determined by the formula:

~~SS_{t-2} = max(min((SSC$_{t-2}$ − AA) x 0.25),1), 1)~~

If SSC_{t-2}> SST:

$$SS_{t-2} = \min\left(SSUPA, SSUPA \times \left[\frac{SSC_{t-2}-SST}{SSCAP-SST}\right]\right)$$

If SSC_{t-2}≤ SST:

$$SS_{t-2} = \max\left(SSDPA, SSDPA \times \left[\frac{SST-SSC_{t-2}}{SST-SSCOL}\right]\right)$$

Otherwise:

$SS_{t-2} = 0$

where

~~SSC_{t-2} means the licensee's Stakeholder Satisfaction Score in respect of Relevant Year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in paragraph 3D.15 of this condition.~~

SST   is the Stakeholder Satisfaction Survey target, and will have the value 7.4.

SSCAP   is the Stakeholder Satisfaction Survey cap and will have the value 9.

SSUPA   is the stakeholder satisfaction maximum upside percentage point adjustment and will have the value 1.

SSCOL   is the Stakeholder Satisfaction Survey collar and will have the value 5.8.

SSDPA   is the stakeholder satisfaction maximum downside percentage point adjustment, and will have the value -1.

SSC_{t-2} is the licensee's Stakeholder Satisfaction Score in respect of Relevant Year t-2, being a value between 1 and 10 inclusive, based on responses to the question in relation to overall stakeholder satisfaction specified in

paragraph 3D.15 of this condition.

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.

SSPRO$_{t-2}$ is the proportion of the Stakeholder Satisfaction Incentive which will be based on the Stakeholder 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
SSPRO$_t$	0	0	0	0.6	0.6	0.6	0.6	0.6

SKPI$_{t-2}$ means the adjustment factor in respect of the licensee's performance in Relevant Year t-2 against the Key Performance Indicators as provided for in Part F of this condition. The value of SKPI will be determined by the formula:

~~SKPI$_{t-2}$ = max(min((KPI$_{t-2}$ – BB) x 0.025),1),-1)~~

If SKPIC$_{t-2}$ > SKPIT:
$$\text{SKPI}_{t-2} = \min\left(\text{SKPIUPA}, \text{SKPIUPA} \times \left[\frac{\text{SKPIC}_{t-2} - \text{SKPIT}}{\text{SKPICAP} - \text{SKPIT}}\right]\right)$$

If SKPIC$_{t-2}$ < SKPIT:
$$\text{SKPI}_{t-2} = \max\left(\text{SKPIDPA}, \text{SKPIDPA} \times \left[\frac{\text{SKPIT} - \text{SKPIC}_{t-2}}{\text{SKPIT} - \text{SKPICOL}}\right]\right)$$

Otherwise:

SKPI$_{t-2}$ = 0

where

~~KPI$_{t-2}$ means the licensee's measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.~~

SKPIT is the Key Performance Indicators target, and will have the value 69.

SKPICAP is the Key Performance Indicators cap and will have the value 85.

SKPIUPA is the Key Performance Indicators maximum upside percentage point adjustment and will have the value 1.

SKPICOL is the Key Performance Indicators collar and will have the value 53.

SKPIDPA is the Key Performance Indicators maximum downside percentage point adjustment, and will have the value -1.

SKPIC_{t-2} is the licensee's measured score against its Key Performance Indicators, being a value between 0 and 100 inclusive.

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.

SKPIPRO_{t-2} is the proportion of the Stakeholder Satisfaction Incentive which will be based on the Key Performance Indicators 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
SKPIPRO$_t$	0	0	0	0.3	0.3	0.3	0.3	0.3

SEA$_{t-2}$ means the adjustment in respect of the licensee's performance in Relevant Year t-2 in its External Assurance of its Stakeholder Engagement as provided for in Part G of this condition. The value of SEA will be determined by the banding table below:

SEA Band	SEA$_{t-2}$ value
Non-Compliant with stakeholder strategy	-1.0
Compliant with stakeholder Strategy	0.5
Exceeding stakeholder strategy	1.0

SEAPRO_{t-2} is the proportion of the Stakeholder Satisfaction Incentive which will be based on the stakeholder external assurance 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
SEAPRO$_t$	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

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

TIRG$_{t-2}$ means the value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with Special Condition 3J (Transmission Investment for Renewable Generation)