

To: National Grid Electricity Transmission plc

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

**Modification of special condition 3D 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 4 August 2016² ('the Notice') that we propose to modify Part D of special condition 3D (Stakeholder Satisfaction Output) of the Licence. We stated that any representations to the modification proposal must be made on or before 1 September 2016.
3. 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 change should not be made.
4. We received one non-confidential response and another confidential response to the Notice, which we've carefully considered. We have placed the non-confidential response on our website. Our response to these comments is set out in the accompanying letter.
5. We are making these licence changes 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; and
 - 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.
6. The effect of these modifications will be 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.

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

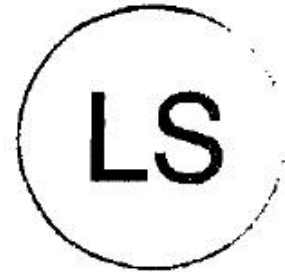
² <https://www.ofgem.gov.uk/publications-and-updates/notice-under-section-11a2-proposed-modification-national-grid-s-electricity-transmission-licence>

7. 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 Rules³ 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. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section section 11A(1)(a) of the Act, we hereby modify the special condition 3D of the electricity transmission licence of NGET in the manner specified in attached Schedule 1. This decision will take effect from 18 January 2017.

This document is notice of the reasons for the decision to modify the electricity transmission licence held by NGET as required by section 49A(2) of the Act.

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



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

23 November 2016

³ 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.

Schedule 1: 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:

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

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 X <u>7.4</u> .
SSSCAP	is the stakeholder satisfaction survey cap, and will have the value of Y <u>9</u> .
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 Z <u>5.8</u> .
SSSDPA	is the stakeholder satisfaction maximum downside percentage adjustment, and will have the value of -1%.
SSSP _{t-2}	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_{t-2} 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 _t	<u>AA0.7</u>	<u>BB0.7</u>	<u>CC0.7</u>	<u>DD0.7</u>	<u>EE0.7</u>	<u>FF0.7</u>	<u>GG0.7</u>	<u>HH0.7</u>

SSSPRO_{t-2} 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_t = 0

In Relevant Year 2016/17 and all following Relevant Years:
SSSPRO_t = 1 - CSSPRO_t