

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

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

**Modification of the special condition 3D of the electricity transmission licence held  
by the licensees**

1. Scottish Hydro Electric Transmission plc ('SHE Transmission') and SP Transmission Limited (SPT) are the holders 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')<sup>1</sup> gave notice on 4 August 2016<sup>2</sup> ('the Notice') that we propose to modify Part D of special condition 3D (Stakeholder Satisfaction Incentive) 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 two non-confidential responses to the Notice, which we've carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the accompanying letter.
5. It is necessary to make one minor alteration to the modification set out in the Notice. This alteration is shown in yellow highlighting in the attached Schedule 2, which applies only to SPT's licence. The reason for the difference between the modification set out in the Notice and the modification in Schedule 2 is to correct a minor typographical error in the paragraph numbering of the licence condition.
6. 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; and
  - 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.
7. The effect of these modifications will be to set a value for the stakeholder satisfaction survey target (AA) and key performance indicators target (BB) with the values we have determined. The modifications will also 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

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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/notice-under-section-11a2-proposed-modification-she-transmission-s-and-sp-transmission-s-electricity-transmission-licence>

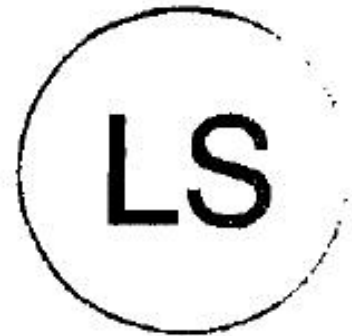
satisfaction survey, key performance indicators and external assurance components in respect of each Relevant Year t-2 of the price control.

8. 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 Rules<sup>3</sup> 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 attached Schedule 3 provides a list of the relevant licence holders in relation to this modification. 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 special condition 3D of the electricity transmission licence of SHE Transmission in the manner specified in the attached Schedule 1 and that of SPT in the attached Schedule 2. 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 SHE Transmission and SPT 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**

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<sup>3</sup> 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 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:

$$SSI_{t-2} = (\cancel{XSSPRO}_{t-2} * SS_{t-2}) + (\cancel{YSKPIPRO}_{t-2} * SKPI_{t-2}) + (\cancel{ZSEAPRO}_{t-2} * SEA_{t-2}) * (BR_{t-2} + TIRG_{t-2}) * \underline{0.01}$$

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:

$$\underline{SS}_{t-2} = \max(\min((SSC_{t-2} - AA) \times 0.25, 1), -1)$$

If  $SSC_{t-2} > SST$ :

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

If  $SSC_{t-2} < SST$ :

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

Otherwise:

$$\underline{SS}_{t-2} = 0$$

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<sub>t-2</sub> 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:

<u>Relevant year t</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>SSPRO<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>

SKPI<sub>t-2</sub> 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:

$$\text{SKPI}_{t-2} = \max(\min((\text{KPI}_{t-2} - \text{BB}) \times 0.025, 1), -1)$$

If SKPIC<sub>t-2</sub> > 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<sub>t-2</sub> < 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:

$$\text{SKPI}_{t-2} = 0$$

where

~~KPI<sub>t-2</sub> 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<sub>t-2</sub> have the value -1.  
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<sub>t-2</sub> 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:

<u>Relevant year t</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>SKPIPRO<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>

SEA<sub>t-2</sub> 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:

<b>SEA Band</b>	<b>SEA<sub>t-2</sub> value</b>
<b>Non-Compliant with stakeholder strategy</b>	-1.0
<b>Compliant with stakeholder Strategy</b>	0.5
<b>Exceeding stakeholder strategy</b>	1.0

SEAPRO<sub>t-2</sub> 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:

<u>Relevant year t</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>SEAPRO<sub>t</sub></u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>

BR<sub>t-2</sub> 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<sub>t-2</sub> 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)

## Schedule 2 – Special Condition 3D Part D of SP Transmission Limited’s electricity transmission licence

### Special Condition 3D. Stakeholder Satisfaction Output

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

3D.1~~2~~1 The value of the  $SSI_{t-2}$  term (relating to the Stakeholder Satisfaction Incentive) is derived in accordance with the following formula:

$$SSI_{t-2} = (\underline{XSSPRO}_{t-2} * SS_{t-2}) + (\underline{YSKPIPRO}_{t-2} * SKPI_{t-2}) + (\underline{ZSEAPRO}_{t-2} * SEA_{t-2}) * (BR_{t-2} + TIRG_{t-2}) * \underline{0.01}$$

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:

$$\underline{SS}_{t-2} = \max(\min((\underline{SSC}_{t-2} - AA) \times 0.25), 1), 1)$$

If  $\underline{SSC}_{t-2} > SST$ :

$$\underline{SS}_{t-2} = \min\left(\underline{SSUPA}, \underline{SSUPA} \times \left[\frac{\underline{SSC}_{t-2} - \underline{SST}}{\underline{SSCAP} - \underline{SST}}\right]\right)$$

If  $\underline{SSC}_{t-2} < SST$ :

$$\underline{SS}_{t-2} = \max\left(\underline{SSDPA}, \underline{SSDPA} \times \left[\frac{\underline{SST} - \underline{SSC}_{t-2}}{\underline{SST} - \underline{SSCOL}}\right]\right)$$

Otherwise:

$$\underline{SS}_{t-2} = 0$$

where

~~$\underline{SSC}_{t-2}$  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.~~

~~$\underline{SST}$  is the Stakeholder Satisfaction Survey target, and will have the value 7.4.~~

~~$\underline{SSCAP}$  is the Stakeholder Satisfaction Survey cap and will have the value 9.~~

~~$\underline{SSUPA}$  is the stakeholder satisfaction maximum upside percentage point adjustment and will have the value 1.~~

~~$\underline{SSCOL}$  is the Stakeholder Satisfaction Survey collar and will have the value 5.8.~~

~~$\underline{SSDPA}$  is the stakeholder satisfaction maximum downside percentage point adjustment, and will have the value -1.~~

~~$\underline{SSC}_{t-2}$  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<sub>t-2</sub> 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:

<u>Relevant year t</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>SSPRO<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>

SKPI<sub>t-2</sub> 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:

$$SKPI_{t-2} = \max(\min((KPI_{t-2} - BB) \times 0.025, 1), -1)$$

If SKPIC<sub>t-2</sub> > SKPIT:

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

If SKPIC<sub>t-2</sub> < 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<sub>t-2</sub> 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

SKPIC<sub>t-2</sub> have the value -1.  
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<sub>t-2</sub> 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:

<u>Relevant year t</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>SKPIPRO<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>

SEA<sub>t-2</sub> 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:

<b>SEA Band</b>	<b>SEA<sub>t-2</sub> value</b>
<b>Non-Compliant with stakeholder strategy</b>	-1.0
<b>Compliant with stakeholder Strategy</b>	0.5
<b>Exceeding stakeholder strategy</b>	1.0

SEAPRO<sub>t-2</sub> 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:

<u>Relevant year t</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>SEAPRO<sub>t</sub></u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>

BR<sub>t-2</sub> 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<sub>t-2</sub> 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)



### **Schedule 3: Relevant Licence Holders<sup>4</sup>**

**Scottish Hydro Electric Transmission plc  
SP Transmission Limited**

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<sup>4</sup> Electricity licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-electricity-licensees-registered-addresses>