

**DIRECTION ISSUED PURSUANT TO PARAGRAPH 4L.7 OF SPECIAL CONDITION 4L (EMR DISPUTE RESOLUTION INCENTIVE) OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC'S ELECTRICITY TRANSMISSION LICENCE IN RELATION TO THE EMR DISPUTE RESOLUTION INCENTIVE**

**Whereas:**

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. Special condition 4L (Financial incentives on EMR) ("SpC 4L") of the Licence establishes arrangements to determine an adjustment to NGET's Maximum SO Internal Revenue based on the financial incentives placed upon the licensee as follows:

$$\text{SOEMRINC}_t = \text{DRI}_t + \text{DFA}_t + \text{DSR}_t + \text{CSSS}_t$$

- a.  $\text{SOEMRINC}_t$  is the total adjustment in Relevant Year t to the licensee's Maximum SO Internal Revenue (either positive or negative) as a result of the financial incentives placed upon the licensee to undertake the EMR Functions;
  - b.  $\text{DRI}_t$  refers to the dispute resolution incentive which adjusts the licensee's revenue depending on how many of the Reviewable Decisions made by the licensee are overturned by the Authority (the "Dispute Resolution Incentive");
  - c.  $\text{DFA}_t$  refers to the demand forecasting accuracy incentive which adjusts the licensee's revenue as a result of the accuracy with which the licensee forecasts Peak National Demand;
  - d.  $\text{DSR}_t$  refers to the demand side response incentive which adjusts the licensee's revenue as a result of the licensee encouraging and facilitating participation of Demand Side Response providers in the Year Ahead Capacity; and
  - e.  $\text{CSSS}_t$  refers to the customer and stakeholder satisfaction survey incentive which adjusts the licensee's revenue depending on the licensee's performance as measured by the customer and stakeholder satisfaction survey (the "Customer and Stakeholder Satisfaction Survey Incentive").
3. The "Regulations" for the purposes of this condition are:
    - a. The Contracts for Difference (Allocation) Regulations 2014, as amended from time to time (the "CfD Regulations"); and
    - b. The Electricity Capacity Regulations 2014, as amended from time to time (the "CM Regulations").
  4. The arrangements in SpC 4L applicable to disputes arise from the following decisions made by NGET (together the "Decisions"):

- a. decisions made under regulation 20(4) of the CfD Regulations to uphold Non-qualification Determinations<sup>1</sup>;
  - b. decisions made under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions; and
  - c. decisions made under regulation 69(3) of the CM Regulations to uphold decisions not to amend the Capacity Agreement Notice and decisions not to rectify the Capacity Market Register.
5. In the Relevant Year 2016/17, we overturned ten of National Grid Electricity Transmission Plc's (NGET) Reconsidered decisions relating to Capacity Market Prequalification. These Reconsidered decisions were referred to us for a determination under Rule 70 of the Electricity Capacity Regulations 2014<sup>2</sup>. No Prequalification for CfD took place in 2016/17, and therefore no applicable CfD disputes arose from decisions made by NGET.
- a. In the Early Capacity Auction ("ECA"), the Authority overturned one Prequalification decision for two CMUs relating to misapplication by NGET of the Capacity Market Rules on dispatch controllers.
  - b. In the DSR Transitional Auction ("TA"), the Authority overturned one decision, for eight CMUs, on the grounds of procedural fairness.
  - c. For the purposes of the Authority's decisions and the Dispute Resolution incentive, the overturned Decisions for these CMUs were grouped where NGET had made the same decision for a number of related CMUs.
6. The total potential dispute resolution incentive value for 2016/17 is ±£150,000, with ±£100,000 allocated to the T-4 and TA, and ±£50,000 to the ECA<sup>3</sup>. Under the incentive, in both categories, one overturned decision results in £0. As there was one overturned decision for each category, both of these terms equal 0.
7. On the basis of this, the Authority has determined that the term  $DRI_t$  for Relevant Year 2016/17 should take the value £0.
8. For the total financial incentive on EMR for 2016/17 only the disputes resolution incentive, and the customer and stakeholder satisfaction survey incentive are applicable. Therefore, financial incentives relating to the demand forecasting accuracy ( $DFA_t$ ), and the demand side response ( $DSR_t$ ) included in SpC 4L both equal zero in 2016/17.

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<sup>1</sup> Defined terms that are not defined in this Direction and defined in the Licence and the Regulations.

<sup>2</sup> S/I 2014 No. 2043.

<sup>3</sup> As outlined in Schedule 2 of 4L.

9. The arrangements in SpC 4L applicable to the 2016 Customer and Stakeholder Satisfaction Survey arise from NGET's relative performance against the existing baseline score. In 2016/17 NGET's average score was 7.31, a slight decrease from the 2015/16 baseline of 7.46 (out of a maximum of 10). Under the incentive as outlined in Part E of SpC 4L, a shortfall from the baseline score means a loss of incentive income. Based on the incentive calculation, the Authority has determined that the term  $CSSSt$  for the Relevant Year 2016/17 should take the value -£54,545.

**Therefore:**

In accordance with SpC 4L, and following consultation with NGET, the Authority hereby directs that the value of the term for Dispute Resolution Incentive for the Licensee for Relevant Year 2016/17 will be £0. Additionally, based on the Customer and Stakeholder Satisfaction Survey results the Customer Stakeholder Satisfaction Survey Incentive will take a value -£54,545 for 2016/17.

This document constitutes notice of the reasons for the decision to issue the direction pursuant SpC 4L.7, as required by section 49A(2) of the Act.



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**Mark Copley – Associate Partner, Wholesale Markets**  
**For and on behalf of the Gas and Electricity Markets Authority**

**Date: 29 November 2017**