

**To: National Grid Electricity Transmission plc
Scottish Hydro Electric Transmission plc
SP Transmission plc**

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

Modifications to the ET1 Price Control Financial Model to revise National Grid Electricity Transmission's allowances with respect to the separation of the Electricity System Operator

1. The above licensees are the holders of Electricity Transmission licences ('the Licences'), 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 23rd August 2018 ('the Notice') of our proposal to modify the ET1 Price Control Financial Model as defined under Special Condition 1A.5 of the Licences. We asked for any representations to the modification proposal by or before 20th September 2018.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b)(ii) of the Act, and we have not received a direction that the change should not be made.
4. We received one response to the Notice, which we carefully considered and published on our website. Our response is set out in the accompanying letter.
5. Having carefully considered the response received to the Notice, we have decided to proceed with the modifications to the ET1 Price Control Financial Model, as proposed in our consultation.
6. We are making these licence changes to incorporate in the financial model the appropriate level of costs, for National Grid Electricity Transmission (NGET), of implementing the Electricity System Operator (ESO) separation, as set out in the notice² we published on 10th August 2018.
7. By way of summary, the effect of the modifications is to increase the cost allowances for NGET SO (the Electricity System Operator) by a total of £55.0 million (in real 2009/10 prices) over the years 2016/17 to 2020/21. The corresponding revenue increase will start from 2019/20 onwards.
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 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. In this case the modification relates to a special licence condition, so the relevant licence holder is the holder of that particular licence. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

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

² Notice on National Grid's allowances for the costs of implementing Electricity System Operator Separation <https://www.ofgem.gov.uk/publications-and-updates/notice-national-grid-s-allowances-costs-implementing-electricity-system-operator-separation>

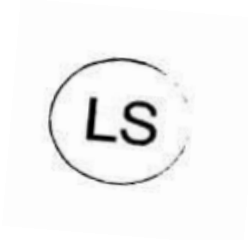
³ The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

9. Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the ET1 Price Control Financial Model as defined under Special Condition 1A.5 of the Licences, in the manner specified in attached Schedule 1. This decision will take effect from 22nd November 2018.
10. This document is the notice of the reasons for the decision to modify the Electricity Transmission licences held by the above licensees 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**

Geoffrey Randall

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**Deputy Director, Network Price Controls
Duly authorised on behalf of the
Gas and Electricity Markets Authority**



26 September 2018

Schedule 1 – Revised National Grid Gas plc Special Licence Conditions, GT1 Price Control Financial Model and Financial Handbook

The revised ET1 Price Control Financial Model is available on our website at the following address:

<https://www.ofgem.gov.uk/publications-and-updates/riio-et1-price-control-financial-model-following-modifications-account-electricity-system-operator-separation>

Schedule 2: Relevant Licence Holders⁴

Licensee	Company Number
National Grid Electricity Transmission Plc	02366977
Scottish Hydro Electric Transmission Plc	SC213461
SP Transmission Plc	SC189126

⁴ Electricity licence holders are listed at:

<https://www.ofgem.gov.uk/publications-and-updates/list-all-electricity-licensees-registered-or-service-addresses>