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Statutory Consultation

Statutory Consultation for adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs

Publication date:	11/03/2020	**Contact:**	Tom Kenyon-Brown, Chris Thackeray
		Team:	GB Wholesale Markets
Response deadline:	17/04/2020	**Tel:**	020 3263 9965
		Email:	EMR@ofgem.gov.uk

We are consulting on our proposal to modify National Grid Electricity System Operator's Electricity Transmission Licence to install an Uncertainty Mechanism for funding adjustment for to fulfil its role as the Delivery Body for Electricity Market Reform. In addition, we propose to remove an incentive for the Delivery Body.

We would like views from people with an interest in the Capacity Market or Contract for Difference regimes. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. This consultation closes on **17th April 2020.**

Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at **Ofgem.gov.uk/consultations**. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive summary

Background

National Grid Electricity System Operator (NGESO) undertakes the role of Electricity Market Reform (EMR) Delivery Body (DB). Ofgem is responsible for setting the revenue and incentives for this NGESO function as well as overseeing the delivery performance.

In September 2015, we decided on funding for the NGESO in carrying out this function for the period April 2016 to March 2021. Revenues provided cover the roles of delivering the Capacity Market (CM) and Contracts for Difference (CfDs) regimes.

In September 2019, following consultation and in accordance with Special Condition 7D.12 in NGESO's licence, we decided on adjustments for this funding allowance based on variance of costs up to May 2019 associated with operating costs and investment in an IT system. However, at this stage, we recognised that further uncertainty remained in funding requirements up to March 2021 that would need to be managed. Following our consultation, we received positive responses to the proposal to implement this future Uncertainty Mechanism (UM) at a later date and stated our intention to undertake the relevant licence changes in our decision document.

NGESO has four financial incentives relating to the undertaking of the EMR DB function, implemented through Special Condition 4L in NGESO's licence.

- Dispute resolution incentive, which adjusts revenue depending on how many of the Reviewable Decisions are overturned by the Authority.
- Demand forecasting accuracy incentive, which adjusts revenue as a result of the accuracy with which the Peak National Demand is forecast. This applies to forecasts for both the year ahead and four years ahead.
- Demand Side Response (DSR) incentive, which adjusts revenue as a result of the DB encouraging and facilitating participation of DSR providers in the Year Ahead Capacity Auction.
- Customer and stakeholder satisfaction survey incentive, which adjusts revenue depending on the licensee's performance as measured by the customer and stakeholder satisfaction survey.

We have consulted on proposals to adjust this incentive framework in our April 2019 Five Year Review and received responses in favour of adjustment. In particular, responses stated that incentives on the NGESO should drive behaviour that does not favour a particular technology in the CM, thereby not favouring the DSR participation incentive. We received broad support for the principle of the demand forecasting, dispute resolution, and customer and stakeholder satisfaction incentives. We also received broad support in the proposal to integrate the currently ring-fenced regulatory framework with the wider NGESO going forward.

Purpose of this document

In this statutory consultation, we set our intention to amend NGESO's licence under Special Conditions 7D and 4L to make minor adjustments to the funding and incentive framework applying to the EMR DB.

This document provides an expanded explanation of the justification, potential impacts and mitigation for the DSR incentive removal. The Appendix includes Statutory Consultation text and Licence Changes for both the funding and incentive arrangements.

Our Proposals

Funding

We propose to make changes to NGESOs Licence in Special Condition 7D to enable an UM window in March 2021 to manage uncertain costs.

This UM will provide appropriate funding to cover efficient and appropriate uncertain costs associated with a replacement IT system that the EMR DB are in the process of delivering. This additional funding will be conditional on completion of the IT system to the outcomes set out in our September 2019 decision and noted in paragraph 2.2. We also recognise the potential for unavoidable costs associated with urgent policy changes which can be covered in the UM but expect full communication between EMR Delivery Partners and BEIS to avoid inefficient costs where possible.

In their submission in May 2019, NGESO provided an initial estimate between £2m and £5m to develop a new IT administration system which would be subject to confirmation at a later stage. In our September 2019 Decision, we provided allowances of £2m, accepting that the total cost to deliver the replacement system is uncertain. We intend for the remainder to be resolved through this UM.

This replacement IT system is expected to significantly improve the efficient management of and effective participation in the EMR regimes, therefore it is essential that we ensure that NGESO have provisions to be appropriately funded. However, following a submission of proposals for funding adjustment in March 2021, we will ensure efficient spend and value for money through a thorough assessment and closely monitoring their performance to ensure other aspects of the DB role are being upheld. We will also carry out our role in monitoring and reporting on the DBs performance, including engaging with industry to understand satisfaction with NGESO in undertaking the DB role.

Outputs and Incentives

We have reviewed the incentive framework for NGESO undertaking the role of the EMR DB and following prior consultation, we intend to retain three of the four incentives for now. The demand forecasting, dispute resolution and customer & stakeholder satisfaction incentives are broadly appropriate at this time, although we recognise the need to review how integration with NGESO’s wider incentive framework could drive improved results.

Following consultation and review, the DSR participation incentive, which adjusts revenue as a result of the DB encouraging and facilitating participation of DSR providers in the Year Ahead Capacity Auction, does not appear to be fit for purpose.

The amount of DSR coming forward to prequalify for the CM reduced in 2019/20 in the year ahead auctions, appearing to be driven by low target capacities and high auction liquidity. This may continue, or changes to qualification criteria or increases in auction target capacities may lead to jumps in prequalification levels. As it appears that the DB do not have control over these outcomes, we do not believe that this incentive is appropriate. In addition, we intend for the DB to provide the appropriate level of support to encourage and facilitate participation of all potential capacity providers into the CM rather than target a specific technology as this incentive intends.

The DSR market appears to be continuing to grow in potential. To ensure that all technologies, including DSR, can continue to compete on a fair and level playing field in the CM, BEIS have recently consulted on a range of proposals for future improvements. This includes allowing DSR to access multi-year agreements, reducing the minimum capacity threshold from 2MW to 1MW and providing guaranteed auction volumes for the T-1 auction. In addition, we continue to focus on reform to the Rules, which reduce barriers to entry and promote a level playing field.

We therefore propose to remove this incentive from NGESO's Special Licence Condition 4L. Removing this incentive will remove +/-£1m from the DBs total annual EMR incentive value, reducing it to +/- £3.8m. NGESO's Licence will need to be amended in Special Condition 4L to remove all reference to this incentive. We view that the DB should focus on providing excellent services during the prequalification process to all participants, whilst looking forward to future prequalification processes to encourage participation. We will mitigate any impact by monitoring and reporting on the DBs performance, reviewing the Customer Satisfaction Survey responses and monitoring participation of DSR in the CM and other markets.

Next steps

Interested parties have until 17th April 2020 to comment. We will then review responses and make a decision. In our decision document, we will set out our final position and the final licence changes that will be applied. Following publication, if we decide to proceed with the licence modifications and after a statutory stand-still period of 56 days, the relevant licence changes will come into effect. Whilst we recognise that any licence change will come into effect during the 2020/21 financial year, we will look for it to apply for the full financial year. Therefore, when we assess the performance and resultant incentives for the NGESO in carrying out the EMR DB role applying to the 2020/21 year, we will do so with the consideration that these arrangements are in place from 1st April 2020.

1. Introduction

What are we consulting on?

Background

1.1. In August 2014 the Government appointed National Grid Electricity Transmission as the Electricity Market Reform (EMR) Delivery Body (DB). Ofgem is responsible for setting the revenue and incentives for this NGESO function as well as overseeing the delivery performance. Subsequently, that function was transferred to National Grid Electricity System Operator (NGESO) by a decision of the Authority consenting to the transfer of NGET's System Operator function to NGESO.

1.2. In line with the regulation of network companies, we are applying the principles of the RIIO (Revenue = Incentives + Innovation + Outputs) price control framework to drive benefits for consumers in relation to EMR. Under this framework, the onus is on regulated companies to demonstrate the cost-efficiency and long-term value for money of their business plans through proposing funding, outputs (or deliverables) and, where appropriate, incentives.

1.3. Revenues provided to NGESO currently cover the roles of delivering the Capacity Market (CM) and Contracts for Difference (CfDs) regimes. For the CM this includes processing applications, appeals and agreements as well as running the Auctions. For CfDs, this includes processing applications and appeals then running the Allocation Rounds. In order to achieve this role, a number of IT systems are either managed in house or licences paid for. We aim to ensure that NGESO are sufficiently funded to deliver this crucial EMR DB role for the GB energy system to a level of excellent performance.

1.4. In September 2015[1], we issued our decision on funding for NGESO in carrying out the EMR DB role for the period April 2016 to March 2021. In September 2019[2], we decided on adjustments for this funding allowance based on variance of costs up to May 2019 associated with previously unknown or unquantifiable operating costs and investments in the main EMR IT system (the EMR 'Portal'). However, at this stage, we recognised that further uncertainty remained in funding requirements in the remainder of the period up to March 2021 that would need to be managed.

1.5. To manage uncertainty in funding requirements, we utilise Uncertainty Mechanisms (UMs) in NGESOs Electricity Transmission Licence Special Conditions. The UM in NGESO's Special Condition 7D.10 provides an opportunity for NGESO to submit an application for additional funding for specific activities required to be undertaken that were not originally considered in the original funding provision.

1.6. NGESO has a separate financial incentive framework for the undertaking of the EMR DB function aligned to defined outputs set out in legislation. We also introduced an EMR Customer and Stakeholder Satisfaction Survey as an additional output for NGESO. They therefore have four financial incentives:

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[1] Decision on revenue, outputs and incentives for NGET plc's roles in Electricity Market Reform
[2] Decision on Adjustments to the Electricity Market Reform Delivery Body Allowances

- 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.

- Demand forecasting accuracy incentive, which adjusts the licensee's revenue as a result of the accuracy with which the licensee forecasts Peak National Demand. This applies to forecasts for both the year ahead and four years ahead.

- 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 Auction.

- 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.

1.7. These incentives are implemented through Special Condition 4L in NGESO's licence.

1.8. In this consultation, we set our intention to amend NGESO's Licence Special Conditions 7D and 4L to make minor adjustments to the funding and incentive framework applying to the EMR DB.

Statutory Consultation

1.9. We have previously consulted on these proposals to adjust the NGESOs regulatory framework and have received responses in favour of adjustment. This is therefore a statutory consultation to make the proposed changes in NGESOs licence.

1.10. In addition, this document provides an expanded explanation of the justification and impact for the DSR incentive removal.

1.11. The Appendix includes Statutory Consultation notices and the proposed Licence Changes to Special Conditions 7D and 4L for both the funding and incentive arrangements respectively.

1.12. Interested parties have until 17th April 2020 to comment. We will then review responses and make a decision. Following the requisite 56 days from a decision being made, any relevant licence changes will come into effect.

Regulatory Framework and Revenue Allowances

Consultation and Decision to adjust revenues as a result of Uncertainty Mechanism (2019):
https://www.ofgem.gov.uk/publications-and-updates/consultation-adjustments-electricity-market-reform-delivery-body-revenues

Consultation and Decision to adjust revenue and incentive framework (2015):
https://www.ofgem.gov.uk/publications-and-updates/consultation-initial-proposals-setting-revenue-outputs-and-incentives-national-grid-electricity-transmission-plc-s-roles-electricity-market-reform

Statutory Consultation and Decision on licence change to include reopener clause and adjust incentive framework (2015):

https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-licence-modifications-nget-s-special-condition-7d

Performance and Operation of the Capacity Market

2018: https://www.ofgem.gov.uk/publications-and-updates/annual-report-delivery-body-s-performance-its-functions-relation-capacity-market

2017: https://www.ofgem.gov.uk/publications-and-updates/report-emr-delivery-body-s-performance-its-functions-relation-capacity-market-1

2016: https://www.ofgem.gov.uk/publications-and-updates/report-emr-delivery-body-s-performance-its-functions-relation-capacity-market-0

Ofgem’s Five year Review Report (July 2019): https://www.ofgem.gov.uk/publications-and-updates/report-our-five-year-review-capacity-market-rules-and-forward-work-plan

How to respond

1.13. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document’s front page.

1.14. We’ve asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.15. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.16. You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.17. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we’ll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.18. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.19. If you wish to respond confidentially, we’ll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.20. We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations.

2. Funding

Section summary

This section describes our intention to apply an UM to manage uncertain costs to be incurred by NGESO associated with its EMR DB role from May 2019 up to April 2021.

The issue

2.1. The DB utilise the existing 'Portal' IT system to facilitate participation and management of the CM and CfD regimes. Following NGESOs request for funding to implement a system refresh, in our August 2019 consultation[3] and September 2019 funding decision[4], we outlined that this IT System is no longer effective for the delivery of EMR. It has proved to be inefficient and inflexible to deliver change and has received extensive critical feedback from users on its functionality.

2.2. The total cost to deliver the replacement system is uncertain, hence we have considered the appropriate method to manage this uncertain spend and the justification for a future UM to assess additional efficiently incurred costs. In our decision, we set out the required outcomes from the replacement IT system for which appropriate funding would be provided:

- The replacement system should be delivered by April 2021 in advance of the CM prequalification process.
- The DB should explore alternative solutions to deliver this requirement including utilising wider industry parties and service providers to provide innovative and good value technology solutions.
- When developing the replacement system the DB should focus on user needs to enable ease of access to the CfD and CM regimes.
- Policy and market change is expected to continue across EMR, therefore the replacement IT system should be highly flexible and be able to react in a timely and efficient manner to necessary change requirements.

2.3. We stated our intention to collaborate with the DB and BEIS on a joint work plan to deliver the required framework changes to improve the CM in the period up to April 2021. We remain of the view that further avoidable changes to the Portal now would not offer value for money. We consider that the DB should prioritise the replacement IT system and delivering the step change in functionality and flexibility that is required. In order to avoid unnecessary further development of the existing Portal, and to provide the DB with the space to deliver the new IT system, BEIS and Ofgem will seek to avoid additional changes to the Framework and Rules that would need to be implemented through the Portal. However, in our September 2019 decision, we recognised the potential for unavoidable policy changes that may require investment in

[3] https://www.ofgem.gov.uk/publications-and-updates/consultation-adjustments-electricity-market-reform-delivery-body-revenues
[4] https://www.ofgem.gov.uk/publications-and-updates/decision-adjustments-electricity-market-reform-delivery-body-allowances

the Portal. We stated our expectation for communication between EMR Delivery Partners and BEIS to manage the impact of any further change on the Portal.

2.4. Special Condition 7D provides arrangements for NGESO or the Authority to propose relevant adjustments to allowed expenditure in relation to EMR uncertain cost categories.

2.5. In NGESO's May 2019 relevant adjustment proposal, they applied for between £2m and £5m to develop a new IT administration system that was yet to be scoped or tendered. We set out in our July 2019 consultation on this NGESO proposal how we intended to allow initially for part of the requested revenues for the development of the IT system and introduce an additional UM to allow NGESO to retrieve additional uncertain revenues from May 2019 to April 2021. We received responses to our consultation supportive of this proposal.

Our Proposal

2.6. In this Statutory Consultation, we intend to make changes to NGESOs Licence in Special Condition 7D to enable a UM to manage uncertain costs associated with the replacement IT system and unavoidable policy changes.

2.7. In order to ensure that the DB have achieved the outcomes set out in paragraph 2.2 above, required from the replacement system by April 2021, and to enable them to finalise costs, we propose to set the deadline for a relevant adjustment proposal for a 2021 uncertainty mechanism to be made by 31st March 2021. We will continue to collect evidence such as industry feedback after this date.

2.8. We also propose that this UM window should not apply a materiality threshold amount. This applies a minimum amount which can be requested in a relevant funding adjustment proposal. We applied a materiality threshold to the UM window in 2019 in order to ensure the efficiency of the application, assessment and consultation process. The basis for additional funding was also less clear at this stage as it covered a wider period from the previous UM window ending on the 12th January 2015 to 1st May 2019. In this consultation and any following decision, we intend to provide clarity on the basis and expectations around any relevant funding adjustment proposal, thereby justifying the resulting application, assessment and consultation process if the proposal meets these criteria. In addition, in allowing efficient costs to be recovered associated with completion of the replacement IT system and urgent policy changes, we do not want to inadvertently incentivise NGESO to incur costs up to a certain level to be able to justify a funding adjustment proposal.

2.9. In its assessment, to ensure value for money for the consumer, Ofgem are required to take full account of the efficiency and quality of the EMR DB outputs, both in immediate and long term impacts. Therefore in this funding adjustment proposal, we expect NGESO to;

- demonstrate how the replacement IT system will achieve the step change in functionality and flexibility required.
- contain a detailed record of the costs incurred in delivering the system and how they compare to industry standards.
- outline the assessment that NGESO has done into potential IT solutions to demonstrate quality of product to the industry and value for money to the consumer.

- demonstrate the stakeholder engagement activities undertaken to ensure the delivered IT system is fit for purpose.
- outline how the contract with the IT system developer ensures a quality product that achieves the long term objectives of functionality and flexibility.

2.10. Aligned to previous UM funding assessment processes associated with NGESO achieving funding for the DB role, Ofgem will then need to come to a decision on justifiable additional funding within four months. We are conscious that this decision on additional funding will take place during NGESO's RIIO-2 price control. Therefore, the settlement will be undertaken as part of the RIIO-1 close out process in 2021.

2.11. The Notice of the Authority's intention to modify NGESO's licence in accordance with our proposal is provided in Appendix 1 and the licence drafting to Special Licence Condition 7D to include this UM is included in Appendix 2.

Impacts and Mitigation

2.12. Ofgem must ensure that NGESO are appropriately funded to deliver the role of administering the CM and CfD regimes. Should we not install this Uncertainty Mechanism, uncertain costs would go unmanaged and the replacement IT system may not be delivered to the required quality or worse, not delivered at all. Having consulted and engaged with market participants regularly over the course of 2018 and 2019, we understand the urgent need for a replacement IT system and therefore conclude that non-delivery would have a high impact negative on the effectiveness of the CM and CfD regimes going forward.

2.13. By not including a materiality threshold amount for a funding adjustment proposal, we are allowing NGESO to request funding of any amount. However, we have been clear that any funding request must be associated with relevant costs as outlined in paragraph 2.6 and described in more detail in paragraphs 2.2 and 2.3.

2.14. We will ensure that NGESO are only allowed efficient levels of revenue under this UM by thoroughly assessing their March 2021 submission. In addition, we will closely engage with the DB as the replacement IT system is developed and delivered and closely monitor their performance to ensure other aspects of the role are being upheld. Throughout the development stage, it is essential that the DB engage with industry, as users of the system, to incorporate their input in scoping and design. We will continue to regularly engage with industry to understand satisfaction with NGESO in undertaking the DB role, before and after completion of the replacement IT system, and report on their performance in accordance with the CM Regulations.

3. Outputs & Incentives

Section summary

This section describes our intention to remove the DSR participation incentive from the NGESOs regulatory framework for carrying out the EMR DB role.

The issue

3.1. Our September 2015 decision set out the funding and incentive arrangements for NGESO in carrying out the EMR DB role for the period April 2016 to March 2021[5], and introduced financial incentives to their licence to drive performance in its functions. The total value of the incentives is at +/- £4.8m and is outlined in Table 1.

Table 1 – Summary of financial incentives

Incentives	Value per year
Prequalification Dispute Resolution	+/- £0.2m
Customer and stakeholder satisfaction surveys	+/- £0.6m (also reputational)
Volume of Pre-qualified DSR capacity for the T-1 CM Auctions	+/- £1m
Demand forecasting accuracy (T-1) Demand forecasting accuracy (T-4)	+/- £2m +/- £1m
Total (financial incentives)	**+/- £4.8m**

3.2. In September 2018, to initiate our Five Year Review of the CM, we published an Open Letter[6] identifying NGESOs incentives as a key priority for review to ensure that they remain fit for purpose. The majority of responses we received supported a review or strengthening of these incentives with many concerns about the effectiveness in driving performance.

3.3. In April 2019, we then consulted on our Five Year Review of the Capacity Market Rules[7] followed by a concluding report[8], which set out our intentions in regard to future CM workstreams in July 2019. In our consultation document, as part of a call for evidence, we stated our view that any financial incentives in relation to the CM should lead the DB to pursue two main goals: increasing liquidity in the Auctions and lowering the burden on participants in both Prequalification and the delivery processes. We also stated our view that it is appropriate to incentivise NGESO as the DB to facilitate the

[5] Decision on revenue, outputs and incentives for NGET plc's roles in Electricity Market Reform
[6] Open letter on the Five Year Review of the Capacity Market Rules and NGET's incentives
[7] Five Year Review of the Capacity Market Rules – First Policy Consultation
[8] Report on our Five Year Review of the Capacity Market Rules and Forward Work Plan

participation of new entrants, such as smaller participants, innovative technologies, and new business models.

3.4. We undertook an initial assessment on the effectiveness and appropriateness of each incentive followed by general and targeted questions. We stated that it was appropriate to review the incentives and in particular questioned whether the DSR participation incentive achieved any of the intended objectives at that stage.

Question: Do NGESO's current financial incentives on demand forecasting accuracy, dispute resolution, DSR Prequalification, and customer and stakeholder satisfaction drive the intended behaviours by NGESO?

Question: Do the financial incentives listed above remain fit for purpose?

Question: What behaviours and outcomes should NGESO's financial incentives drive? What form should these incentives take?

Of the 29 responses received in our Five Year Review consultation, 19 commented on the suitability of the incentives. In response to our broad question regarding whether the incentive framework drove the intended behaviours from NGESO, many respondents noted the need for the incentives to be updated and that they do not drive the intended behaviours by the NGESO. Some stakeholder responses indicated that they would like to see a broader, more evaluative approach to the DB incentives in combination with a Forward Plan and specific performance metrics to demonstrate how roles will be fulfilled. NGESO responded to the question by stating the need for the incentives to be re-designed with the incentives not displaying a clear intent with a view on success, therefore not driving the appropriate performance.

3.5. **Demand forecasting accuracy:** We stated that we believed that there should continue to be a financial incentive for NGESO on demand forecasting accuracy due to the importance associated with the procurement target for the Auctions.

Question: Do you agree that a demand forecasting accuracy incentive remains appropriate?

Within the 19 responses, 14 of those agreed that the demand forecasting accuracy incentive was appropriate. Many respondents stated the importance of this incentive for consumers and security of supply. While others agree it is an appropriate incentive, many highlight the opportunity to include this within NGESO's wider package as being more efficient.

3.6. **Prequalification dispute resolution:** Whilst the incentive to reward NGESO for no overturned decisions at prequalification appeals and penalise for more than two overturned appeared crude, due to the significant increase in number of applications, we felt a review of the application of the incentive methodology was sufficient. We suggested that this incentive could be proportional rather than absolute.

Question: Do you agree that the dispute resolution incentive should be based on the proportion of Reconsidered Decisions overturned by the Authority rather than on their absolute number?

In response to our question on basing the prequalification resolution incentive on a relative number of prequalified or overturned reconsidered decisions rather than absolute, most of the respondents agreed. However, many noted that it should incentivise NGESO to avoid disputes entirely by encouraging decision making at prequalification and the Tier 1 stage.

3.7. **DSR Prequalification:** The DSR Prequalification incentive rewards NGESO for maximising the DSR capacity that prequalifies for each annual T-1 Auction. Due to the significant development of the DSR market since initiation of the CM, we stated that; "We do not believe that the design of the DSR Prequalification incentive will remain fit for purpose as the DSR market further matures".

Question: Do you agree that the DSR Prequalification incentive should be replaced with an incentive intended to drive NGESO to aid smaller providers, new entrants, and innovators navigate the CM?

In response to our specific question regarding whether the DSR prequalification incentive should be replaced by an alternative that drives NGESO to aid smaller providers, new entrants, and innovators, the vast majority of respondents disagreed with the proposal of the question. Many noted that there should be no technology specific incentives as the CM is designed to be technology neutral and instead all parties should receive equal support. Additionally, many outline that the NGESO should be required to support new entrants and smaller providers even with the removal of the DSR incentive. NGESO responded to the question by stating that there should be no technology specific incentive, therefore the current incentive is not appropriate.

3.8. **Stakeholder satisfaction:** This incentive to reward NGESO for improvements to its score on a survey to CM participants appeared to be broadly appropriate but were open to opportunities for improvement and coordination with the wider ESO incentives.

Question: Do you agree that an incentive on NGESO's customer service and stakeholder engagement remains appropriate? What form should this incentive take?

Responding to the question regarding the incentive on customer satisfaction being appropriate, 12 respondents agreed that the incentive was appropriate. Respondents highlight the importance of this incentive as being the only measure to assess the performance of the DB and overall satisfaction of participants. A number of responses note the need for more on-going feedback from participants to give a more accurate representation of satisfaction. One respondent included that the incentive must appropriately capture the quality of service, and must not be based on quantitative metrics.

3.9. This consultation is considering any appropriate incentive changes for the financial year 2020/21 going forward. Following consultation responses, we intend to retain the following incentives.

Demand forecasting accuracy: It is important that NGESO are incentivised to ensure accurate forecasts of medium term demand to ensure efficient procurement of capacity. We requested NGESO commission an independent review to establish if the methodology associated with calculating the Average Coal Spell demand forecast and outturn was sound. This review concluded that the methodology was appropriate and made recommendations for improvement. We are therefore of the view that by implementing these improvements and periodically reviewing this methodology, this incentive remains fit for purpose.

Prequalification dispute resolution: We have seen an improvement in the DB's decision-making during prequalification since this incentive has been in place including their engagement with industry during this process. For the CM prequalification process, the DB has improved from 715 reconsideration requests to the DB in 2016/17 to 283 in 2018/19. There were however 52 appeals to Ofgem in 2016/17 and 68 appeals in 2018/19. In order to apply the incentive appropriately, we base the number of overturned decisions on the categories rather than individual decisions. By applying the incentive in this way, we are of the view that it is appropriate and effective and we do not intend to alter it at this stage, however we will consider how the design metric can be improved in future framework reviews.

Stakeholder satisfaction: Retaining an incentive focusing on stakeholder satisfaction is vital as it offers an opportunity to see the satisfaction levels of all EMR participants with the services of the DB and gives participants a voice to be heard. It offers an important check on NGESO's customer engagement work and strategy across all of EMR, and is a technology neutral incentive. We will however also review the design of this incentive in future framework reviews.

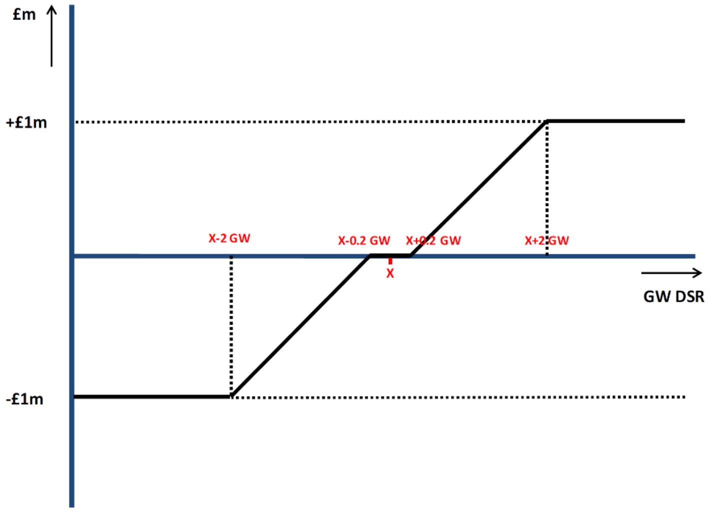
3.10. In addition, in our Five Year Review concluding report and our September 2019 Decision on NGESO funding adjustment, we have stated our intention that we intend to fully consider integrating the DB into the wider NGESO and combining the incentive regimes.

3.11. In our initial April 2015 consultation[9] on proposals for incentives on NGESO in undertaking the EMR DB role, we introduced the DSR participation incentive to encourage and facilitate the participation of DSR providers in the T-1 auctions. It was stated that this particular technology may "contribute to system reliability" and "overall efficiency of the energy system" by "allowing industrial and domestic customers to participate in the energy market". In addition, we stated that "DSR can be particularly valuable at times of system stress and it differs from traditional capacity procured in the Capacity Market as it involves shifting or reducing demand rather than meeting demand through increased supply". We also presumed at this stage that some DSR providers may be less familiar with engaging with NGESO so may benefit more than traditional generators from the DB facilitating their participation in the CM and may be more responsive to their "marketing efforts". We have since received specific feedback that this incentive is ineffective have considered that it is now appropriate to remove it from the incentive framework.

3.12. This incentive refers only to DSR participation in the CM year ahead (T-1) auctions. The benchmark for the incentive is equal to the average gigawatts of pre-qualified DSR in the two previous T-1 Auctions, except for the second T-1 Auction when the target was equal to the gigawatts of pre-qualified DSR in the first T-1 Auction. The cap and floor for the incentive was set at 2GW above and below the target, whilst the dead-band was set at 0.2GW above and below the target. As seen in Figure 1, the incentive is worth +/- £1m out of a total incentive pot of +/- £4.8m.

[9] Initial proposals on setting revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market Reform

Figure 1 – Structure of financial incentive on Pre-qualified DSR capacity for the T-1 Auction

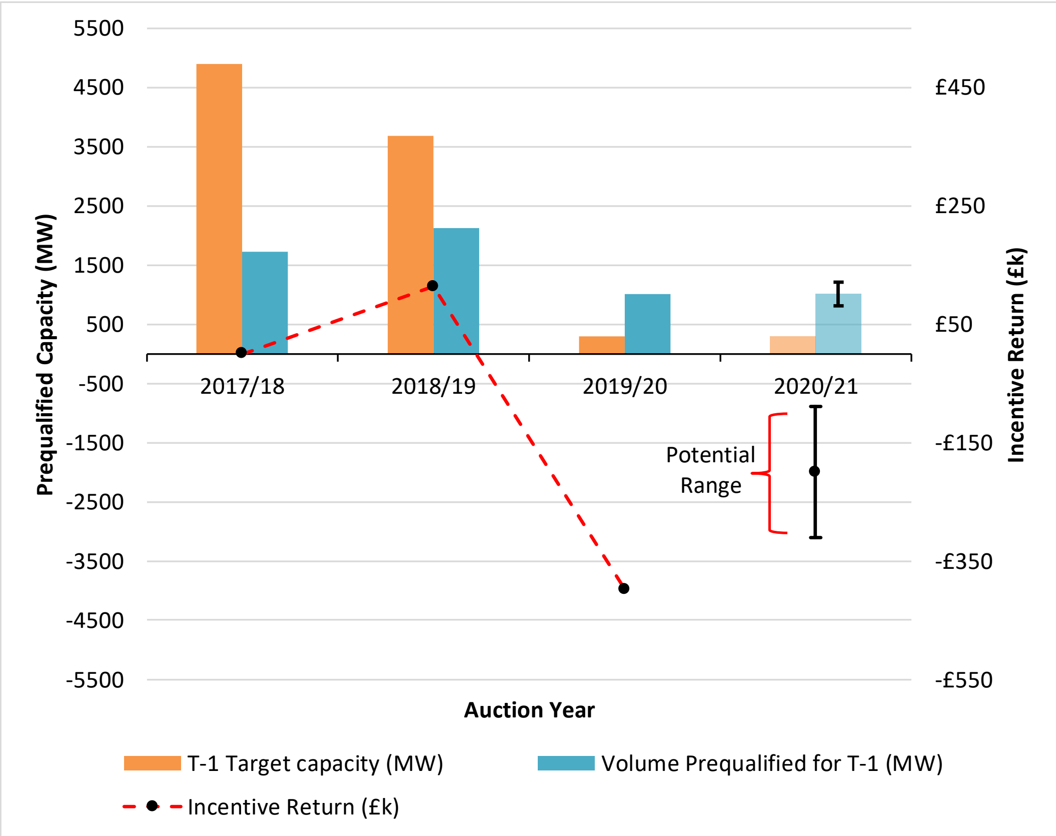


Where 'x' is the Target GW of DSR

3.13. Since its introduction, the CM has seen significant growth in DSR participation. Participation has increased almost fourfold from 109 applications in 2016 to 410 applications in 2019. Given the incentive identifies that "DSR participation may grow over time" as market participants come to take part in the CM, we originally proposed that the target for the incentive shifts based on previous years' performance, reflecting the volumes of pre-qualified DSR capacity in the previous T-1 auctions. It was anticipated that with a gradual growth of DSR over the T-1 Auctions, the DB could influence the growth of participation and be justifiably rewarded or penalised through the incentive.

3.14. Instead, the DSR market has seen an accelerated uptake in CM participation in the initial years of the incentive being in place, leading to a reasonably established DSR market relative to the levels of capacity available in the Auctions (as shown in Figure 2 and 3). Figure 2 specifically shows that the target amount of capacity to procure in the T-1 Auctions has decreased from 6GW in the 2017/18 T-1 Auction, to 0.3GW in the 2019/20 T-1 Auction. With low levels of target capacity and high liquidity in these auctions, predictable low clearing prices have been seen (shown in Figure 3).

Figure 2 – 2020/21 T-1 Auction potential incentive return



3.15. The first baseline value for the incentive was set following the 2017/18 T-1 auction prequalification process, for delivery in 2018/19, with a prequalified DSR volume of around 1,720MW. The following 2018/19 T-1 Auction saw an increased volume of prequalified DSR. The 2019/20 T-1 Auction saw a large decrease in the amount of prequalified volume. It appears that there may be a correlation between the T-1 auction volume and the volumes of DSR prequalifying for the T-1. The incentive is based on the average gigawatts of previous Auctions; therefore, as shown in Figure 2, while NGESO have been rewarded in 2018/19, they were penalised in 2019/20 due to a reduction in DSR capacity coming forward to prequalify.

3.16. If the Auction target capacity for 2020/21 were to remain relatively similar to 2019/20, along with similar volumes of prequalifying DSR, the incentive penalty will remain negative. Figure 2 demonstrates that in 2020/21, on the basis of a potential reasonable ± 20% range of prequalified DSR (from the 2019/20 levels), the financial return of the incentive could be in the range of approximately -£50k to -£300k. The potential range is shown using error bars. The error bar for prequalified volume represents the ± 20% outlook on volume, with the resulting error bar below representing the possible outcome on incentive return.

3.17. It appears that there may be a correlation between the T-1 auction volume and the volumes of DSR prequalifying for the T-1. Therefore, year to year changes to T-1 volumes, as decided by BEIS, may lead to corresponding changes in DSR prequalification levels and thus dictate whether NGESO is penalised or rewarded. We do not feel incentives which penalise or reward NGESO for CM prequalification outcomes that are outside of their control are appropriate.

Our proposal

3.18. We propose that the DSR incentive be removed in its entirety from NGESO's licence for the 2020/21 financial year. We intend to retain the three remaining incentives on prequalification dispute resolution, stakeholder satisfaction and demand forecasting.

3.19. The removal of the DSR incentive will result in NGESO being unable to receive the full amount of +/- £4.8m originally set for EMR incentives. Instead, NGESO may only receive up to +/- £3.8m.

3.20. The total revenue value of the incentives associated with EMR in each year for NGESO is calculated, as set out in Special Condition 4L, in accordance with the following formula:

$$\mathbf{SOEMRINC_t = DRI_t + DFA_t + DSR_t + CSSS_t}$$

Where:

- $\mathbf{SOEMRINC_t}$ means the adjustment to the licensee's Maximum SO Internal Revenue (either positive or negative) in Relevant Year **t** as a result of the financial incentives placed upon the licensee in relation to the EMR functions, collectively known as the System Operator Electricity Market Reform Incentives.
- $\mathbf{DRI_t}$ means the Dispute Resolution Incentive.
- $\mathbf{DFA_t}$ means the Peak National Demand Forecasting Accuracy Incentive.
- $\mathbf{DSR_t}$ means the Demand Side Response Incentive.
- $\mathbf{CSSS_t}$ means the Customer and Stakeholder Satisfaction Survey Incentive.

3.21. The removal of the DSR Incentive ($\mathbf{DSR_t}$) will see the formula amended to the following:

$$\mathbf{SOEMRINC_t = DRI_t + DFA_t + CSSS_t}$$

3.22. As a result, the remaining financial incentives included in the formula are the demand resolution, dispute resolution, and customer and stakeholder satisfaction. Full tracked changes to the NGESO Special Condition 4L as a result of removing this incentive are shown in Appendix 4.

Impacts and Mitigation

3.23. Ofgem recognises that with the removal of the incentive, DSR participants may be concerned that service levels from the DB may not be maintained. However, there is an expectation on the DB to provide the appropriate level of support to enable the participation of all technology types in the Auctions.

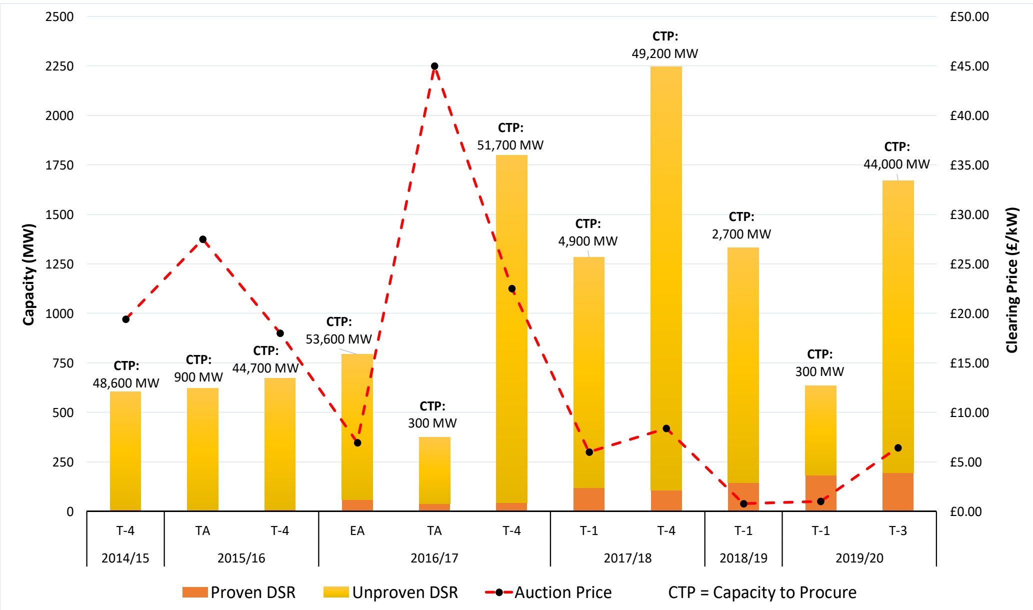
3.24. We do not believe that this incentive either benefits or disadvantages the DSR market. However, following the removal of the incentive, Ofgem will continue to monitor participation in the CM as well as monitoring the satisfaction of participants with the EMR DB service level.

Participation in the Capacity Market and Ancillary Services

3.25. The original design of the CM included a number of arrangements to encourage DSR participation and in 2015 and 2016, the DB held Transitional Arrangements Auctions (TA) for DSR and small-scale generation to facilitate and support DSR participation in the two years preceding full CM delivery. The TA Auctions helped develop the market for DSR providers alongside making the technology more competitive in the open capacity auctions. The growth and increased participation of DSR in the CM has been displayed through the amount of capacity entering the 2014/15 T-4 Auction increasing almost fourfold by the 2017/18 T-4 Auction. In this period, we have also seen a six-fold increase in the number of Capacity Market Units (CMU's) entering the Auctions, and the same increase in the number of successful CMU's in the Auctions.

3.26. With use of the Auction Results as published by the DB, Figure 3 shows the volumes of proven and unproven DSR in each of the CM Auctions to date including the clearing price and the capacity to procure of each. In the T-1 Auctions, we see a slight increase from 2017/18 to 2018/19 but then a large decrease in 2019/20. More DSR is participating in the T-4 Auctions with maximum levels of approximately 2,250MW. We anticipate that this is partly driven by larger levels of target capacity and higher clearing prices above £5/KW.

Figure 3 – DSR capacity entering the Capacity Market Auctions

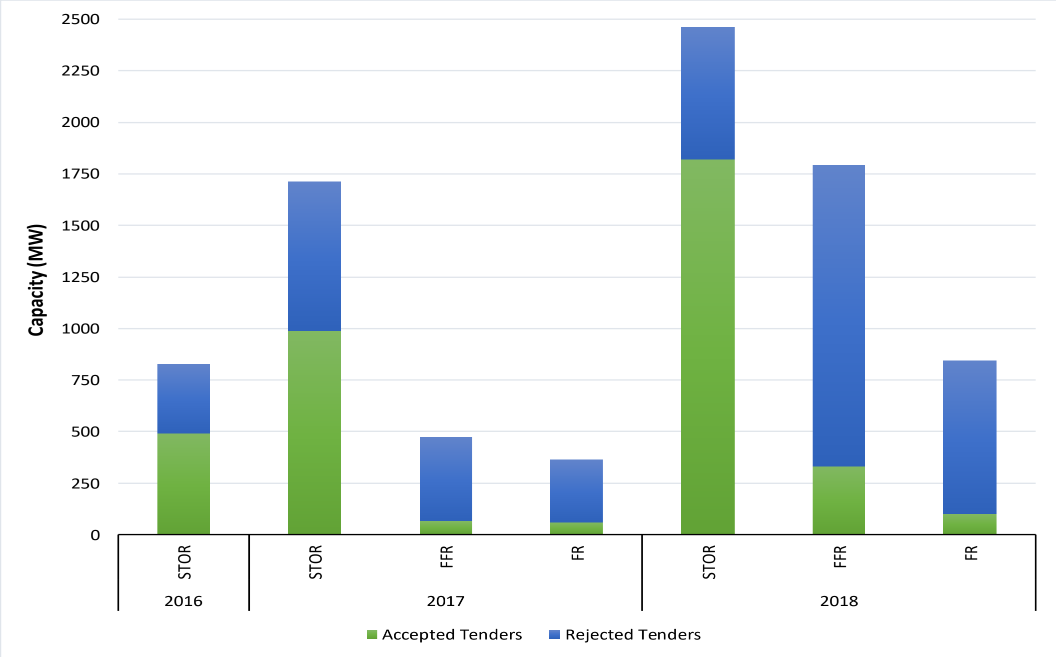


3.27. The volumes of DSR historically participating in the CM shows an emergence of the DSR market, albeit a limited opportunity for more expensive DSR capacity units.

3.28. Outside of the CM, demand side flexibility providers are able to participate in a range of other markets. With use of data from NGESO Power Responsive Demand Side

Flexibility (DSF) Annual Report[10], we have reviewed the growth of DSF[11] in markets outside of the CM including Short Term Operating Reserve (STOR), Fast Reserve (FR) and Firm Frequency Response (FFR). Figure 4 shows that DSF capacity has continued to increase up to approximately 2,500MW.

Figure 4 – Peak tendered capacity (MW) available by DSR in each market per year



3.29. Whilst this DSF qualifies for these markets under different criteria than the CM, this increased DSF participation in markets outside of the CM demonstrates a potential for large volumes of DSR to participate in the CM with the necessary clearing prices. This growth in DSF outside of the CM comes without a specific incentive on NGESO.

Policy Direction

3.30. BEIS (as noted in their 2019 Five-year Review of the CM12) and Ofgem recognise that there are opportunities to ensure that all technologies, including DSR, can continue to compete on a fair and level playing field in the CM. In particular, BEIS have recently consulted[13] on the following proposals:

Changes to the T-1 set aside (the amount of capacity reserved for the T-1 auction from the T-4 required capacity level): These changes will increase the certainty of auction volumes at T-1 and therefore may increase DSR confidence in the route to market through the CM. There has also been healthy DSR participation in the T-4 auctions to date;

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[10] Demand Side Flexibility: Annual Report 2018

[11] The term Demand Side Flexibility (DSF) is used to encompass five categories of flexible resources: **1.** Demand Side Response (DSR); **2.** DSR by onsite generation; **3.** DSR by onsite energy storage; **4.** Distributed generation – for export; **5.** Distributed energy storage – for export.

[12] Capacity Market: 5-year Review (2014 to 2019)

[13] Capacity Market: proposals for future improvements

Allowing DSR to access multi-year agreements based on levels of capital expenditure: This may help some future DSR projects secure financial backing and therefore could improve the route to market; and

Reducing minimum capacity threshold from 2MW to 1MW: This will reduce the need for aggregation and may facilitate participation of DSR that is difficult to aggregate, sized between 1 and 2MW.

3.31. We have previously addressed matters in our Five Year Review of the Capacity Market Rules, and included a forward work plan for changing the CM Rules and regulatory framework in the near future. The package of reforms proposed are designed to deliver the opportunity for more efficient participation in the Capacity Market for capacity providers. This is expected to reduce barriers to entry and promote a level playing field, therefore improving auction liquidity and minimising costs to consumers.

Conclusion

3.32. We have reviewed the incentive framework for NGESO associated with the EMR DB role and conclude that we should retain three of the four incentives. The demand resolution, dispute resolution, and customer and stakeholder satisfaction incentives continue to be appropriate and effective, although we recognise the need to review how integration with NGESO's wider incentive framework could drive improved results.

3.33. We propose to modify NGESO's Licence to remove the DSR participation incentive. Recently they have been penalised for a reducing level of DSR coming forward to prequalify in the year ahead auctions. It appears that this is driven by low target capacities and high auction liquidity. This may continue, or changes to qualification criteria or increases in auction target capacities may lead to jumps in prequalification levels. As it appears that the DB do not have control over these outcomes, we do not consider that this incentive is appropriate.

3.34. The DSR market appears to be continuing to grow in potential. To ensure that all technologies, including DSR, can continue to compete on a fair and level playing field in the CM, BEIS have recently consulted on a range of proposals for future improvements. This includes allowing DSR to access multi-year agreements, reducing the minimum capacity threshold from 2MW to 1MW and providing guaranteed auction volumes for the T-1 auction. In addition, we continue to focus on reform to the CM Rules, which reduce barriers to entry and promote a level playing field.

3.35. Removing this in incentive will remove +/-£1m from NGESOs total EMR incentive value, reducing it to +/- £3.8m. NGESO's Licence will need to be amended through amendments to Special Condition 4L.

4. Next steps

4.1. Following this Statutory Consultation, we will consider all responses and if appropriate, publish a decision on the proposals to amend NGESOs licence as set out in this consultation document. The Appendix includes further relevant documentation:

- Appendix 1: Notice of Statutory Consultation to include an additional Uncertainty Mechanism in March 2021
- Appendix 2: Draft copy of Special Licence Condition 7D with proposed modifications to include an additional Uncertainty Mechanism in March 2021.
- Appendix 3: Notice of Statutory Consultation to remove the DSR participation incentive
- Appendix 4: Draft copy of Special Licence Condition 4L with proposed modifications removing reference to the DSR participation incentive.

4.2. Ofgem are stating our intention for an additional Uncertainty Mechanism and removal of the DSR incentive for the 2020/21 financial year through this Statutory Consultation. In doing so, we are providing NGESO with visibility that suitable arrangements will be in place.

4.3. We will continue to monitor delivery and costs of the replacement IT system as it progresses. We will await NGESOs relevant adjustment proposals for additional costs in March 2021, carry out our assessment and decide on additional allowances by July 2021. We will also continue to monitor the DSR market and participation in the CM.

4.4. We will continue to evolve the regulatory regime for the NGESO in undertaking the EMR DB role. We indicated in our April 2019 Five Year review concluding report that we would look to remove the EMR DB data sharing ring fence from the rest of the NGESO and in conjunction seek to combine the funding and incentive frameworks. We will consult in 2020 on our proposals and seek to implement these arrangements by April 2021 in time for the commencement of NGESOs RIIO-2 framework.

4.5. In our Decision document, we will set out our final position and the final licence changes that will be applied. Following publication, if we decide to proceed with the licence modifications, a statutory stand-still period will apply and they will take effect 56 days after the modification direction is made. We recognise that any licence change will come into effect during the 2020/21 financial year. As the changes relate to an ex-post assessment of the DBs performance across the year, the calculation for NGESO EMR incentives will consider the entire financial year.

4.6. This consultation closes on 17th April 2020. Any comments, representation or objections to the proposed modification should be made in writing on or before this date. If you have any queries regarding the information contained within this letter, or for queries in relation to special conditions 7D and 4L, please contact Tom Kenyon-Brown at tom.kenyon-brown@ofgem.gov.uk.

Appendix 1- Statutory Consultation Notice - Uncertainty Mechanism

To: National Grid Electricity System Operator Limited

Electricity Act 1989 Section 11A(2)

Notice of statutory consultation on a proposal to modify special condition 7D of the electricity transmission licence held by National Grid Electricity System Operator Limited plc

1. The Gas and Electricity Markets Authority ('the Authority')[14] proposes to modify special condition 7D[15] (Arrangements for The Recovery of SO Uncertain Costs) ('the Condition') of the electricity transmission licence held by National Grid Electricity System Operator Limited (NGESO) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 by amending the Condition in the manner set out in the following Appendix to this Notice.

2. The proposed modifications introduce an additional application window relating to uncertain costs. We are proposing these modifications to ensure mechanisms in relation to the recovery of uncertain costs are in place for NGESO in its role as the Electricity Market Reform (EMR) Delivery Body from May 2019 to 31 March 2021.

3. The effect of the proposed modifications is to allow NGESO or the Authority to propose an adjustment to NGESO's allowed revenue in March 2021 in relation to EMR uncertain costs that cannot accurately be determined at this time. The Further detail on the justification for, and the effect of, the proposed modification is set out in the document attached to this notice.

4. 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, 10 South Colonnade, Canary Wharf, London, E14 4PU (020 7901 7000).

5. Any representations with respect to the proposed licence modifications must be made on or before 17 April 2020 to: Tom Kenyon-Brown, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to tom.kenyon-brown@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.

Chris Thackeray
Head of GB Wholesale Markets

Duly authorised on behalf of the Gas and Electricity Markets Authority
11th March 2020

[14] The terms "the Authority", "we" and "us" are used interchangeably in this document.
[15] Specifically Special Licence Condition clauses 7D. 6, 10 and 23

Appendix 2- 7D Licence change (Uncertainty Mechanism)

Special Condition 7D. Arrangements for the recovery of SO uncertain costs

Introduction

7D.1 The purpose of this condition is as follows:

(a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of Allowed Expenditure ("relevant adjustments") in relation to the categories set out in paragraph 7D.3 of this condition (each " uncertain cost category"); and

(a) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7D.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term $SOMOD_t$ as calculated for Relevant Year t for the purposes of Part B of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment to the licensee's Maximum SO Internal Revenue in a manner that takes account of Allowed Expenditure levels in relation to the uncertain cost categories specified in paragraph 7D.3 of this condition, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapters 6 and 7 of the ET1 Price Control Financial Handbook.

7D.3 The uncertain cost categories referred to in paragraph 7D.1 of this condition are:

(a) Enhanced Security Costs; and

(b) Electricity Market Reform Enduring Solution.

7D.4 This condition should be read and construed in conjunction with Special Condition 5A (Governance of ET1 Price Control Financial Instruments) and Special Condition 5B.

Part A: Proposal and determination of relevant adjustments

7D.5 This Part provides for:

(a) the proposal of relevant adjustments by the licensee or by the Authority;

(b) the determination of relevant adjustments by the Authority; and

(c) the deeming of relevant adjustments in certain circumstances.

Proposal of relevant adjustments

7D.6 Subject to paragraph 7D.9 and 7D.10 of this condition, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to Allowed Expenditure:

(a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's SO Opening Base Revenue Allowance was derived;

(b) takes account of any relevant adjustments previously determined under this condition;

(c) except where the proposed change is in relation to paragraph 7D.10(a) or 7D.10(c) of this condition, in aggregate constitutes a material amount within the meaning of paragraph 7D.7 of this condition;

(d) relates to costs incurred or expected to be incurred after 1 April 2013; and

(e) constitutes an adjustment to Allowed Expenditure which cannot be made under the provisions of any other Special Condition of this licence.

7D.7 A material amount is an amount of change to Allowed Expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2 of this condition.

7D.8 A proposal made under paragraph 7D.6 of this condition must include statements setting out:

(a) the uncertain cost category to which the proposal relates;

(b) the changes to the licensee's Allowed Expenditure levels that are proposed and the Relevant Years to which those changes relate; and

(c) the basis of calculation for the changes to the licensee's Allowed Expenditure levels referred to in sub-paragraph (b) of this paragraph.

Application windows for relevant adjustment proposals

7D.9 In relation to relevant adjustment proposals that are not proposals on Electricity Market Reform Enduring Solution, the licensee and the Authority may only propose relevant adjustments during the following application windows:

(a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and

(b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.

7D.10 In relation to relevant adjustment proposals on Electricity Market Reform Enduring Solution, the licensee or the Authority may only propose relevant adjustments during the following application windows:

(a) the first application window which opens on 1 August 2014 and closes on 12 January 2015; and

(b) the second application window which opens on 1 May 2019 and closes on 31 May 2019. The only relevant adjustments that may be proposed in this window are those in relation to implementing major scope changes to the Electricity Market Reform Enduring Solution.

(c) the third application window which opens on 1 March 2021 and closes on 31 March 2021.

7D.11 Relevant adjustments relating to any uncertain cost category may be proposed during any applicable application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 7D.6 to 7D.8 of this condition, to the extent that those paragraphs apply.

Authority's power to determine relevant adjustments

7D.12 Where a proposal has been duly made under paragraph 7D.6 of this condition, the Authority may determine any relevant adjustments that are to be made to the licensee's Allowed Expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate:

(a) in the case of a proposal on Electricity Market Reform Enduring Solution, made during the first application window under paragraph 7D.10(a) of this condition, by 31 October 2015 (or as soon as reasonably practicable thereafter); and

(b) in the case of any other proposal, within four months after the close of the relevant application window.

7D.13 In determining any relevant adjustment under paragraph 7D.12 of this condition, the Authority will:

(a) consult with the licensee and other interested parties;

(b) have particular regard to the purposes of this condition; and

(c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this license.

7D.14 A determination under paragraph 7D.12 of this condition may confirm, reject, or vary the proposed relevant adjustment.

7D.15 Without limiting the general effect of paragraph 7D.14 of this condition, a determination by the Authority of a relevant adjustment may specify changes to Allowed Expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.

7D.16 The Authority will notify the licensee of any determination made under paragraph 7D.12 of this condition within 14 days of making the determination concerned.

7D.17 Except in relation to a proposal made under paragraph 7D.10(a) , if the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 7D.6 of this condition within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to Allowed Expenditure levels for the licensee for Relevant Years specified in the proposal, will be deemed to have been made.

Provisional allowance for Electricity Market Reform Enduring Solution for 2014/15 and 2015/16

7D.18 Without limiting the general effect of paragraphs 7D.14 and 7D.15 of this condition, relevant adjustments to the licensee's levels of Allowed Expenditure in relation to Electricity Market Reform Enduring Solution for the Relevant Years 2014/15 and 2015/16 are set out in Appendix 3 of this Condition.

Part B: Determination of revisions to PCFM Variable Values

7D.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

(a) Enhanced Security Costs (SOIAEEPS values); and

(b) Electricity Market Reform Enduring Solution (SOEMRES values).

7D.20 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

7D.21 Determinations under paragraph 7D.20 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.

7D.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term $SOMOD_t$ for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term $SOMOD_t$ will be retrospectively affected.

Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs

7D.23 Subject to paragraph 7D.27 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:

(a) in the case of SOEMRES values:

(i) 30 November 2014 (or as soon as is reasonably practicable thereafter), in respect of the relevant adjustment set out in paragraph 7D.18 of this condition;

(ii) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(a) of this condition; and

(iii) 30 November 2019 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(b) of this condition.

(iv) 30 November 2021 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(c) of this condition.

(b) in the case of any of any other PCFM Variable Values:

(i) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window set out in paragraph 7D.9(a) of this condition; and

(ii) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the second application window set out in paragraph 7D.9(b) of this condition.

7D.24 Before issuing any directions under paragraph 7D.23 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7D.25 The notice referred to in paragraph 7D.24 of this condition will:

(a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and

(b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised PCFM Variable Values.

7D.26 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 7D.25 of this condition, and give reasons for its decisions in relation to them.

7D.27 If, for any reason, the Authority does not make a direction required under paragraph 7D.23 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraphs 5B.11 to 5B.13 of Special Condition 5B and, in any case, before directing a value for $SOMOD_t$ under paragraph 5B.12 of that condition.

Part D: Interpretation

7D.28 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further clarification set out in the relevant Regulatory Instructions and Guidance issued by the Authority under Special Condition B15 (Regulatory Instructions and Guidance).

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 7D.7 of this condition)

Licensee	Totex Incentive Strength Rate (%)
National Grid Electricity System Operator Limited	46.89

APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 7D.7 of this condition)

Licensee	£m
National Grid Electricity System Operator Limited	120.517

APPENDIX 3: PROVISIONAL ALLOWANCE FOR ELECTRICITY MARKET REFORM ENDURING SOLUTION FOR 2014/15 AND 2015/16 (see paragraph 7D.18 of this condition)

Licensee	£m (2009/10 prices)	
	2014/15 (8 months)	**2015/16** (12 months)
National Grid Electricity System Operator Limited	1.72	2.57

Appendix 3- Statutory Consultation Notice - Removal of the DSR Incentive

To: National Grid Electricity System Operator Limited

Electricity Act 1989
Section 11A(2)

Notice of statutory consultation on a proposal to modify special condition 4L of the electricity transmission licence held by National Grid Electricity System Operator Limited

1. The Gas and Electricity Markets Authority ('the Authority')[16] proposes to modify special condition 4L[17] (EMR DSR Incentive) ('the Conditions') of the electricity transmission licence held by National Grid Electricity System Operator Limited (NGESO) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 by amending the Conditions in the manner set out in the following Appendix to this Notice.

2. We are proposing this modification to ensure suitable performance incentives are in place for NGESO in its role as the Electricity Market Reform (EMR) Delivery Body from 1 April 2016 to 31 March 2021. In particular, we propose that the EMR DSR Incentive be removed from special condition 4L of NGESO's electricity transmission licence:

    a. 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 Auction.

3. The effect of the proposed modification is to adjust NGESO's maximum allowed revenue downwards. Further detail on the effect of the proposed modification are set out in the consultation document entitled 'Statutory Consultation for adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs.

4. A copy of the proposed modification 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 modification must be made on or before 17th April 2020 to: Tom Kenyon-Brown, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to Tom.Kenyon-Brown@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 modification, it will take effect not less than 56 days after the decision is published.

Chris Thackeray
Head of GB Wholesale Markets

Duly authorised on behalf of the Gas and Electricity Markets Authority
11th March 2020

[16] The terms "the Authority", "we" and "us" are used interchangeably in this document.
[17] Specifically Special Licence Condition clauses 4L.2, 4, 14, 15, 16 and 26.

Appendix 4- 4L Licence change (DSR Incentive)

Special Condition 4L. Financial incentives on EMR

Introduction

4L.1 The purpose of this condition is to establish arrangements to determine an adjustment to the licensee's Maximum SO Internal Revenue (either positive or negative) in Relevant Year t by means of the term $SOEMRINC_t$ for the purposes of paragraphs 4A.3 and 4A.4 of Special Condition 4A (Restriction of System Operator Internal Revenue) as a result of the financial incentives placed upon the licensee relating to the EMR Functions.

4L.2 The financial incentives placed upon the licensee are as follows:

(a) 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");

(b) 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 (the "Peak National Demand Forecasting Accuracy Incentive");

~~(c) 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 Auction (the "Demand Side Response Incentive"); and~~

(c) 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") which is described in Part F of this condition.

4L.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").

Part A: Calculation of $SOEMRINC_t$

4L.4 For the purposes of paragraphs 4A.3 and 4A.4 in Special Condition 4A the value of the term $SOEMRINC_t$ is derived in accordance with the following formula:

$$SOEMRINC_t = DRI_t + DFA_t \cancel{+ DSR_t} + CSSS_t$$

where:

$SOEMRINC_t$ means the adjustment to the licensee's Maximum SO Internal Revenue (either positive or negative) in Relevant Year t as a result of the financial incentives placed upon the licensee in

	relation to the EMR Functions, collectively known as the System Operator Electricity Market Reform Incentives.
DRI_t	means the Dispute Resolution Incentive as described in paragraph 4L.2(a) above and calculated pursuant to the provisions in Part B of this condition.
DFA_t	means the Peak National Demand Forecasting Accuracy Incentive as described in paragraph 4L.2(b) above and calculated pursuant to the provisions in Part C of this condition.
~~DSR_t~~	~~means the Demand Side Response Incentive as described in paragraph 4L.2(c) above and calculated pursuant to the provisions in Part D of this condition.~~
$CSSS_t$	means the Customer and Stakeholder Satisfaction Survey Incentive as described in paragraph 4L.2(d) above and calculated pursuant to the provisions in Part E of this condition.

Part B: Calculation of DRI_t

4L.5 The DRI_t term has the value derived in accordance with the following formula:

$$DRI_t = CfDQD_t + CMQD_t + CMECAQDt + CANMR_t$$

where:

$CfDQD_t$	means the revenue adjustment for the licensee related to CfD Qualification Decisions . It is equal to: for Relevant Years 2016/17 and 2017/18 the amount shown in column 1 of the table in Schedule 1 of this condition; and for Relevant Years from 2018/19 onwards the amount shown in column 1 of the table in Schedule 2 of this condition, against the number of decisions made in relation to CfD Qualification Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation 46 of the CfD Regulations.
$CMQD_t$	means the revenue adjustment for the licensee related to CM Qualification Decisions. It is equal to: for Relevant Years 2016/17 and 2017/18 the amount shown in column 2 of the table in Schedule 1 of this condition; and for Relevant Years from 2018/19 onwards the amount shown in column 2 of the table in Schedule 2 of this condition,

against the number of decisions made in relation to CM Qualification Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation 71 of the CM Regulations.

$CMECAQD_t$ means the revenue adjustment for the licensee related to CM Early Capacity Auction Qualification Decisions.

It is equal to, for Relevant Year 2018/19, the amount shown in column 3 of the table in Schedule 2 of this condition, against the number of decisions made in relation to CM Early Capacity Auction Qualification Decisions in Relevant Year 2016/17, which have been overturned by the Authority under regulation 71 of the CM Regulations.

Where a CM Early Capacity Auction Qualification Decision is overturned by the Authority and that decision is materially the same as a CM Qualification Decision that has also been overturned by the Authority for the same CMU, the CM Early Capacity Auction Qualification Decision overturned will not count for the purposes of this incentive.

$CANMR_t$ means the revenue adjustment for the licensee related to Capacity Agreement Notice Decisions and Capacity Market Register Decisions. It is equal to:

for Relevant Years 2016/17 and 2017/18 the amount shown in column 3 of the table in Schedule 1 of this condition against the number of decisions made in relation to CM Capacity Agreement Notice (“CAN”) Decisions and CM Capacity Market Register (“CMR”) Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation 71 of the CM Regulations.

For all other years, $CANMR_t$ shall take the value zero.

4L.6 If no CfD qualification process took place either in or in respect of Relevant Year t-2, $CfDQD_t$ shall equal zero and if no CM pre-qualification process took place either in or in respect of Relevant Year t-2, $CMQD_t$ shall equal zero.

4L.7 The Authority shall, after consultation with the licensee, and having regard to the rest of Part B of this condition, direct the value of DRI_t for Relevant Year t.

4L.8 The direction made pursuant paragraph 4L.7 shall be made by the Authority on or before 30 November in the year preceding Relevant Year t.

Part C: Calculation of DFA_t

4L.9 The DFA_t term is derived in accordance with the following formula:

$DFA_t = DFAA_{t-2} + DFAB_{t-2} + DFAC_{t-2}$

where:

$$DFAA_{t-2} = £1{,}000{,}000 \times \frac{4\% - \min(DFEA_{t-2}, 8\%)}{4\%}$$

$$DFAB_{t-2} = £2{,}000{,}000 \times \frac{2\% - \min(DFEB_{t-2}, 4\%)}{2\%}$$

$$DFAC_{t-2} = £2{,}000{,}000 \times \frac{2\% - \min(DFEC_{t-2}, 4\%)}{2\%}$$

$DFAA_{t-2}$	means the Peak National Demand Forecasting Accuracy Incentive for Relevant year t-2 arising from the Peak National Demand Forecast made in year t-6.
$DFAB_{t-2}$	means the Peak National Demand Forecasting Accuracy Incentive for year t-2 arising from the Peak National Demand Forecast made in year t-3.
$DFAC_{t-2}$	means the Peak National Demand Forecasting Accuracy Incentive for year 2017/18 arising from the Peak National Demand Forecast made in year 2016/17.
$DFEA_{t-2}$	means the difference between Peak National Demand observed in year t-2 and the Peak National Demand Forecast for year t-2 made in year t-6 expressed as an absolute percentage.
$DFEB_{t-2}$	means the difference between Peak National Demand observed in year t-2 and the Peak National Demand Forecast for year t-2 made in year t-3 expressed as an absolute percentage.
$DFEC_{t-2}$	means the difference between Peak National Demand observed in Relavant Year 2017/18 and the Peak National Demand Forecast for year 2017/18 made in year 2016/17 expressed as an absolute percentage.

4L.10 If either of the Peak National Demand Forecasts in DFEA, DFEB or DFEC are not available, or such forecast has been prepared before this condition came into force (1 April 2016), then DFAA, DFAB or DFAC as applicable shall take the value zero.

4L.11 The Weather Correction Methodology used for calculating Peak National Demand will be the Weather Correction Methodology in place at the time each Peak National Demand Forecast was produced.

4L.12 The Weather Correction Methodology must be published by the licensee at the same time as the Electricity Capacity Report that uses that Peak National Demand Forecast.

4L.13 The licensee shall write annually to the Authority, at the same time it publishes the Electricity Capacity Report, setting out the steps it has taken to improve its Peak System Demand Forecast and publish this letter on its website.

~~Part D: Calculation of DSR_t~~

~~4L.14 The DSR_t term is derived in accordance with the following formula except in respect of any Relevant Year up to and including the Relevant Year when the first Year Ahead Capacity Auction takes place, where the value of DSR_t is nil:~~

~~If $DSRC_t \geq DSRT_t + 0.2$, then~~

$$\cancel{DSR_t = £1{,}000{,}000 \times \frac{\min(DSRC_t, DSRT_t + 2) - DSRT_t - 0.2}{1.8}}$$

~~If $DSRT_t + 0.2 > DSRC_t \geq DSRT_t - 0.2$, then~~

~~$DSR_t = £0$~~

~~If $DSRC_t < DSRT_t - 0.2$, then~~

$$\cancel{DSR_t = £1{,}000{,}000 \times \frac{\max(DSRC_t, DSRT_t - 2) - DSRT_t + 0.2}{1.8}}$$

~~where:~~

~~DSR_t~~	~~means the revenue adjustment for the licensee related to additional volume of Demand Side Response Capacity that pre-qualifies for the Year Ahead Capacity Auction for delivering electricity capacity one year ahead in Relevant Year t-2.~~
~~$DSRC_t$~~	~~means the volume of Demand Side Response Capacity (expressed in gigawatts to three decimal places) that pre-qualifies for the Year Ahead Capacity Auction for delivering electricity capacity one year ahead in Relevant Year t-2.~~
~~$DSRT_t$~~	~~means the target for the volume of Demand Side Response Capacity to be delivered.~~ ~~For the first Relevant Year following the first Year Ahead Capacity Auction $DSRT_t$ is equal to the volume in gigawatts (expressed to three decimal places) of pre-qualified Demand Side Response Capacity in the first Year Ahead Capacity Auction.~~ ~~For the second and subsequent Relevant Years following the first Year Ahead Capacity Auction, $DSRT_t$ is calculated as the average of the volume in gigawatts (expressed to three decimal~~

~~places) of pre-qualified Demand Side Response Capacity in the two previous Year Ahead Capacity Auctions.~~

~~4L.15 The licensee shall, as soon as practicable, but in any event no later than three months after the corresponding Year Ahead Capacity Auction pre-qualification round, submit to the Authority a report setting out the steps that it has taken in each Year Ahead Capacity Auction pre-qualification round to encourage and facilitate the participation of Demand Side Response, including how it has ensured that Demand Side Response providers understand the implications of capacity market participation.~~

~~4L.16 The licensee shall publish the report described in paragraph 4L.15 on its website.~~

Part D~~E~~: Calculation of CSSS$_t$

4L.17 The CSSS$_t$ term is derived in accordance with the following formula:

$$CSSS_t = CSSSCfD_t + CSSSCM_t$$

where:

$CSSSCfD_t$	means the adjustment to revenues resulting from the incentive on Contracts for Difference ("CfD") Customer and Stakeholder Satisfaction Survey Scores in Relevant Year t-2 as calculated below.
$CSSSCM_t$	means the adjustment to revenues resulting from the incentive on Capacity Market ("CM") Customer and Stakeholder Satisfaction Survey Scores in Relevant Year t-2 as calculated below.

If $CfDS_{t-2} \geq CfDT$, then:

$$CSSSCfD_t = £300{,}000 \times \frac{\min(CfDS_{t-2}, CfDC) - CfDT}{CfDC - CfDT}$$

If $CfDS_{t-2} < CfDT$, then:

$$CSSSCfD_t = -£300{,}000 \times \frac{CfDT - \max(CfDS_{t-2}, CfDF)}{CfDT - CfDF}$$

If $CMS_{t-2} \geq CMT$, then:

$$CSSSCM_t = £300{,}000 \times \frac{\min(CMS_{t-2}, CMC) - CMT}{CMC - CMT}$$

If $CMS_{t-2} < CMT$, then:

$$CSSSCM_t = -£300{,}000 \times \frac{CMT - \max(CMS_{t-2}, CMF)}{CMT - CMF}$$

where:

$CfDS_{t-2}$	means the arithmetic average of all CfD Customer and Stakeholder Satisfaction Survey Scores.
CfDT	means the target for all CfD Customer and Stakeholder Satisfaction Survey Scores. CfDT is equal to the higher of: (i) $CfDS_k$ where k equals 2015/16 or if no CfD allocation round commenced in 2015/16, the first Relevant Year in which a CfD allocation round takes place, rounded to one decimal place, and (ii) 5.0..
CfDC	means the score cap applying to all CfD Customer and Stakeholder Satisfaction Survey Scores and is equal to CfDT + $CfDSD_k$, rounded to one decimal place, but in any event, must not be lower than CfDT + 1.
CfDF	means the score floor applying to all CfD Customer and Stakeholder Satisfaction Survey Scores and is equal to CfDT – $CfDSD_k$, rounded to one decimal place, but in any event, must not be higher than CfDT – 1.
$CfDSD_k$	means the standard deviation of all CfD Customer and Stakeholder Satisfaction Survey Scores in year k where k equals 2015/16 or if no CfD allocation round takes place in 2015/16, the first Relevant Year in which a CfD allocation round takes place. The standard deviation is calculated as the square root of the sum of the squared variances from the population average.
CMS_{t-2}	means the arithmetic average of all CM Customer and Stakeholder Satisfaction Survey Scores.
CMT	means the target for all CM Customer and Stakeholder Satisfaction Survey Scores. CMT is equal to the higher of: (i) CMS_k where k equals 2015/16 or if no CM auction commenced in 2015/16, the first Relevant Year in which a CM auction takes place, rounded to one decimal place, and (ii) 5.0.
CMC	means the score cap applying to all CM Customer and Stakeholder Satisfaction Survey Scores and is equal to CMT + $CMSD_k$, rounded to one decimal place, but in any event, must not be lower than CMT + 1.
CMF	means the score floor applying to all CM Customer and Stakeholder Satisfaction Survey Scores and is equal to CMT – $CMSD_k$, rounded to one decimal place, but in any event, must not be higher than CMT – 1.
$CMSD_k$	means the standard deviation of all CM Customer and Stakeholder Satisfaction Survey Scores in year k where k

equals 2015/16 or if no CM auction takes place in 2015/16, the first Relevant Year in which a CM auction takes place. The standard deviation is calculated as the square root of the sum of the squared variances from the population average.

4L.18 If no results of a CfD allocation round were published either in or in respect of Relevant Year t-2, then $CSSSCfD_t$ shall take the value zero, and the licensee is not obliged to conduct the CfD Customer and Stakeholder Satisfaction Survey.

4L.19 In case of multiple CfD allocation rounds in Relevant Year t-2, the licensee is only obliged to conduct one CfD Customer and Stakeholder Satisfaction Survey.

4L.20 If no results of a capacity market auction were published either in or in respect of Relevant Year t-2, then $CSSSCM_t$ shall take the value zero, and the licensee is not obliged to conduct the CM Customer and Stakeholder Satisfaction Survey.

4L.21 In case of multiple capacity market auctions in Relevant Year t-2, the licensee is only obliged to conduct one CM Customer and Stakeholder Satisfaction Survey.

Part E~~F~~: Customer and Stakeholder Satisfaction Surveys

4L.22 In each CM and CfD Customer and Stakeholder Satisfaction Survey, the licensee may include such questions as it deems appropriate, subject to the inclusion of one question that asks for overall satisfaction with the licensee's performance of its CfD or CM activity respectively to be rated on a scale of 1 to 10, when 1 is low and 10 is high.

4L.23 The licensee must report on the outcomes of each overall customer and stakeholder satisfaction question in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

4L.24 The licensee must publish the outcomes from these surveys on its website within three months of these surveys taking place.

4L.25 The Authority will review the licensee's approach to conducting the surveys and reporting the outcome of the satisfaction questions as required by paragraph 4L.22 of this condition and provide feedback to the licensee.

Part F~~G~~: Definitions

4L.26 The Definitions in this condition will have the following meaning:

Annual Average Cold Spell Conditions	as defined in the Grid Code;
Capacity Agreement Notice	as defined in regulation 2 of the CM Regulations;
Capacity Market Register	as defined in regulation 2 of the CM Regulations;

CfD Qualification Decisions	means decisions made by the licensee under regulation 20(4) of the CfD Regulations to uphold Non-qualification Determinations;
CfD Customer and Stakeholder Satisfaction Survey Score	means the score from 1 to 10 that a survey participant assigns to the question referred to in paragraph 4L.22 of this condition in Relevant Year t-2;
CM Capacity Agreement Notice ("CAN") Decisions	means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold the decision not to amend the Capacity Agreement Notice;
CM Capacity Market Register ("CMR") Decisions	means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold the decision not to rectify the Capacity Market Register;
CM Customer and Stakeholder Satisfaction Survey Score	means the score from 1 to 10 that a survey participant assigns to the question referred to in paragraph 4L.22 of this condition in Relevant Year t-2;
CM Qualification Decisions	means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions;
CM Early Capacity Auction Qualification Decisions	means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions in relation to the Early Capacity Auction in Relevant Year 2016/17;
Demand Side Response	means a commitment by a person to provide an amount of electricity capacity by either reducing the import of electricity or exporting electricity generated (as more fully defined in the CM Regulations);
~~**Demand Side Response Capacity**~~	~~means amount of electricity capacity made available by Demand Side Response providers;~~
Electricity Capacity Report	as defined in regulation 7 of the CM Regulations;

EMR Functions	has the same meaning as the term “EMR functions” in Chapter 5 of Part 2 of the Energy Act 2013;
National Demand	as defined in the Grid Code;
Non-qualification Determinations	as defined in regulation 19(2)(b) of the CfD Regulations;
Peak National Demand	means the outturn peak National Demand adjusted in accordance with the Weather Correction Methodology;
Peak National Demand Forecast	means the one-year or four-year ahead forecast of Peak National Demand that is associated with the licensee’s Peak System Demand Forecast and estimate of capacity to meet that Peak System Demand Forecast in the Electricity Capacity Report ;
Peak System Demand Forecast	means the forecast in the Electricity Capacity Report of peak demand across the whole of the electricity system met by all forms of generation; which includes forecasts of Peak National Demand, peak demand met by distributed generation and peak demand reduction by Demand Side Response.
Prequalification Decisions	as defined in regulation 2 of the CM Regulations;
Reviewable Decisions	means CfD Qualification Decisions, CM Qualification Decisions, CM Capacity Agreement Notice Decisions and CM Capacity Market Register Decisions;
Early Capacity Auction	means the additional capacity auction held in Relevant Year 2016/17 to provide capacity in Relevant Year 2017/18;
Weather Correction Methodology	means the methodology used by the licensee at the time a Peak National Demand Forecast was produced to correct the associated outturn Peak National Demand to Annual Average Cold Spell Conditions;

Year Ahead Capacity Auction	means a capacity auction held not less than one year and not more than two years before the start of the delivery year for which the capacity auction is held (as more fully defined in the CM Regulations).

Schedule 1

Components of the term DRI_t in 2009/10 prices for qualification decisions taken in respect of CfD allocation and/or CM auctions conducted in 2014/15 and 2015/16

	(1)	(2)	(3)
Number of overturned decisions	**$CfDQD_t$ £000s**	**$CMQD_t$ £000s**	**$CANMR_t$ £000s**
No overturned decisions	50	50	25
1 overturned decision	0	0	0
2 overturned decisions	-10	-10	-5
3 overturned decisions	-20	-20	-10
4 overturned decisions	-30	-30	-15
5 overturned decisions	-40	-40	-20
6 or more overturned decisions	-50	-50	-25

Schedule 2

Components of the term DRI_t in 2009/10 prices for qualification decisions taken in respect of CfD allocation and/or CM auctions conducted from 2016/17 onwards

	(1)	(2)	(3)
Number of overturned decisions	**$CfDQD_t$ £000s**	**$CMQD_t$ £000s**	**$CMECAQD_t$ £000s**
No overturned decisions	100	100	50
1 overturned decision	0	0	0
2 overturned decisions	-35	-35	-18
3 overturned decisions	-65	-65	-35
4 or more overturned decisions	-100	-100	-50

Appendix 5- Abbreviation definitions

In order of appearance:

NGESO: National Grid Electricity System Operator, the licensee

EMR: Electricity Market Reform

DB: Delivery Body

CM: Capacity Market

CfDs: Contract for Difference

UM: Uncertainty Mechanism

DSR: Demand Side Response

BEIS: Department for Business Energy & Industrial Strategy

IT: Information Technology

RIIO: Revenue, Incentives, Outputs

CMU: Capacity Market Unit

DSF: Demand Side Flexibility

STOR: Short Term Operating Reserve

FR: Fast Reserve

FFR: Fast Frequency Response

Appendix 6 – Privacy notice on consultations

Personal data
The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer
The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

5. Your rights
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

9. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".