

**To: National Grid Electricity System Operator Limited**

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

**Modification of Special Conditions 7D and 4L of the electricity transmission licence  
held by National Grid Electricity System Operator Limited**

1. National Grid Electricity System Operator Limited (NGESO) is the holder of an electricity transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> gave notice on 11 March 2020 ('the Notice') that we propose to modify Special Conditions 7D: Arrangements for the recovery of SO uncertain costs<sup>2</sup> and 4L: Financial incentives on EMR<sup>3</sup> of the Licence. We stated that any representations to the modification proposal must be made on or before 17 April 2020.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received 4 responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out at the accompanying letter.
5. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Schedule 1. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Schedule 1 are to maintain the integrity of the numbering of the retained paragraphs within the condition.
6. We are making these licence changes to:

Special Condition 7D

Introduce an additional application window for a relevant adjustment proposal relating to the funding of uncertain costs. The modifications will 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.

Special Condition 4L

Remove the Demand Side Response (DSR) incentive, as it is no longer fit for purpose, to ensure suitable performance incentives are in place for NGESO in its role as the EMR Delivery Body for 1 April 2020 to 31 March 2021. For the avoidance of doubt, the remaining three incentives in Special Condition 4L remain in place as the EMR Delivery Body incentives for 1 April 2020 to 31 March 2021.

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

<sup>2</sup> Specifically Special Licence Condition clauses 7D. 6, 10 and 23

<sup>3</sup> Specifically Special Licence Condition clauses 4L.2, 4, 14, 15, 16 and 26.

7. The effect of the modifications will be to:

Special Condition 7D

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.

Special Condition 4L

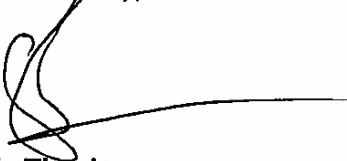
Adjust NGESO's maximum allowed revenue downwards.

8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules<sup>4</sup> requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. NGESO is the relevant licence holder in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section section 11A(1)(a) of the Act, we hereby modify Special Conditions 7D and 4L of the electricity transmission licence of National Grid Electricity System Operator Limited in the manner specified in attached Schedule 1. This decision will take effect from 01 August 2020.

This document is notice of the reasons for the decision to modify the electricity transmission licence held by National Grid Electricity System Operator Limited as required by section 49A(2) of the Act.

Yours faithfully,



**Chris Thackeray**  
**Head of GB Wholesale Markets**

**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**05 June 2020**

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<sup>4</sup> CMA70 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655601/energy-licence-modification-appeals-rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf)

## **Schedule 1: Licence Drafting**

### **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<sub>t</sub> 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



## 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) Not Used 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~~
  - (e) (d) 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:

$$SOEMRINC_t = DRI_t + DFA_t + \del{DSR}_t + CSSS_t$$

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 <sub>t</sub>	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 <sub>t</sub>	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.
<del>DSR<sub>t</sub></del>	<del>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.</del>
CSSS <sub>t</sub>	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<sub>t</sub>

4L.5 The DRI<sub>t</sub> term has the value derived in accordance with the following formula:

$$DRI_t = CfDQD_t + CMQD_t + CMECAQD_t + CANMR_t$$

where:

CfDQD<sub>t</sub> 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<sub>t</sub> 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:

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

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

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

$DFAA_{t-2}$  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 Relevant 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: Not Used** Calculation of DSR<sub>t</sub>

4L.14 ~~The DSR<sub>t</sub> 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<sub>t</sub> is nil:~~

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

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

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

~~$$DSR_t = \pounds 0$$~~

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

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

where:

~~DSR<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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 EDE: Calculation of CSSS<sub>t</sub>**

4L.17 The CSSS<sub>t</sub> term is derived in accordance with the following formula:

$$CSSS_t = CSSSCfD_t + CSSSCM_t$$

where:

CSSSCfD<sub>t</sub> 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<sub>t</sub> 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:

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

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: <ul style="list-style-type: none"> <li>(i) <math>CMS_k</math> where <math>k</math> 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</li> <li>(ii) 5.0.</li> </ul>
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 FEF: 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 GFG: Definitions**

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

<b>Annual Average Cold Spell Conditions</b>	as defined in the Grid Code;
<b>Capacity Agreement Notice</b>	as defined in regulation 2 of the CM Regulations;
<b>Capacity Market Register</b>	as defined in regulation 2 of the CM Regulations;
<b>CfD Qualification Decisions</b>	means decisions made by the licensee under regulation 20(4) of the CfD Regulations to uphold Non-qualification Determinations;
<b>CfD Customer and Stakeholder Satisfaction Survey Score</b>	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;
<b>CM Capacity Agreement Notice (“CAN”) Decisions</b>	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;
<b>CM Capacity Market Register (“CMR”) Decisions</b>	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;
<b>CM Customer and Stakeholder</b>	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

<b>Satisfaction Survey Score</b>	Year t-2;
<b>CM Qualification Decisions</b>	means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions;
<b>CM Early Capacity Auction Qualification Decisions</b>	means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions in relation to the Early Capacity <u>Auction</u> in Relevant Year 2016/17;
<b>Demand Side Response</b>	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);
<b>Demand Side Response Capacity</b>	<del>means amount of electricity capacity made available by Demand Side Response providers;</del>
<b>Electricity Capacity Report</b>	as defined in regulation 7 of the CM Regulations;
<b>EMR Functions</b>	has the same meaning as the term “EMR functions” in Chapter 5 of Part 2 of the Energy Act 2013;
<b>National Demand</b>	as defined in the Grid Code;
<b>Non-qualification Determinations</b>	as defined in regulation 19(2)(b) of the CfD Regulations;
<b>Peak National Demand</b>	means the outturn peak National Demand adjusted in accordance with the Weather Correction Methodology;
<b>Peak National Demand Forecast</b>	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 ;

<b>Peak System Demand Forecast</b>	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.
<b>Prequalification Decisions</b>	as defined in regulation 2 of the CM Regulations;
<b>Reviewable Decisions</b>	means CfD Qualification Decisions, CM Qualification Decisions, CM Capacity Agreement Notice Decisions and CM Capacity Market Register Decisions;
<b>Early Capacity Auction</b>	means the additional capacity auction held in Relevant Year 2016/17 to provide capacity in Relevant Year 2017/18;
<b>Weather Correction Methodology</b>	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;
<b>Year Ahead Capacity Auction</b>	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)
<b>Number of overturned decisions</b>	<b>CfDQD<sub>t</sub></b> <b>£000s</b>	<b>CMQD<sub>t</sub></b> <b>£000s</b>	<b>CANMR<sub>t</sub></b> <b>£000s</b>
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)
<b>Number of overturned decisions</b>	<b>CfDQD<sub>t</sub></b> <b>£000s</b>	<b>CMQD<sub>t</sub></b> <b>£000s</b>	<b>CMECAQD<sub>t</sub></b> <b>£000s</b>
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