National Grid Electricity System Operator Limited

Electricity transmission licence

Special Conditions

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# Interpretation and definitions

## Interpretation and definitions

Introduction

* + 1. The purpose of this condition is to provide for the special conditions of this licence:
       1. some provisions of general interpretation; and
       2. the meaning of the defined terms, which are capitalised throughout the special conditions.

### Interpretation

* + 1. Wherever the subscript ‘t’ is used, without further numerical notation, the value to be used is the one for the Regulatory Year in question.
    2. A positive or negative numerical notation indicates that the value to be used is for a year after or before the Regulatory Year in question and the number indicates how many years after or before.
    3. In some cases, other subscripts may also be used to denote the value for a specific Regulatory Year and are noted in those Conditions.
    4. Any reference in these special conditions to:
       1. a provision thereof;
       2. a provision of the standard conditions of electricity transmission licences;
       3. a provision of the standard conditions of electricity supply licences;
       4. a provision of the standard conditions of electricity distribution licences;
       5. a provision of the standard conditions of electricity generation licences;
       6. a provision of the standard conditions of electricity interconnector licences

must, if these or the standard conditions in question come to be modified, be construed, so far as the context permits as a reference to the corresponding provision of these or the standard conditions in question as modified.

* + 1. Any reference in these special conditions to a numbered appendix is, unless otherwise stated, to the relevant numbered appendix to that special condition.
    2. Unless otherwise stated, any reference in these special conditions to the Authority giving a direction, consent, derogation, approval or designation includes:
       1. giving it to such extent, for such period of time, and subject to such conditions as the Authority thinks reasonable in all the circumstances of the case; and
       2. revoking or amending it after consulting the licensee.
    3. Unless otherwise stated, any reference in these special conditions to the Authority making a determination includes making it subject to such conditions as the Authority thinks reasonable in all the circumstances of the case.
    4. Any direction, consent, derogation, approval, designation or determination by the Authority will be given or made in writing.
    5. Where these special conditions provide for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before, as well as by action taken on or after, 1 April 2021.
    6. Any monetary values in these special conditions are in sterling in a 2018/19 price base unless otherwise indicated.

### Definitions

* + 1. In these Special Conditions the following defined terms have the meanings given in the table below.

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## Modification of Standard Conditions

* + 1. For the purposes of this licence, the Standard Conditions are to be read with the modifications set out in the following table:

**Table of Modifications**

| *Standard Condition* | *Provision* | *Modification* |
| --- | --- | --- |
| A1 (Definitions and interpretation) | Immediately after definition of “eligible generator”. | Insert—  “"EMR functions" has the same meaning as in Chapter 5 of Part 2 of the Energy Act 2013;”. |
| A1 (Definitions and interpretation) | Definition of “permitted purpose”. | At the end of subsection (c) insert—  “; and (d) the EMR functions.” |
| A1 (Definitions and interpretation) | Definition of "transmission business". | 1. After “maintenance” insert the words “or commercial management”. 2. For sub-paragraph (i) and the remainder of the definition before the definition of “transmission constraint costs” substitute— 3. “any business of the licensee or any affiliate or related undertaking in the provision of settlement services in connection with the BSC or the Pooling and Settlement Agreement; or 4. any other business of the licensee of any affiliate or related undertaking in the provision of services to or on behalf of any one or more persons; or 5. any business of National Grid Electricity Transmission plc (Company Number 2366977) and its affiliates or related undertakings that is participating in the transmission of electricity pursuant to a transmission licence held by National Grid Electricity Transmission plc”. |
| B1 (Regulatory Accounts) | Paragraph 2(a). | After the word “business” insert—  “(which, for the purposes of this condition and Standard Conditions B5 and B6 only, includes the EMR functions)”. |
| B5 (Prohibition of Cross Subsidies) | / | Between the words “business” and “shall” insert “(which, for the purposes of this condition and Standard Condition B1 and B6 only, includes the EMR functions)”. |
| B6 (Restriction on Activity and Financial Ring Fencing) | Paragraph 1. | After “transmission business” insert “(which, for the purposes of this condition and Standard Conditions B1 and B5 only, includes the EMR functions)”. |
| B7 (Availability of Resources) | Paragraph 1(b). | At end insert—  “; and  (c) to properly and efficiently carry on the EMR functions and to comply in all respects with its obligations under EMR legislation”. |
| B7 (Availability of Resources) | Paragraph (2)(a). | After the words “transmission business”, in each place, insert “and EMR functions”. |
| B7 (Availability of Resources) | Paragraph 2(b). | After the words “transmission business”, in each place, insert “and EMR functions”. |
| B7 (Availability of Resources) | Paragraph 2(c). | After the words “transmission business”, in each place, insert “and EMR functions”. |
| B7 (Availability of Resources) | Paragraph 4(a). | After the words “transmission business”, in each place, insert “and EMR functions”. |
| B7 (Availability of Resources) | Paragraph 4(b). | After the words “transmission business”, in each place, insert “and EMR functions”. |
| B7 (Availability of Resources) | Paragraph 4(c). | After the words “transmission business”, in each place, insert “and EMR functions”. |
| B8 (Undertaking from ultimate controller) | Paragraph 1. | Between the words “under” and “the” insert “EMR legislation,”. |
| B8 (Undertaking from ultimate controller) | After paragraph 3. | Insert—  “4. The licensee will not be in breach of paragraph 1 if during the period of 7 days beginning with the date on which this paragraph comes into force, or as otherwise directed by the Authority, the licensee procures an updated version of the undertaking required by paragraph 1, that includes reference to its obligations under or by virtue of EMR legislation”. |
| B22 (Requirement for sufficiently independent directors) | / | For word “two” immediately before the words “non-executive directors” substitute “three”. |
| C2 (Prohibited activities) | Paragraph 2. | Immediately before the words “shall not, on its own account” insert “that is not subject to Condition D6”. |
| C2 (Prohibited activities) | After paragraph 3. | “4. For the avoidance of doubt, paragraph 2 will not prohibit or restrict the ability of the licensee to carry out its EMR functions.” |

# General Obligations

## EMR Arrangements

Introduction

* + 1. The purpose of this condition is to set out the Weather Correction Methodology and the Customer and Stakeholder Satisfaction Surveys the licensee must undertake as part of its obligations relating to its EMR Functions.
    2. The effect of this condition is to ensure the licensee delivers its EMR Functions and that the Authority is able to deliver the EMR Delivery Body Performance Report.

### Weather Correction Methodology

* + 1. The licensee must prepare and publish the Weather Correction Methodology used for calculating Peak National Demand.
    2. The Weather Correction Methodology to be used for calculating Peak National Demand is to be the Weather Correction Methodology in place at the time each Peak National Demand Forecast was produced.
    3. 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.
    4. The licensee must:

(a) write annually to the Authority, at the time of publishing the Electricity Capacity Report, setting out the steps it has taken to improve its Peak System Demand Forecast; and

(b) publish the letter on its website.

### Customer and Stakeholder Satisfaction Surveys

* + 1. Unless otherwise agreed with the Authority, the licensee must carry out Customer and Stakeholder Satisfaction Surveys at least once in each Regulatory Year to assess Customer and Stakeholder satisfaction with its Capacity Market ‘CM’ and Contracts for Different ‘CfD’ activities.
    2. When conducting a Customer and Stakeholder Satisfaction Survey in relation to either CM or CfD, the licensee—

(a) may include such questions as it considers appropriate; but

(b) must include a 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, where 1 is low and 10 is high.

* + 1. 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).
    2. The licensee must publish the outcomes of each survey on its website during the period of three months beginning with the date on which each survey takes place.
    3. The licensee must provide the Authority with a report on each Customer and Stakeholder Satisfaction Survey. The report must include the following information:
       1. a list of each of the questions included, and their average scores across all respondents;
       2. a comprehensive summary of responses to each of the questions; and
       3. a detailed list of future actions the licensee will take to build on the responses received in the Customer and Stakeholder Satisfaction Surveys.
    4. The Authority will review the licensee’s approach to conducting the surveys and reporting the outcome of the satisfaction questions as required by paragraph 2.1.11 and provide feedback to the licensee.

## Black Start Strategy & Procurement Methodology

Introduction

* + 1. The purpose of this condition is to set out the obligations of the licensee in relation to:
       1. a Black Start Strategy;
       2. a Black Start Procurement Methodology; and
       3. an Annual Report

Part A: Black Start Strategy

* + 1. Further to the statement prepared pursuant to paragraph [4] of Standard Condition C16 (Procurement and use of balancing services) the licensee must, by the next working day following this condition coming into effect and thereafter at 12 monthly intervals (unless otherwise directed by the Authority), submit to the Authority for approval, a Black Start Strategy setting out how the licensee will approach the delivery of Black Start onto the National Electricity Transmission System.
    2. The Black Start Strategy must include:
       1. the strategy for Black Start provision which is to be applied for the subsequent year including an appropriate Restoration Approach, the Minimum Service Level required and appropriate Restoration Time;
       2. the strategy for Black Start provision for the two years following the period covered by subparagraph (a) including an appropriate Restoration Approach, the Minimum Service Level required, appropriate Restoration Time and identification of new technologies and approaches for the provision of Black Start; and
       3. the strategy for Black Start provision for the years following the period covered by subparagraph (b), including an appropriate Restoration Approach, the Minimum Service Level required, appropriate Restoration Time and identification of new technologies and approaches for the provision of Black Start.

Part B: Black Start Procurement Methodology

* + 1. The licensee must, by the next working day following this condition coming into effect and thereafter at 12 monthly intervals (unless otherwise directed by the Authority), submit to the Authority for approval, a Black Start Procurement Methodology for the purposes of determining that any procurement of Black Start is economic and efficient, including that it provides value for money for current and future electricity consumers in Great Britain.
    2. The Black Start Procurement Methodology must include:
       1. the methodology for determining the value to current and future electricity consumers in Great Britain of Black Start provision;
       2. the methodology for determining how each Black Start service contracted provides value to current and future electricity consumers in Great Britain and how consumer value is assessed across all Black Start services contracted cumulatively;
       3. the process by which the licensee will seek to procure new Black Start services and assess tenders to determine that:
          1. the Minimum Service Level required is met in Great Britain;
          2. any tenders accepted by the licensee are demonstrably economic and efficient, including by providing value for money for current and future electricity consumers in Great Britain; and
          3. the Black Start procurement process is economic, efficient and competitive; and
       4. the process by which the licensee will assess whether it is economic and efficient to incur Feasibility Studies cost to test new providers.

Part C: Authority Approval of Methodologies

* + 1. The licensee must submit the Black Start Strategy and the Black Start Procurement Methodology to the Authority for approval.
    2. If the Authority rejects the Black Start Strategy or Black Start Procurement Methodology it may direct the licensee to resubmit a revised strategy and/or methodology to the Authority for approval, within the period specified in that direction.
    3. If the Authority approves the Black Start Strategy or the Black Start Procurement Methodology, the licensee must publish the Black Start Strategy or the Black Start Methodology on its website as soon as is reasonably practicable following approval.
    4. Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph 2.2.8 it must seek the Authority’s approval to publish a redacted version of the Black Start Strategy or the Black Start Procurement Methodology.

Part D: Revision to Methodologies

* + 1. During the 12 month period to which the approved Black Start Strategy and Black Start Procurement Methodology apply, the licensee may submit revisions to the Authority for approval.
    2. Where the licensee submits revisions to the Authority for approval, the licensee must send a copy to any person who requests one, unless in the licensee’s view it would not be appropriate to do so.
    3. Following receipt of a notification under paragraph 2.2.10 the Authority may direct the licensee to revise the relevant Approved Methodology to reflect the proposed revision where the Authority is satisfied that the revision is economic and efficient and will provide value for money for electricity consumers in Great Britain.
    4. Following receipt of a revision under paragraph 2.2.11 the Authority will direct the licensee to make the revision, where the Authority is satisfied that the revision is economic and efficient and will provide value for money for electricity consumers in Great Britain;
    5. Unless the Authority issues such a direction, during the period of three months beginning with the date of the submission under paragraph 2.2.10, the proposed revision will be treated as not being approved by the Authority.
    6. If the Authority directs revisions under paragraph 2.2.11 the licensee must revise the relevant Approved Methodology.
    7. The licensee must also publish the revised Black Start Strategy or Black Start Procurement Methodology on its website during the period of 7 days beginning with the date of receipt of a direction under paragraph 2.2.15.
    8. Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph 2.2.16, it must seek the Authority’s approval to publish a redacted version of the revised Black Start Strategy or the revised Black Start Procurement Methodology.

Part E: Preparation and publication of Annual Report

* + 1. During the period of one month beginning with the end of each Regulatory Year, the licensee must prepare an Annual Report in a form approved by the Authority in respect of the Total Costs the licensee has incurred in that Regulatory Year in relation to Black Start Provision.
    2. The report provided to the Authority under paragraph 2.2.18 must give particulars of:
       1. the Total Costs incurred for that Regulatory Year, and how the Total Costs have been calculated;
       2. how the Total Costs have been incurred in accordance with the Black Start Strategy and the Black Start Procurement Methodology; and
       3. any other analysis or information which the licensee considers to be required to enable the Authority fully to assess the particulars to which the report relates.
    3. The report prepared pursuant to paragraph 2.2.18 must be accompanied by a statement from an independent auditor of internationally recognised standing appointed by the licensee:
       1. confirming that the report is accurate; and
       2. detailing the auditor’s independent assessment of the extent to which the licensee has complied with the Black Start Strategy and the Black Start Procurement Methodology.
    4. The licensee must publish the Annual Report on its website as soon as is reasonably practicable following approval.
    5. Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph 2.2.21, it must seek the Authority’s approval to publish a redacted version.

## Business Separation requirements and compliance obligations

* + 1. [*This condition is not being included as part of this consultation.*]

## Electricity Market Reform

Introduction

* + 1. The purpose of this condition is to set out the licensee’s obligations as to its conduct in performing the EMR Functions.

Part A: Objectives

* + 1. The licensee must:
       1. in performing the EMR Relevant Duties, act in a manner best calculated to secure:
          1. the efficient and effective carrying on of the EMR Functions; and
          2. compliance with the principles appearing to it to represent best regulatory practice; and
       2. in performing the EMR Functions, act in a manner best calculated to secure that none of the licensee’s businesses, nor any business of any Associate of the licensee, obtains an unfair commercial advantage as a result of the licensee carrying out the EMR Functions, including through any arrangements the object or effect of which is that the exercise of the EMR Functions is unduly influenced in favour of those businesses.

Part B: Legal and functional separation of National Grid Electricity System Operator Limited and Relevant Other Competitive Businesses

* + 1. Without prejudice to the licensee’s obligations under Standard Condition B5 (Prohibition of cross-subsidies), Standard Condition B6 (Restriction on Activity and Financial Ring Fencing), Special Condition 2.6 (Prohibited Activities and Conduct of the Transmission Business) and Special Condition 2.3 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions), the licensee must at all times conduct its activities, including carrying out the EMR Functions, separately from the Relevant Other Competitive Businesses; but nothing in this Part B prevents the licensee from complying with any Section E (offshore transmission owner of last resort) Direction made pursuant to Standard Condition B18 (Offshore Transmission Owner of Last Resort).
    2. Without prejudice to the generality of paragraph 2.4.3, in order to comply with that paragraph the licensee must in particular ensure that at a minimum:
       1. the Relevant Other Competitive Businesses are conducted entirely by corporate entities which are separate from that of the licensee, and the licensee does not, directly or indirectly, hold any shares or other investments:
          1. in any corporate entity which conducts any of the Relevant Other Competitive Businesses or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or any of the assets used in or dedicated to any of the Relevant Other Competitive Businesses; or
          2. which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Business or in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses;
       2. the licensee’s accounts are maintained, and to the extent required by law audited and reported on, separately from those of any corporate entity which conducts Relevant Other Competitive Business;
       3. persons engaged in, or in respect of, the management or operation of the licensee (up to and including the members of the senior management team reporting to the licensee’s board of directors) are not simultaneously engaged either full or part time in respect of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business, other than in the provision of Shared Services provided by the licensee to its Associates and the provision of services which constitute de minimis business (as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing)) to the extent that:
          1. the provision of those services by the licensee complies with the requirements of Standard Conditions B5 (Prohibition of cross-subsidies), B6 (Restriction on Activity and Financial Ring Fencing) and B9 (Indebtedness); and
          2. except where the Authority consents or directs, persons engaged in, or engaged in respect of, the management or operation of the EMR Functions are not simultaneously engaged in or in respect of a de minimis business as defined in Standard Condition B6 (Restriction on Activity and Financial Ring Fencing);
       4. arrangements are in place which are effective in restricting access by persons engaged in or in respect of the management or operation of any of the Relevant Other Competitive Businesses to any part of any premises which is occupied by persons engaged in, or in respect of, the management or operation of the licensee including persons engaged in the EMR Functions;
       5. the systems for the recording, processing or storage of Confidential EMR Administrative Information used by persons engaged in or in respect of, the management or operation of the licensee’s activities (including carrying out the EMR Functions) cannot be accessed by persons engaged in, or engaged in respect of, the management or operation of the Relevant Other Competitive Businesses; and
       6. the licensee establishes and maintains in force a code of conduct governing the disclosure of Confidential EMR Administrative Information by persons carrying out EMR Functions.

Part C: Establishment of the EMR Data Handling Team and the EMR Administrative Team

* + 1. Before the end of the period of 7 days beginning with the date on which this condition comes into effect, the licensee must establish an EMR Data Handling Team and must thereafter operate, supervise and manage the EMR Data Handling Team in a manner compliant with this condition.
    2. Without prejudice to the generality of paragraph 2.4.5, in order to comply with that paragraph the licensee must in particular ensure that at a minimum:
       1. subject to paragraphs 2.4.7, 2.4.17 and 2.4.18,the EMR Data Handling Team, in presenting Confidential EMR Delivery Plan Information to a person who is not a member of the EMR Data Handling Team, it uses all reasonable endeavours to ensure that it is not reasonably practicable for such a person to identify the generation set which is the subject of that Confidential EMR Delivery Plan Information, or the owner or operator of that generation set;
       2. each member of the EMR Data Handling Team:
          1. signs a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2.4.23(d)(ii); and
          2. complies with a policy set out in the EMR compliance statement governing the transfer of employees into and out of the carrying out of the EMR Functions; and
       3. the EMR Data Handling team is supervised and managed by a manager responsible for the control of the Confidential EMR Delivery Plan Information disclosed to persons carrying out the EMR Data Handling Functions, and for ensuring that the EMR Data Handling Team members comply with the obligations in this paragraph 2.4.6.
    3. Paragraph 2.4.6(a) does not apply to the disclosure of Confidential EMR Delivery Plan Information by the EMR Data Handling Team to the EMR Administrative Team where such disclosure is necessary in order to enable the licensee to perform:
       1. its EMR Function under regulation 23(2) of the Electricity Capacity Regulations 2014 of advising the Secretary of State on whether to adjust the demand curve for a capacity auction; or

(b) other EMR Functions in relation to which the Authority has given its prior written consent.

* + 1. Subject to paragraphs 2.4.17 and 2.4.18 where Confidential EMR Delivery Plan Information is disclosed to the EMR Administrative Team under paragraph 2.4.7, the licensee must ensure that the EMR Administrative Team does not disclose that information to a person who is not a member of the EMR Administrative Team or the EMR Data Handling Team without having used its reasonable endeavours to ensure that it is not reasonably practicable for such a person to identify the generation set which is the subject of that Confidential EMR Delivery Plan Information, or the owner or operator of that generation set.
    2. The licensee must maintain an EMR Administrative Team and thereafter operate, supervise and manage the EMR Administrative Team in a manner compliant with this condition.
    3. The licensee must ensure that:
       1. the EMR Administrative Team is responsible for carrying out the EMR Administrative Functions; and
       2. subject to paragraphs 2.4.11, 2.4.17 and 2.4.18, in presenting Confidential EMR Administrative Information to a person who is not a member of the EMR Administrative Team, the EMR Administrative Team uses its reasonable endeavours to ensure that it is not reasonably practicable for such a person to identify the generation set which is the subject of that Confidential EMR Administrative Information, or the owner or operator of that generation set.
    4. Paragraph 2.4.10(b) does not apply to the disclosure of Confidential EMR Administrative Information by the EMR Administrative Team to the EMR Data Handling Team where such disclosure is necessary in order to enable the licensee to perform:
       1. its EMR Functions under Part 3 (Electricity capacity reports) of the Electricity Capacity Regulations 2014 of preparing, amending and updating an annual capacity report; or
       2. other EMR Functions in relation to which the Authority has given its prior written consent.
    5. Subject to paragraphs 2.4.17 and 2.4.18, where Confidential EMR Administrative Information is disclosed to the EMR Data Handling Team under paragraph 2.4.11, the licensee must ensure that the EMR Data Handling Team does not disclose that information to a person who is not a member of the EMR Data Handling Team or the EMR Administrative Team without having used its reasonable endeavours to ensure that it is not reasonably practicable for such a person to identify the generation set which is the subject of that Confidential EMR Administrative Information, or the owner or operator of that generation set .
    6. The licensee must ensure that each member of the EMR Administrative Team:
       1. signs a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2.4.23(d)(ii);
       2. is not, while a member of the EMR Administrative Team, simultaneously engaged in, or in respect of, any activity of the licensee other than:
          1. the performance of EMR Administrative Functions; or
          2. providing assistance to the EMR Data Handling Team to the extent necessary to enable the licensee to perform its EMR Functions where Confidential EMR Administrative Information has been disclosed to the EMR Data Handling Team under paragraph 2.4.11; and
       3. is, for periods of time agreed by the Authority and specified in the EMR compliance statement:
          1. assigned to the EMR Administrative Team for a minimum posting period; and
          2. prohibited from engaging in, or in respect of, the management or operation of a Relevant Other Competitive Business at the conclusion of that member’s posting.
    7. For the avoidance of doubt, paragraph 2.4.13 does not prevent members of the EMR Administrative Team from engaging in the licensee’s recruitment, training and further education activities and other activities:
       1. specified in the EMR compliance statement; or
       2. to which the Authority has given its prior written consent.
    8. The licensee must ensure that the EMR Administrative Team is accommodated in premises or parts of premises where arrangements are in place which are effective in restricting access by persons who are not members of the EMR Administrative Team.

Part D: Restrictions on the use of Confidential EMR Administrative Information

* + 1. The licensee must, and must ensure that its employees, agents, contractors and advisers:
       1. treat and keep all Confidential EMR Administrative Information as confidential;
       2. ensure that any Confidential EMR Administrative Information is not directly or indirectly disclosed to any other person other than as provided in paragraphs 2.4.17 and 2.4.18;
       3. do not use any Confidential EMR Administrative Information for any purpose other than:
          1. performing the EMR Functions;
          2. carrying on the Balancing Services Activity;
          3. a purpose for which the licensee has obtained prior written consent from the Authority or which is specified in the EMR compliance statement; or
          4. a purpose permitted by regulation 65 of the Electricity Capacity Regulations 2014;

provided that Confidential EMR Administrative Information and Confidential EMR Delivery Plan Information is not be used for the purposes set out in paragraphs (ii) and (iii) unless reasonable endeavours have been taken pursuant to paragraphs 2.4.6(a), 2.4.8, 2.4.10(b) or 2.4.12 to protect from disclosure the source of such information; and

* + - 1. without prejudice to sub-paragraph (c), ensure that Confidential EMR Administrative Information is not disclosed to or solicited or used by the Transmission Business, any other business of the licensee or any Associate of the licensee which carries on any Relevant Other Competitive Business.
    1. The licensee may disclose Confidential EMR Administrative Information:
       1. where required by, or by virtue of, any requirement of law or regulation or by, or by virtue of, the rules of any governmental or other regulatory authority having jurisdiction over the licensee;
       2. where authorised in advance in writing by the Authority;
       3. to the extent that the person to whom such Confidential EMR Administrative Information relates has consented to such disclosure;
       4. to another person exercising functions conferred by or under Chapters 2, 3 and 4 of Part 2 of the Energy Act 2013 to the extent that such disclosure is required to enable that person to carry out those functions; or
       5. where such disclosure is permitted by regulation 65 of the Electricity Capacity Regulations 2014.
    2. The licensee may disclose Confidential EMR Administrative Information to:
       1. its employees, agents, contractors and advisers, other than persons referred to in paragraph 2.4.23(a)(iv), to the extent that such disclosure is required to enable the licensee to perform its EMR Functions; or
       2. persons engaged in, or in respect of, Shared Services, to the extent necessary to enable them to perform their respective functions;

and in each case the licensee must ensure that:

* + - * 1. the recipients of such Confidential EMR Administrative Information only hold the information for such period as is necessary to enable the recipients to perform their respective functions; and
        2. prior to disclosure, the recipients of such Confidential EMR Administrative Information enter into confidentiality obligations in respect of such information in a form specified in the EMR compliance statement.

Part E: EMR Compliance Statement

* + 1. The licensee must, unless the Authority otherwise consents, at all times have in place and comply with an EMR Compliance Statement approved by the Authority.
    2. Where the Authority does not indicate otherwise during the period of 60 days beginning with the date of receipt of the EMR Compliance Statement, or any revision, the EMR Compliance Statement will be treated as not being approved by the Authority.
    3. The licensee must, at least once in every 12 months or at such other interval as the Authority may direct, review the description set out in the EMR Compliance Statement and the statement as necessary to ensure that the description set out in it continues to be complete and accurate in all material respects.
    4. The licensee must send a copy of the EMR Compliance Statement, and each revision of it as and when it is made, to the Authority and publish a copy of the statement and each revision on its website.
    5. The EMR Compliance Statement must in particular (but without prejudice to the generality of paragraphs 2.4.19 and 2.4.21) set out how the licensee will ensure:
       1. the confidentiality of Confidential EMR Administrative Information by means which must include:
          1. compliance with the requirements set out in paragraph 2.4.16;
          2. requiring adherence to the code of conduct referred to in paragraph 2.4.4(f), by those subject to it, to form part of the licensee’s disciplinary policies;
          3. establishing and maintaining a training programme designed to ensure that employees, agents, contractors and advisers receive initial and continuing training;
          4. ensuring that the persons engaged in the business of any Associate or business of the licensee other than performing the EMR Functions do not have access to any parts of systems for the recording, processing or storage of Confidential EMR Administrative Information;
       2. ensuring
       3. that any parts of systems used for the recording, processing or storage of:
          1. Confidential EMR Delivery Plan Information can be accessed only by the EMR Data Handling Team;
          2. Confidential EMR Administrative Information can be accessed only by the EMR Administrative Team; and
       4. that neither Confidential EMR Delivery Plan Information nor Confidential EMR Administrative Information can be accessed by any other persons:
          1. identifying the persons to whom Confidential EMR Administrative Information must never be disclosed by reference to the functions of those persons; and
          2. maintaining a list of persons to whom Confidential EMR Administrative Information has been disclosed or who have access to Confidential EMR Administrative Information (whether on a regular or an occasional basis), a copy of which the licensee must provide on request to the Authority;
       5. the confidentiality of Confidential EMR Delivery Plan Information by means which must include:
          1. compliance with the requirements set out in paragraph 2.4.16;
          2. establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in paragraph 2.4.6(b)(i);
          3. establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Delivery Plan Information;
          4. maintaining the EMR Data Handling Team in accordance with paragraphs 2.4.6(b)(ii) and 2.4.6(c);
          5. establishing and maintaining information system security policies; and
          6. establishing and maintaining document management and security policies; and
       6. the confidentiality of Confidential EMR Administrative Information by means which must include:
          1. compliance with the requirements set out in paragraph 2.4.6;
          2. establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2.4.13(a);
          3. maintaining the EMR Administrative Team in accordance with paragraphs 2.4.9.(b), 2.4.9.(c) and 2.4.15;
          4. establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Administrative Information;
          5. establishing and maintaining information system security policies; and
          6. establishing and maintaining document management and security policies.

Part F: Appointment of EMR compliance officer and EMR compliance reporting

* + 1. The licensee must ensure, following consultation with the Authority, that a EMR Compliance Officer is appointed for the purpose of facilitating compliance by the licensee with the EMR Relevant Duties; and for the avoidance of doubt, the person appointed as EMR compliance officer pursuant to this paragraph may also hold other compliance officer roles for the licensee.
    2. The licensee must appoint a Single Responsible Director for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the EMR compliance officer set out in paragraph 2.4.29 and the licensee’s compliance with its EMR Relevant Duties; and the Single Responsible Director must report to the board of directors of the licensee in relation to the obligations set out in this Condition.
    3. The licensee must ensure that the EMR compliance officer:
       1. is provided with such employees, premises, equipment, facilities and other resources; and
       2. has such access to the licensee’s premises, systems, information and documentation:

as, in each case, the EMR compliance officer might reasonably expect to require for the fulfilment of the duties and tasks assigned to the EMR compliance officer pursuant to this Condition.

* + 1. Except to the extent provided for in paragraph 2.2.24, the licensee must ensure that the EMR compliance officer is not engaged in the management or operation of the Transmission Business, any Associate, other business of the licensee or any Relevant Other Competitive Businesses.
    2. The licensee must make available to the EMR compliance officer details of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the EMR Relevant Duties.
    3. The duties and tasks of the EMR compliance officer must include:
       1. providing advice and information to the licensee (including individual directors of the licensee) and the Single Responsible Director for the purpose of ensuring the licensee’s compliance with the EMR Relevant Duties;
       2. monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the EMR Relevant Duties and described in the EMR Compliance Statement;
       3. advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to secure the required co-operation;
       4. investigating any complaint or representation made available to the EMR compliance officer in accordance with paragraph 2.4.28;
       5. recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable; and
       6. reporting annually to the Single Responsible Director as to the EMR compliance officer’s activities in respect of the EMR Relevant Duties during the period covered by the report.
    4. As soon as is reasonably practicable and in any event before the end of the period of 90 days beginning with the date of the annual report of the EMR compliance officer, the licensee must produce a report in a form approved by the Authority:
       1. as to its compliance with the EMR Relevant Duties during the period since the last report; and
       2. as to its implementation of the practices, procedures and systems adopted in accordance with the EMR compliance statement.
    5. The report produced in accordance with paragraph 2.4.30 must in particular:
       1. detail the activities of the EMR compliance officer during the period covered by the report;
       2. refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the EMR compliance statement;
       3. set out the details of any investigations conducted by the EMR compliance officer, including;
          1. the number, type and source of the complaints or representations on which such investigations were based;
          2. the outcome of such investigations; and
          3. any remedial action taken by the licensee following such investigations; and; and
       4. be accompanied by a compliance certificate in a form approved by the Authority, approved by a resolution of the board of directors of the licensee and signed in good faith by the Single Responsible Director pursuant to that resolution, on the licensee’s compliance with the EMR Relevant Duties and certifying that, to the best of that director’s knowledge, information and belief having made due and careful enquiry, the report of the EMR compliance officer fairly represents the licensee’s compliance with the EMR Relevant Duties.
    6. The licensee must, as soon as is reasonably practicable and in any event no later than 14 days after the compliance certificate is approved by a resolution of the board of directors of the licensee as required by paragraph 2.4.31(d), submit to the Authority a copy of the report and compliance certificate produced in accordance with paragraph 2.4.31, and publish copies of each of them on its website.
    7. The licensee must, if so directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:
       1. reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;
       2. assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee’s obligations under this condition; and
       3. reporting on the licensee’s compliance with the requirements of this condition.
    8. The Independent Examiner’s report must be provided to the Authority during the period of three working days beginning with the date on which the licensee receives it from the Independent Examiner.
    9. The Independent Examiner’s report must be commissioned at such intervals as the Authority directs.

Part G: General

* + 1. If the licensee ceases to perform the EMR Functions:
       1. paragraphs 2.4.16 and 2.4.17 will continue in force to the extent required to protect Confidential EMR Administrative Information in accordance with the obligations set out in this condition; and
       2. the other obligations under this condition will remain in force for such time and on such terms as the Authority directs.

## Network Access Policy

Introduction

* + 1. The purpose of this condition is to set out the requirements upon the licensee to facilitate the development of, and to act consistently with, the Transmission Owners’ Network Access Policy (NAP).
    2. For the avoidance of doubt, nothing in this condition replaces, overrides, or limits:
       1. any statutory duty imposed on the licensee;
       2. any other obligation of the licensee under the licence or any code, particularly in relation to the licensee’s compliance with Standard Condition B12 (System Operator – Transmission Owner Code) and Standard Condition C17 (Transmission system security standard and quality of service); or
       3. the System Operator - Transmission Owner Code (“the STC”).

Part A: Licensee’s obligations in relation to the NAP

* + 1. The licensee must incorporate the Transmission Owners’ NAP into its planning and operations within its licensed activities; and it must act consistently with the NAP, subject to the need to ensure the safe and secure operation of all or any part of the NETS.
    2. The licensee must use its reasonable endeavours to assist Transmission Owners in meeting their obligations for meeting the essential requirements of the NAP and amending the NAP.

## Prohibited Activities and Conduct of the Transmission Business

Introduction

* + 1. The purpose of this condition is to set out the prohibited activities on the licensee and any subsidiary of the licensee to hold a Transmission Licence that has Section D (Transmission Owner Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions) in effect.

Part A: Prohibited Activities

* + 1. Except with the consent of the Authority, the licensee must not, and must ensure that any subsidiary of the licensee will not, on its own account (or that of the licensee or of any subsidiary of the licensee as the case may be), hold, or seek to hold, a Transmission Licence that has Section D (Transmission Owner Standard Conditions) or Section E (Offshore Transmission Owner Standard Conditions) in effect.

Part B: Conduct of the Transmission Business

* + 1. The licensee must conduct its Transmission Business in the manner best calculated to secure that none of the following obtains an unfair commercial advantage including, in particular, any advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transmission business.:
       1. the licensee;
       2. any affiliate or related undertaking of the licensee including, for the avoidance of doubt:
          1. any affiliate or related undertaking that intends to participate in a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted; or
          2. any affiliate or related undertaking participating in a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;

that is a subsidiary of, or is controlled by an ultimate controller of, the licensee;

* + - 1. any user of the national electricity transmission system; and
      2. any other Transmission Licensee.

## Prohibition on engaging in preferential or discriminatory behaviour

Introduction

* + 1. The purpose of this condition is to prevent the licensee from unduly discriminating between Transmission Licensees.

Part A: Prohibition on engaging in preferential or discriminatory behaviour

* + 1. The licensee must not, in meeting its obligations under this licence, unduly discriminate as between other Transmission Licensees, or unduly prefer any other Transmission Licensee, or unduly prefer itself over any other Transmission Licensee.
    2. On direction by the Authority, the licensee must keep and maintain such records concerning its compliance with this condition as are in the opinion of the Authority sufficient to enable the Authority to assess whether the licensee is complying with this condition and as are specified in any such direction; and the licensee must provide to the Authority such records in such manner and at such times as the Authority may require.

## Allowances in respect of a Security period

* + 1. [*This is not being included as part of this consultation.*]

## Services treated as Directly Remunerated Services

Introduction

* + 1. The purpose of this condition is to set out the basis on which services provided by the licensee will be treated as Directly Remunerated Services under the special conditions.
    2. The effect of this condition is that revenue derived by the licensee from the provision of Directly Remunerated Services is excluded from the calculation of the Maximum Revenue, SO Internal Allowed Revenue, and the External Costs of the Balancing Services Activity.
    3. This condition also explains the process that the Authority will follow when directing that services provided by the licensee should be treated, or should not be treated, as Directly Remunerated Services.

Part A: Licensee's obligation to exclude Directly Remunerated Services

* + 1. The licensee must exclude revenue derived from Directly Remunerated Services from Maximum Revenue, SO Internal Allowed Revenue and the External Costs of the Balancing Services Activity.
    2. Directly Remunerated Services are:
       1. services that comply with the general principle set out in Part B;
       2. the services listed in Part C to the extent that they comply with the general principle in Part B;
       3. services that the Authority directs are to be treated as Directly Remunerated Services
    3. Services are not to be treated as Directly Remunerated Services if the Authority so directs.

Part B: Statement of General Principle

* + 1. The General Principle is that a service provided by the licensee as part of its Transmission Business Activities is to be treated as a Directly Remunerated Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 2.9.8.
    2. The charges referred to in paragraph 2.9.7 are:
       1. Transmission Network Charges, under the provisions of Special Condition 3.1 (Restriction of Transmission Network Revenue);
       2. internal balancing services activity charges, under the provisions of Special Condition 4.1 (System Operator Internal Revenue Restriction);
       3. external balancing services activity charges, under the provisions of Special Condition 4.2 (Balancing Services Activity Revenue Restriction on External Costs); and
       4. charges arising from any activity carried out under the provisions of Special Condition 3.3 (RIIO-1 Network Innovation Competition) and Special Condition 3.4 (Strategic Innovation Fund) which results in Returned Royalty Income for the licensee.

Part C: Categories of Directly Remunerated Services

* + 1. The descriptions of categories of Directly Remunerated Services set out at paragraph 2.9.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that may be set out in the RIGs issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance) of this licence.
    2. Directly Remunerated Services will include the following services:

DRS1. Connection services: This category consists of administration in relation to the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain electric lines, electrical plant, or meters necessary to provide any new connection or modify any existing connection to the National Electricity Transmission System, (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 2.9.9 ).

DRS2. Diversionary works under an obligation: (*Not applicable to National Grid Electricity System Operator*)

DRS3. Works required by any alteration of premises: (*Not applicable to National Grid Electricity System Operator*)

DRS4. Telecommunications and information technology infrastructure services: (*Not applicable to National Grid Electricity System Operator*)

DRS5. Outage Changes: (*Not applicable to National Grid Electricity System Operator*)

DRS6. Emergency Services: (*Not applicable to National Grid Electricity System Operator*)

DRS7. PARCA Activities: (*Not applicable to National Grid Electricity System Operator*)

DRS8. Independent System Operation: (*Not applicable to National Grid Electricity System Operator*)

DRS9. Network Innovation Funding: (*Not applicable to National Grid Electricity System Operator*)

DRS10. Value Added Services: (*Not applicable to National Grid Electricity System Operator*)

DRS11. Top-up, standby, and enhanced system security: (*Not applicable to National Grid Electricity System Operator*)

DRS12. Revenue protection services: (*Not applicable to National Grid Electricity System Operator*)

DRS13. Metering Services: (*Not applicable to National Grid Electricity System Operator*)

DRS14. Smart Meter Roll-out rechargeable services: (*Not applicable to National Grid Electricity System Operator*)

DRS15. Miscellaneous: This category consists of the provision of any other service that:

* + - 1. is for the specific benefit of any third party who requests it; and
      2. is not made available by the licensee as a normal part of its Transmission Business Activities.

Part D: Authority’s power to give directions

* + 1. Before issuing a direction under Part A the Authority will consider the General Principle in Part B.
    2. Any direction that the Authority issues under Part A will set out the date on which the licensee must start or cease treating services as Directly Remunerated Services.

## Disapplication of Relevant Special Conditions

* + 1. [*This condition is not being included as part of this consultation.*]

## Digitalisation

Introduction

* + 1. The purpose of this condition is to set out the licensee's obligations to:
       1. have a Digitalisation Strategy;
       2. have a Digitalisation Action Plan; and
       3. update its Digitalisation Strategy and its Digitalisation Action Plan; and
       4. take account of Data Best Practice Guidance.
    2. This condition also sets out the process the Authority will follow when issuing and amending DSAP Guidance and Data Best Practice Guidance.

Part A: Requirements of the Digitalisation Strategy

* + 1. The licensee must publish its Digitalisation Strategy on, or before, [XXXX].
    2. The licensee must review the progress it has made against its Digitalisation Strategy, and update its Digitalisation Strategy, at intervals specified in the DSAP Guidance.
    3. The licensee must:
       1. publish its Digitalisation Strategy, and updates to its Digitalisation Strategy, on the licensee's website where they are readily accessible to the public;
       2. maintain an archive of all published versions of its Digitalisation Strategy on the licensee's website where they are readily accessible to the public; and
       3. notify the Authority of any updates to the Digitalisation Strategy.

Part B: Requirements of the Digitalisation Action Plan

* + 1. The licensee must publish its Digitalisation Action Plan on, or before, [XXXX].
    2. The licensee must review the progress it has made against and update its Digitalisation Action Plan at the intervals specified in the DSAP Guidance.
    3. The licensee must:
       1. publish its Digitalisation Action Plan, and updates to its Digitalisation Action Plan, on the licensee's website where they are readily accessible to the public;
       2. maintain an archive of all published versions of its Digitalisation Action Plan on the licensee's website where they are readily accessible to the public; and
       3. notify the Authority of any updates to the Digitalisation Action Plan.

Part C: DSAP Guidance

* + 1. The licensee must comply with the DSAP Guidance when:
       1. preparing and updating its Digitalisation Strategy; and
       2. preparing and updating its Digitalisation Action Plan.
    2. The Authority will issue and amend DSAP Guidance by direction.
    3. The Authority will publish DSAP Guidance on the Authority's Website.
    4. The DSAP Guidance will make provision about:
       1. how the licensee should work towards Digitalisation;
       2. how the licensee should set out in its Digitalisation Strategy and Action Plan how it intends to use Energy System Data to generate benefits for consumers and stakeholders and the specific actions it will take to achieve that outcome;
       3. the form and content of the Digitalisation Strategy and the Digitalisation Action Plan, including:
          1. the structure, content and level of detail of each;
          2. the types of activities that should be covered in each; and
          3. any required information associated with those activities; and
       4. the engagement the licensee is required to undertake with stakeholders to help inform the development of its Digitalisation Strategy and its Digitalisation Action Plan.
       5. Digitalisation Action Plan.

Part D: Requirement to employ Data Best Practice

* + 1. The licensee must, when conducting work that involves working with or making decisions about the use of Energy System Data, use its best endeavours to act in accordance with Data Best Practice Guidance.
    2. The Authority will issue and amend Data Best Practice Guidance by direction.
    3. The Authority will publish Data Best Practice Guidance on the Authority's website.
    4. The Data Best Practice Guidance will make provision about how the Authority expects the licensee to comply with Data Best Practice to generate benefits for consumers and stakeholders, including but not limited to ensuring services that involve Energy System Data are designed to meet the needs of consumers and those who directly use the services.

Part E: Process for issuing and amending guidance

* + 1. Before issuing DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
       1. the text of the proposed guidance;
       2. the date on which the Authority intends the guidance to come into effect; and
       3. a period during which representations may be made on the content of the guidance, which will not be less than 28 days.
    2. Before amending DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
       1. the text of the amended guidance;
       2. the date on which the Authority intends the amended guidance to come into effect;
       3. the reasons for the amendments to the guidance; and
       4. a period during which representations may be made on the amendments to the guidance, which will not be less than 28 days.

## Tax Reconciliation Assurance Statement

### Introduction

* + 1. This condition requires the licensee to submit to the Authority an annual assurance statement in relation to the Tax Reconciliation template and sets out the form of that statement.

### Assurance Statement

* + 1. The licensee must by 31 July of each Regulatory Year submit to the Authority an assurance statement that:
       1. has been approved by a resolution of the licensee’s board of directors;
       2. is signed by a director of the licensee pursuant to the resolution in sub-paragraph (a); and
       3. is set out in the form prescribed in paragraph 2.12.3 or where paragraph 2.12.4 applies in the form prescribed in paragraph 2.12.5.
    2. The prescribed form for the assurance statement is as follows:

"In accordance with the requirements of paragraph 2.12.2 of Special Condition 2.12 (Tax Reconciliation Assurance Statement), the Directors of [*licensee*] (“the Licensee”) hereby certify that for the preceding Regulatory Year, in their opinion:

* + - 1. the adjusted notional tax allowance as shown in the Tax Reconciliation template represents a fair interpretation of the Licensee’s adjusted actual tax liability as shown in the Licensee’s Company Tax Return (CT600);
      2. the Tax Reconciliation has been submitted to the Office of Gas and Electricity Markets along with a copy of:
         1. the Licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
         2. Senior Accounting Officer (SAO2) certifications; and
         3. the licensee’s published Tax Strategy;
      3. where appropriate, further information has also been provided to support and explain reconciling items in accordance with paragraph XX of the Regulatory Instructions and Guidance;
      4. all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary;
      5. reconciling differences have been appropriately explained and any remaining, unexplained differences are considered immaterial in aggregate."
    1. Where the licensee anticipates a material, unexplained variance to arise in the Tax Reconciliation as described in Chapter X of the ESO Price Control Financial Handbook, the prescribed form for the assurance statement is set out in paragraph 2.12.5.
    2. "In accordance with the requirements of paragraph 2.12.2 of Special Condition 2.12 (Tax Reconciliation Assurance Statement), the Directors of [*licensee*] (“the Licensee”) hereby certify that for the preceding Regulatory Year, in their opinion:
       1. the adjusted notional tax allowance as shown in the Tax Reconciliation template does not represent a fair interpretation of the Licensee’s adjusted actual tax liability as shown in the Licensee’s Company Tax Return (CT600);
       2. the Tax Reconciliation has been submitted to the Office of Gas and Electricity Markets along with a copy of:
          1. the Licensee's most recent CT600 as submitted to Her Majesty's Revenue and Customs;
          2. Senior Accounting Officer (SAO2) certifications; and,
          3. the Licensee’s published Tax Strategy;
       3. where appropriate, further information has also been provided to support and explain reconciling items in accordance with [paragraph XX of the PCFM Guidance];
       4. all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary;
       5. reconciling differences have been appropriately explained, where reasonably practicable, and the remaining unexplained difference is considered material, in aggregate; and
       6. a notification has been made in writing to the the Office of Gas and Electricity Markets under Chapter X of the ESO Price Control Financial Handbook."

# Transmission Revenue Restriction

## Transmission Network Revenue Restriction

Introduction

* + 1. The purpose of this condition is as follows:
       1. to establish the charging restrictions that determine the level of Maximum Revenue that may be recovered by the licensee through Transmission Network Charges; and
       2. to set out the obligations on the licensee in respect of those restrictions.

### Licensee’s obligation when setting Transmission Network Charges

* + 1. The licensee must when setting Transmission Network Charges, use its best endeavours to ensure that Transmission Network Revenue does not exceed Maximum Revenue.

Part B: Formula for calculating Maximum Revenue (TOt)

* + 1. The value of TOt, is derived in accordance with the following formula:

*TOt = PTt + SIFFTt + DISt + TSt +NICFt + LTRUt - LKt*

where:

|  |  |
| --- | --- |
| *PTt* | is derived in accordance with Special Condition 3.2 (Pass-through items);. |
| *SIFFTt* | means the revenue adjustment made in respect of the allowance given under the Strategic Innovation Fund as derived in accordance with Special Condition 3.4 (Strategic Innovation Fund); |
| *DISt* | means the amount derived as a result of:  (a) the total amount charged to the licensee in Regulatory Year t-1 by Scottish Hydro Electric Transmission Plc, SP Transmission Ltd and National Grid Electricity Transmission plc in respect of Site-Specific Charges, minus  (b) the total income recovered by the licensee in respect of Directly Remunerated Services in Regulatory Year t-1 from customers in the respective Transmission Areas of Scottish Hydro Electric Transmission Plc and SP Transmission Ltd and National Grid Electricity Transmission plc;. |
| *TSt* | means the amount derived as a result of :  (a) the total amount charged to the licensee in Regulatory Year t-1 by Scottish Hydro Electric Transmission Plc, SP Transmission Ltd, National Grid Electricity Transmission plc and any Offshore Transmission Owner in respect of Transmission Owner Final Sums (as such charges are defined in schedule nine of the STC), minus  (b) an amount equal to the income received by the licensee in Regulatory Year t-1 in respect of users who reduce TEC or developer capacity (as defined in the CUSC) or who terminate relevant bilateral agreements for connection and/or access rights to the National Electricity Transmission System in the respective Transmission Areas of each of Scottish Hydro Electric Transmission Plc, SP Transmission Ltd, National Grid Electricity Transmission plc and any Offshore Transmission Owner (for the avoidance of doubt, including any amounts that are treated as capital contributions); |
| *NICFt* | is derived in accordance with Special Condition 3.3 (RIIO-1 Network Innovation Competition). |
| *LKt* | has the value of *K*t as determined in accordance with Part E of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021. |
| *LTRUt* | has the value of *TRU*t as determined in accordance with Part C of Special Condition 3A (Restriction of Transmission Network Revenue) of this licence as in force on 31 March 2021. |

## Pass-through items (PTt)

Introduction

* + 1. The purpose of this condition is to provide for the calculation of the term PTt (the allowed pass-through term). This contributes to the calculation of Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).
    2. The effect of this condition is to ensure that the licensee’s Maximum Revenue reflects certain costs that can be passed through to users.

### Formula for calculating the allowed pass-through term (PTt)

* + 1. The value of PTt is derived in accordance with the following formula:

*PTt = LFt + ITCt + Termt + TSPt + TSHt + TNGETt + TOFTOt + OFETt+ TICFt + TICPt+ BDt*

where:

|  |  |
| --- | --- |
| *LFt* | means the payments made by the licensee under paragraph 3 of Standard Condition A4 (Payments by the Licensee to the Authority); |
| *ITCt* | means the allowance in respect of participation in the inter-transmission system operator compensation mechanism arising from the participation by Great Britain in the inter-transmission system operator compensation mechanism as provided for in Article 49 of the Electricity Regulation (EU) 2019/943; |
| *Termt* | means the adjustment equal to the income received by the licensee in respect of users who reduce TEC or developer capacity (as defined in the CUSC) or who terminate relevant bilateral agreements for connection and/or access rights to the National Electricity Transmission System (and is net of any amounts that are treated as capital contributions); |
| *TSPt* | means the amount notified to the licensee by SP Transmission Ltd or any successor company pursuant to its electricity transmission licence; |
| *TSHt* | means the amount notified to the licensee by Scottish Hydro Electric Transmission Plc or any successor company pursuant to its electricity transmission licence; |
| *TNGETt* | means the amount notified to the licensee by National Grid Electricity Transmission plc or any successor pursuant to its electricity transmission licence; |
| *TOFTOt* | means the total of the amounts notified to the licensee by each Offshore Transmission Owner pursuant to their electricity transmission licences; |
| *OFETt* | means the amount equal to the payments made, in total, by the licensee to the electricity distributors with respect to charges for use of electricity distribution systems by offshore generating stations connected to those systems via Embedded Transmission Systems; |
| *TICFt* | means the total of the amounts notified to the licensee by all Interconnector Owners pursuant to their electricity interconnector licences; |
| *TICPt* | means the total of the amounts notified to the licensee by each relevant electricity interconnector licensee in relation to Regulatory Year t pursuant to the special conditions in their respective electricity interconnector licences; and |
| *BDt* | is derived in accordance with Part B. |

### Formula for calculating the Bad Debt term (BDt)

* + 1. The value of the BDt term is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
|  | means the aggregate value of Bad Debt the licensee has incurred or expects to incur with respect to Transmission Network Use of System (TNUoS) Charges owed to the licensee by one or more Defaulting Connection and Use of System Code Party, inclusive of interest income accrued at the default rate set out in the Connection and Use of System Code; and |
|  | means the aggregate value of Bad Debt previously recovered by the licensee via the BDAt term, where the licensee has been credited by the administrator or liquidator of a Connection and Use of System Code Party. |

## RIIO-1 Network Innovation Competition (NICFt)

Introduction

* + 1. The purpose of this condition is to set out the process for deciding the term NICFt (the Network Innovation Competition term). This contributes to the calculation of Maximum Revenue in Special Condition 3.1 (Transmission Network Revenue Restriction).
    2. The Network Innovation Competition ran during the RIIO-1 price control period to fund innovative low carbon and environmental projects. Although it will no longer run for the licensee from 1 April 2021, the purpose of this condition is to make provision for the arrangements that will enable the Authority to determine the value of the NICFt and for arrangements relating to the regulation, administration, and governance of the NIC Funding transferred before 1 April 2021.

### The Funding Return Mechanism

* + 1. The Authority may direct how the Returned Project Revenues should be paid to customers through the Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.

### Determination of the NICFt

* + 1. In each Regulatory Year t, in accordance with the appropriate provisions set out in the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and other electricity Transmission Licensees, will specify:
       1. the value of NICFt for the licensee;
       2. the net amounts that are to be transferred between the licensee and other Transmission Licensees in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Regulatory Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
       3. the manner in which and the timescale over which the net amounts referred to in subparagraph (b) are to be transferred.
    2. The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 3.3.4.

### The NIC Governance Document

* + 1. The licensee must comply with the NIC Governance Document.
    2. The Authority will amend the NIC Governance Document by direction.
    3. The Authority will publish the NIC Governance Document on the Authority's Website.
    4. The NIC Governance Document makes and will continue to make provision about:
       1. the process and procedures that will be in place for the assessment, approval, and financing of project funding (where necessary);
       2. arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Transmission Licensees;
       3. the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
       4. arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
       5. any other matters the Authority considers appropriate.

### Procedure for revising the NIC Governance Document

* + 1. Before amending the NIC Governance Document by direction, the Authority will publish on the Authority's website:
       1. the text of the NIC Governance Document;
       2. the date on which the Authority intends the amended NIC Governance Document to come into effect;
       3. the reasons for the amendments to the NIC Governance Document; and
       4. a period during which representations may be made on the amendments to the NIC Governance Document, which will not be less than 28 days.

## Strategic Innovation Fund (SIFFt)

* + 1. [*This is not being included as part of this consultation.*]

# System Operator Revenue Restriction

## System Operator Internal Revenue Restriction

Introduction

* + 1. The purpose of this condition is:
       1. to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs in relation to Balancing Services Activity; and
       2. to set out the obligations of the licensee in respect of those charging restrictions.

### Licensee’s obligation in relation to internal costs

* + 1. The licensee must use its best endeavours to ensure that the revenue collected by the licensee from the Balancing Services Activity associated with internal costs does not exceed SO Internal Allowed Revenue.

### Formula for calculating the SO Internal Allowed Revenue term (SOIARt)

* + 1. The value of SOIARt is derived in accordance with the following formula:

where

|  |  |
| --- | --- |
| *Rt* | means Calculated Revenue, derived in accordance with Part C; |
| *PIt* | is the price index calculated in accordance with Part E; and |
| *ADJt* | is derived in accordance with Part D. |

* + 1. The value of will be published pursuant to Part B of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model). The value of is not revised following publication

### Formula for calculating the Calculated Revenue term (Rt)

* + 1. The value of Rt is derived in accordance with the following formula:

where all values are as published pursuant to Part A of Special Condition 5.2 (Annual Iteration Process for the ESO Price Control Financial Model) and

|  |  |
| --- | --- |
| *FMt* | means fast money and has the value set out in sheet X of the ESO Price Control Financial Model; |
| *SOPTt* | is derived in accordance with Part F; |
| *DPNt* | means depreciation and has the value set out in sheet X of the ESO Price Control Financial Model; |
| *RTNt* | means return and has the value set out in sheet X of the ESO Price Control Financial Model; |
| *EICt* | means equity issuance costs and has the value set out in sheet X of the ESO Price Control Financial Model; |
| *ADFt* | means additional funding and has the value set out in sheet X of the ESO Price Control Financial Model; |
| *DRSt* | means Directly Remunerated Services and has the value set out in sheet X of the ESO Price Control Financial Model; |
| *SIFFBt* | means SIF Funding BSUOS allowance, as derived in accordance with Special Condition 3.4 (Strategic Innovation Fund); |
| *NIAt* | means Network Innovation Allowance, as derived in accordance with Special Condition 4.5 (The RIIO-2 Network Innovation Allowance); |
| *CNIAt* | means Carry-over RIIO-1 Network Innovation Allowance, as derived in accordance with Special Condition 4.6 (Carry-over RIIO-1 Network Innovation Allowance); |
| *ESORIt* | means the Electricity System Operator Reporting and Incentive Arrangements, as derived in accordance with Special Condition 4.3 (Electricity System Operator Reporting and Incentive Arrangements); |
| *TAXt* | has the value given in sheet X of the ESO Price Control Financial Model; and |
| *TAXAt* | means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise under Part I. |

### Formula for calculating the AIP adjustment term (ADJt)

* + 1. For the Regulatory Year commencing on 1 April 2021, the value of ADJ is zero.
    2. For subsequent Regulatory Years, the value of ADJt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *i, j* | refer to Regulatory Years between 2021/22 and Regulatory Year t-1; |
| *PIi* | is the price index calculated in accordance with Part E; |
|  | means Calculated Revenue for Regulatory Year i, derived in accordance with Part C; |
|  | means the adjusted revenue for Regulatory Year *i*, derived in accordance with paragraph 4.1.8. |
| *Ij* | means the average value of SONIA between 1 April and 31 March in Regulatory Year j (inclusive). |

* + 1. The value of *ADJRt* is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *t|t-1* | means for Regulatory Year t, as of the AIP publication in Regulatory Year t-1. |
|  | means Calculated Revenue, derived in accordance with Part C; |
|  | is the price index calculated in accordance with Part E; and |
|  | means the AIP adjustment term and is derived in accordance with paragraph 4.1.7. |

### Formula for calculating the Price Index term (PIt)

4.1.10 The value of PIt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| *i* | refers to Regulatory Years on or after 2020/21 and up to year t; |
| *RPIt* | means the arithmetic average of the Retail Prices Index between each of the twelve months from 1 April to 31 March in Regulatory Year t; and |
| *CPIHi* | means the arithmetic average of the Consumer Prices Index Including Owner Occupiers' Housing Costs between each of the twelve months from 1 April to 31 March in Regulatory Year i. |

### Formula for calculating the allowed pass-through items (PTt)

* + 1. The value of *SOPTt* is derived in accordance with the following formula:

*SOPTt = RBt + EDEt + SOBDt + WCFt*

where:

|  |  |
| --- | --- |
| *RBt* | means the amount levied on the licensee in respect of the Prescribed Rates (or any equivalent tax or duty replacing them) or an amount directed under Part G; |
| *EDEt* | means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year; |
| *SOBDt* | is derived in accordance with Part H; and |
| *WCFt* | means the Working Capital Facility allowance. |

### Review of Prescribed Rates pass-through term (RBt)

* + 1. As part of any periodic revaluation, the licensee must:
       1. engage with the Relevant Valuation Agency; and
       2. use its reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.
    2. The Authority will review the licensee’s engagement with the Relevant Valuation Agency with respect to a revaluation.
    3. If, after reviewing the licensee’s engagement with the Relevant Valuation Agency with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph 4.1.10, the Authority will adjust the value of RBt by direction.

### Formula for calculating the Bad Debt term (SOBDt)

4.1.9 The value of *SOBDt* is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
|  | means the aggregate value of Bad Debt the licensee has incurred or expects to incur with respect to Balancing Use of System (BSUoS) Charges owed to the licensee by one or more Defaulting Balancing and Settlement Code Party, inclusive of interest income accrued at the default rate set out in the Balancing and Settlement Code; and |
|  | means the aggregate value of Bad Debt previously recovered by the licensee via the SOBDAt term, where the licensee has been credited by the administrator or liquidator of a Defaulting Balancing and Settlement Code Party. |

### Tax Review Adjustment (TAXAt)

* + 1. The Authority may undertake a Tax Review of any material differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability.
    2. Where the Authority notifies the licensee that it has decided to undertake a Tax Review and given the reasons for that decision, the licensee must:
       1. procure an Appropriately Qualified Independent Examiner to examine the differences between the licensee’s Calculated Tax Allowance and its Actual Corporation Tax Liability and provide a report to the Authority;
       2. carry out the steps specified by the Authority for the procurement of an Appropriately Qualified Independent Examiner and the terms of appointment of the Appropriately Qualified Independent Examiner;
       3. ensure that the Appropriately Qualified Independent Examiner carries out the work within the scope, and by the date, specified by the Authority; and
       4. submit to the Authority a report from the Appropriately Qualified Independent Examiner in the form, and containing the content, specified the Authority.
    3. Following receipt of the Appropriately Qualified Independent Examiner's report, the Authority will:
       1. direct any adjustments to the value of the TAXAt term that it considers should be made, and
       2. specify the Regulatory Years to which those adjustments relate.
    4. Before making a direction under paragraph 4.1.15, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations on the proposed direction may be made, which will not be less than 28 days.

## Balancing Services Activity Revenue Restriction on External Costs

Introduction

* + 1. The purpose of this condition is:
       1. to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its external balancing costs; and
       2. to set out the obligations of the licensee in respect of those charging restrictions.

### Balancing services activity revenue restriction on external costs (BXextt)

* + 1. The licensee must use its best endeavours to ensure that the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) do not exceed the BXextt term, calculated in accordance with the following formula:

where:

|  |  |
| --- | --- |
|  | is the cost to the licensee of bids and offers in the Balancing Mechanism accepted by the licensee less the total non-delivery charge and is the sum of the values of CSOBMj (being the daily System Operator BM cashflow for each settlement period j as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001); |
|  | means the costs to the licensee of contracts for the availability or use of balancing services, excluding costs within CSOBMt and BSCt but including charges made by the licensee for the provision of balancing services to itself; |
|  | means the amount of any adjustment as provided in paragraph 4.2.3; |
|  | means an amount representing the revenue from the provision of balancing services to others, derived in accordance with Part C; |
| *BSCt* | means the allowed revenue from and associated with Black Start services in accordance with Special Condition 2.2 (Black Strategy and Procurement Methodology); and |
| *SOTOCt* | means the SO-TO cost allowance term, calculated in accordance with Special Condition 4.4 (SO-TO Mechanism); |
| *J* | means a settlement period (being half an hour) as defined in the BSC. |

### Balancing Services Activity adjustments (TotAdjt)

* + 1. For the purposes of paragraph 4.2.2, the term TotAdjt which relates to prior period adjustments in respect of the Regulatory Year t, means the costs, whether positive or negative, to the licensee of:
       1. bids and offers in the Balancing Mechanism accepted by the licensee in any period before Regulatory Year t less the total non-delivery charge for that period;
       2. contracts for the availability or use of balancing services during any period before Regulatory Year t, excluding costs within CSOBMt for that period, but including charges made by the licensee for the provision of balancing services to itself in that period;

in each case after deducting such costs to the extent that they have been taken into account in any Regulatory Year in computing the terms CSOBMt or BSCCt.

### Provision of balancing services to others (OMt)

* + 1. The value of OMt is the sum of:
       1. the total amount (exclusive of interest and Value Added Tax attributable thereto) recovered by the licensee under any agreements entered into between an electricity supplier or network operator and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a user system are charged to that electricity supplier or network operator ; and
       2. the total costs (exclusive of interest and Value Added Tax attributable thereto) incurred by the licensee which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the National Electricity Transmission System or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 4.2.4(a)) or network operator (as defined in the Grid Code).

## Electricity System Operator Reporting and Incentive Arrangements (ESORIt)

Introduction

* + 1. The purpose of this condition is to calculate the term ESORIt (the Electricity System Operator Reporting and Incentives term). This contributes to the calculation of Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
    2. The effect of the Electricity System Operator Reporting and Incentive is to reward or penalise the licensee for how it performed its role as the System Operator.
    3. This condition also:
       1. makes provision relating to the governance of the ESORI Arrangements; and
       2. explains the process the Authority will follow in issuing and amending the ESORI Arrangements Guidance Document.

### The Electricity System Operator Reporting and Incentive term (ESORIt)

* + 1. The value of ESORIt will be directed by the Authority and will be no greater than a maximum value of £30m and not less than a minimum value of (minus) -£12m in any Business Plan Cycle, as determined under this condition and the ESORI Arrangements Guidance Document.
    2. Before issuing a direction under paragraph 4.3.4 the Authority will publish on the Authority’s Website:
       1. the text of the proposed direction;
       2. the reasons why it proposes to issue the direction; and
       3. a period during which representations on the proposed direction may be made, which will not be less than 28 days.

### Establish the Forward Plan

* + 1. The licensee must have in place, at the start of each Business Plan cycle, a Business Plan that sets out:
       1. for each Role, a Delivery Schedule that details the licensee’s activities and deliverables and respective costs to perform its role as the System Operator in order to deliver the greatest overall benefits for consumers, considering both the Business Plan Cycle, and as many of the years following the Business Plan Cycle as is reasonably practicable; and
       2. for each Role, a Delivery Schedule that ensures the Deliverables the licensee proposes meet its Medium-Term strategy across the RIIO-2 period and Long-Term vision for the energy system.
    2. The licensee must, in developing the Business Plan in respect of the Business Plan Cycle, consult on the contents of the Business Plan, including all the information specified in paragraph 4.3.6, prior to [XX April in the year before the start of the Business Plan Cycle].
    3. The licensee must, in fulfilling its obligations under paragraph 4.3.7 in relation to the Business Plan, consult:
       1. the current and potential new electricity industry parties;
       2. the Authority;
       3. the ESO Performance Panel; and
       4. the BP Consultees.
    4. The licensee must, following consultation with the BP Consultees under paragraph 4.3.8:
       1. consider any responses made as part of the consultation;
       2. make any changes to the Business Plan that it considers appropriate;
       3. demonstrate in the Business Plan how it has taken into account the responses of the BP Consultees when making the changes under paragraph 4.3.9(b); and
       4. publish any non-confidential responses to the consultation on its website.
    5. The licensee must, unless otherwise directed by the Authority, publish on its website a final version of the Business Plan for the next Business Plan cycle [on or before [xx ]August in the year before the start of the Business Plan cycle].

### The ESORI Arrangements Guidance Document

* + 1. The licensee must comply with the ESORI Arrangements Guidance Document.
    2. The Authority will issue a document to be known as the ESORI Arrangements Guidance Document that sets out the process by which the Authority will assess the performance of the licensee and how it will determine the ESORIt term in respect of each Business Plan Cycle.
    3. The Authority will issue and amend ESORI Arrangements Guidance Document by direction.
    4. The Authority will publish the ESORI Arrangements Guidance Document on the Authority’s Website.
    5. The ESORI Arrangements Guidance Document will include provisions about or impose requirements in relation to:
       1. the criteria against which the performance of the licensee will be assessed;
       2. the process and procedures that will be in place for assessing the performance of the licensee, including the role of the ESO Performance Panel in this process;
       3. the requirements the licensee must fulfil as part of the assessment process, including the information the licensee must provide and its attendance at ESO Performance Panel meetings;
       4. the information used for the performance assessment, including how the Business Plan, the Mid-Year Report and the End of Year Report will be used in that evaluation;
       5. how the assessment of the performance of the licensee will be used by the Authority to determine the value of ESORIt; and
       6. any other matters relating to the regulation, governance, or administration of the ESORI Arrangement.
    6. Before issuing new ESORI Arrangements Guidance Document, the Authority will publish on the Authority’s Website:
       1. the text of the proposed ESORI Arrangements Guidance Document;
       2. the date on which the Authority intends the ESORI Arrangements Guidance Document to come into effect; and
       3. a period during which representations may be made on the content of the ESORI Arrangements Guidance Document, which will not be less than 28 days.
    7. Before amending the ESORI Arrangements Guidance Document, the Authority will publish on the Authority's Website:
       1. the text of the amended ESORI Arrangements Guidance Document;
       2. the date on which the Authority intends the amended ESORI Arrangements Guidance Document to come into effect;
       3. the reasons for the amendments to the ESORI Arrangements Guidance Document; and
       4. a period during which representations may be made on the amendments to the ESORI Arrangements Guidance Document, which will not be less than 28 days.

### Within Year reporting, Mid-Year Report and End of Year Report

* + 1. The licensee must publish information on its performance in relation to the Roles and the Business Plan on a regular basis, in line with the requirements in ESORI Arrangements Guidance Document.
    2. The licensee must, on or before the [xxth] working day in May, in the second year in the Business Plan cycle, prepare and publish a Mid-Year Report on its website containing the latest available information specified in paragraphs 4.3.20 (a) to (c) in respect of the Business Plan cycle.
    3. The licensee must, [on or before x May in in the third year of the Business Plan cycle] prepare, publish and submit an End of Year Report to the Authority setting out how the licensee has performed during the Business Plan cycle, including:
       1. information on the progress it has made against the Delivery Schedule;
       2. a summary of the licensee’s performance against the Performance Metrics, including explanations and justifications for its performance; and
       3. any evidence of benefits to consumers that have been, or will be, delivered during the Business Plan cycle, or in the following Business Plan cycle, as a result of the actions taken by the licensee during the Business Plan cycle.
    4. The licensee must ensure to the best of its knowledge that the information provided in respect of paragraphs 4.3.18 to 4.3.20, including any explanations and justifications for its performance, is accurate and correct.
    5. Where the licensee identifies that the information provided in respect of this Part is not accurate or correct, the licensee must notify the Authority and publish or resubmit corrected information as soon as is reasonably practicable, unless the Authority otherwise consents.

## SO-TO Mechanism (SOTOCt)

Introduction

* + 1. The purpose of this condition is to establish the value of SOTOCt (the SO-TO Cost term, which feeds into the BXextt term in Special Condition 4.2 (Balancing Services Activity Revenue Restriction on External Costs).
    2. The effect of this condition is to ensure that the licensee's allowed revenue reflects the costs of payments to National Grid Electricity Transmission plc, SP Transmission plc, and Scottish Hydro Electric Transmission Plc for Outages Changes, Commercial Operational Services and Joint Works Projects, which can be passed through to consumers up to a maximum value.

### Formula for calculating the SO-TO Cost term (SOTOCt)

* + 1. The value of SOTOCt is derived in accordance with the following formula:

where:

|  |  |
| --- | --- |
| OCt | means the costs incurred by the licensee for payments to National Grid Transmission plc, SP Transmission plc and Scottish Hydro Electric Transmission Plc or any successor company to each in respect of Outage Changes up to a maximum of £1,900,000 (in 2018/19 prices) or a maximum value directed otherwise by the Authority; |
|  | means the costs incurred by the licensee for payments to National Gird Transmission plc, SP Transmission plc and Scottish Hydro Electric Transmission Plc or any successor company to each in respect of Commercial Operational Services up to a maximum of £1,900,000 (in 2018/19 prices) or a maximum value directed otherwise by the Authority; and |
| JWt | means the costs incurred by the licensee for payments to National Grid Transmission plc, SP Transmission plc and Scottish Hydro Electric Transmission Plc or any successor company to each in respect of a Joint Works Projects where there has been a direction by the Authority to approve these Joint Work Projects in accordance with Part C. |

### Notice of Joint Works Projects

* + 1. The licensee must give notice of a Joint Works Project to the Authority where it considers, and can provide supporting evidence that, the benefits of the Joint Works Project outweigh the associated costs.
    2. A notice provided to the Authority under paragraph 4.4.4 must give particulars of:
       1. the project to which the approval notice relates and the reasons why the licensee considers the project satisfies the Joint Works Project Principles;
       2. the anticipated level of cost savings that can be demonstrated by the licensee as likely to result from the project and how the level of these cost savings has been calculated; and
       3. any other analysis or information which the licensee considers to be required to enable the Authority fully to assess the projects savings to which the notice relates.
    3. Any notice submitted to the Authority under paragraph 4.4.4 must clearly identify whether any of the information contained in the approval notice is of a confidential nature.

### Authority direction on Joint Works Project

* + 1. The Authority will direct whether to approve or reject the Joint Works Project submitted under Part B as well as its view on the appropriate range of costs in respect of that Joint Works Project.
    2. Before issuing a direction under paragraph 4.4.7, the Authority will publish on the Authority’s Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    3. In the event that the cost the licensee incurs for a Joint Works Project is outside the range of costs specified by the Authority under the direction in paragraph 4.4.7, it must notify the Authority and explain why these costs were economically and efficiently incurred.

## The RIIO-2 Network Innovation Allowance (NIAt)

Introduction

* + 1. The purpose of this condition is to calculate NIAt (the Network Innovation Allowance term) which feeds into Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
    2. The effect of this condition is to fund investment in innovation by means of the NIA.
    3. This condition also establishes a framework for the governance and administration of the NIA.

### Formula for calculating the Network Innovation Allowance term (NIAt)

* + 1. The value of NIAt is the total Allowable NIA Expenditure incurred by the licensee, subject to the following limit:

### The RIIO-2 NIA Governance Document

* + 1. The licensee must comply with the RIIO-2 NIA Governance Document.
    2. The Authority will issue and amend the RIIO-2 NIA Governance Document by direction.
    3. The Authority will publish the RIIO-2 NIA Governance Document on the Authority’s Website.
    4. The RIIO-2 NIA Governance Document will make provision about the regulation, governance and administration of the NIA, including:
       1. the definition of Allowable NIA Expenditure and Unrecoverable NIA Expenditure;
       2. the eligibility criteria, which RIIO-2 NIA Projects must meet;
       3. the information that is to be published by the licensee before RIIO-2 NIA Projects can begin;
       4. the circumstances in which the licensee will require approval from the Authority before beginning a RIIO-2 NIA Project, and the processes and procedures for that approval;
       5. arrangements for ensuring that learning from RIIO-2 NIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of a Distribution Licence;
       6. the reporting obligations in respect of RIIO-2 NIA Projects (which may include reporting in respect of the funding and the completion of such projects, and the provisions of the RIIO-2 NIA Governance Document); and
       7. arrangements relating to the treatment of intellectual property rights in respect of RIIO-2 NIA Projects.
    5. Before directing that the RIIO-2 NIA Governance Document comes into effect, the Authority will publish on the Authority’s Website:
       1. the text of the proposed RIIO-2 NIA Governance Document;
       2. the date on which the Authority intends the RIIO-2 NIA Governance Document to come into effect; and
       3. a period during which representations may be made on the content of the RIIO-2 NIA Governance Document, which will not be less than 28 days.
    6. Before directing an amendment to the RIIO-2 NIA Governance Document, the Authority will publish on the Authority’s Website:
       1. the text of the amended RIIO-2 NIA Governance Document;
       2. the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;
       3. the reasons for the amendment to the RIIO-2 NIA Governance Document; and
       4. a period during which representations may be made on the amendment to the RIIO-2 NIA Governance Document, which will not be less than 28 days.

## Carry-over RIIO-1 Network Innovation Allowance (CNIAt)

Introduction

* + 1. The purpose of this condition is to calculate the term CNIAt (the Carry-over Network Innovation Allowance term) which feeds into the Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).
    2. The effect of this condition is temporarily to extend RIIO-1 Network Innovation Allowance funding.
    3. This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the Carry-over Network Innovation Allowance.

Part A: Formula for calculating the Carry-over Network Innovation Allowance term (CNIAt)

* + 1. For the Regulatory Year commencing on 1 April 2021, the value of CNIA is calculated in accordance with the following formula:

where:

|  |  |
| --- | --- |
| ECNIAt | means the expenditure incurred by the licensee in respect of Eligible CNIA Projects as calculated by the licensee in accordance with the RIIO-1 NIA Governance Document and reported to the Authority in accordance with Standard Special Condition B15 (Regulatory Instructions and Guidance); |
| CNIAV | is derived in accordance with Part B; and |
| CNIAR | means an amount recovered by the licensee in relation to the Regulatory Year 2021/22 under the RIIO-1 NIA which the Authority has directed is unrecoverable in accordance with the RIIO-1 NIA Governance Document. |
| *PIt* | is the price index calculated in accordance with Part E of Special Condition 4.1. |

* + 1. For Regulatory Years commencing on or after 1 April 2022, the value of CNIAt is equal to zero.
    2. Eligible CNIA Internal Expenditure may not exceed 25% of the total Eligible CNIA, unless the Authority consents.

Part B: Formula for calculating the Carry-over Network Innovation Allowance Value term (CNIAVt)

* + 1. The value of CNIAVt is calculated in accordance with the following formula:

where:

|  |  |
| --- | --- |
| NIAV | the value of NIAV2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; |
| BR | the value of BR2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; |
| ENIA | the value of ENIA2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; and |
| BPC | the value of BPC2020/21 is calculated in accordance with Part B of Special Condition 3H (The Network Innovation Allowance) of this licence as in force on 31 March 2021. |

Part C: The RIIO-1 NIA Governance Document

* + 1. The Authority will amend the RIIO-1 NIA Governance Document by direction.
    2. The RIIO-1 NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
       1. arrangements for ensuring that relevant learning from Eligible CNIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of a Distribution License;
       2. the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the RIIO-1 NIA Governance Document);
       3. arrangements relating to the treatment of intellectual property rights in respect of Eligible CNIA Projects; and
       4. any other matters relating to the regulation, governance or administration of the Carry-over Network Innovation Allowance.
    3. The licensee must comply with the RIIO-1 NIA Governance Document.

Part D: Procedure for amending the RIIO-1 NIA Governance Document

* + 1. Before amending the RIIO-1 NIA Governance Document by direction, the Authority will publish on the Authority’s Website:
       1. the text of the amended RIIO-1 NIA Governance Document;
       2. the reasons for the amendments to the RIIO-1 NIA Governance Document; and
       3. a period during which representations may be made on the amendments to the RIIO-1 NIA Governance Document, which will not be less than 28 days.
    2. The requirements of paragraph 4.6.12 may be satisfied by action taken by the Authority before or after the commencement of this condition.

## System Operator Legacy Adjustments (SOLARt)

Introduction

* + 1. The purpose of this condition is to calculate the term *SOLAR*t (the System Operator legacy adjustments term), which in turn feeds into Calculated Revenue in Special Condition 4.1 (System Operator Internal Revenue Restriction).

### The formula for calculating the System Operator legacy adjustment term (SOLARt)

* + 1. The value of the SOLARt term is derived in accordance with the following formula:

where

|  |  |
| --- | --- |
| *LSOMODt* | has the value in sheet X of the ESO Price Control Financial Model unless the Authority directs otherwise in accordance with Part B; and |
| *LSOTRUt* | has the value of SOTRUt as determined in accordance with Part C of Special Condition 4.1 (System Operator Internal Revenue Restriction) of this licence as in force on 31 March 2021. |

### The formula for calculating the System Operator legacy MOD term (LSOMODt)

* + 1. The Authority will direct revisions to LSOMODt, coinciding with the Annual Iteration Process.
    2. Before making a direction under paragraph 4.7.3 the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.

# Governance

## Governance of the ESO Price Control Financial Instruments

Introduction

* + 1. The purpose of this condition is to establish a robust and transparent change control framework for each of the following ESO Price Control Financial Instruments:
       1. the ESO Price Control Financial Handbook; and
       2. the ESO Price Control Financial Model.

Part A: Assessment of the likely impact of an intended modification

* + 1. Before initiating any modification of a ESO Price Control Financial Instrument, the Authority will assess whether that modification would be likely to have a significant impact on any of the following persons:
       1. the licensee;
       2. any other Transmission Licensee in whose licence a condition equivalent to this one has effect;
       3. any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
       4. energy consumers (whether considered individually, as a whole, or by reference to any class or category of them) in Great Britain.
    2. In making the assessment required by paragraph 5.1.2, the Authority will have regard to all relevant factors including:
       1. any impact which an intended modification would be likely to have on any component of the licensee’s total allowed revenues or on any value, rate, time period, or calculation used in the determination of total allowed revenues; and
       2. in respect of modifications to the ESO Price Control Financial Model, any views expressed by the ESO Price Control Financial Model Working Group.
    3. For the purposes of paragraph 5.1.2, it is to be presumed that a modification which serves to correct a manifest error contained in a ESO Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.

Part B: Circumstances in which a modification may be made

* + 1. If, having carried out the required assessment under Part A, the Authority considers that an intended modification of a ESO Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.1.2, it may modify that instrument by direction. Otherwise any modification will be made under section 11A of the Act.
    2. Before making a direction under paragraph 5.1.5, the Authority will publish on the Authority's Website:
       1. the text of the proposed direction;
       2. the reasons for the proposed direction, including why the Authority believes that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.1.2; and
       3. a period during which representations may be made on the proposed direction, which will not be less than 28 days.
    3. A direction under paragraph 5.1.5 will set out:
       1. the modifications to the Price Control Finance Instruments; and
       2. the date from which it is to have effect or the mechanism by which that date is to be determined.

Part C: Availability and updating of ESO Price Control Financial Instruments

* + 1. This Part has effect in relation to the publication and availability of the ESO Price Control Financial Handbook, and the ESO Price Control Financial Model.
    2. The Authority will ensure that any modifications of the ESO Price Control Financial Handbook, whether under Part B or otherwise, are promptly incorporated into a consolidated version of the ESO Price Control Financial Handbook maintained on the Authority’s Website.
    3. The Authority will ensure that any modifications of the ESO Price Control Financial Model, whether under Part B or otherwise, are promptly incorporated into a consolidated version of the ESO Price Control Financial Model maintained on the Authority’s Website.
    4. Without limiting the general effect of paragraph 5.1.10, the Authority will, by no later than 30 November in each Regulatory Year:
       1. publish on the Authority’s Website, in Microsoft Excel ® format, the version of the ESO Price Control Financial Model that will be used to determine the value of the term SOIARt for the purposes of Part B of Special Condition 4.1;
       2. ensure that the electronic name of the file is “ET2 PCFM” followed by “November 20XX” where 20XX represents the calendar year containing the month of November prior to the Regulatory Year t;
       3. ensure that the words “ESO Price Control Financial Model for the Annual Iteration Process that will take place by 30 November” followed by the preceding Regulatory Year expressed in the format 20XX/XX are included as text within the file itself; and
       4. publish an up-to-date schedule of any modifications that have been made to the ESO Price Control Financial Model, whether under Part B or otherwise, up to and including the date of such publication.
    5. The first Regulatory Year in which the Authority will publish a version of the ESO Price Control Financial Model on the Authority’s Website for the purposes of paragraph 5.1.11 will be Regulatory Year 2021/22 and the last Regulatory Year will be 2024/25.

## Annual Iteration Process for the ESO Price Control Financial Model

### Introduction

* + 1. The purpose of this condition is to set out the steps of the Annual Iteration Process that will be carried out by the licensee and the Authority each year in relation to the ESO Price Control Financial Model, in order to determine the value of the term SOIARt for the purposes of Special Condition 4.1 (Restriction of System Operator Revenue).
    2. This condition also explains the process the Authority will follow in issuing and amending the PCFM Guidance.

Part A: Steps comprising the Annual Iteration Process

* + 1. The paragraphs in this Part set out the steps that comprise the Annual Iteration Process.
    2. Step 1: The licensee must, by 31 July prior to each Regulatory Year:
       1. complete the PCFM Variable Values Table with the PCFM Variable Values in accordance with the PCFM Guidance;
       2. run the ESO Price Control Financial Model to calculate the term SOIARt;
       3. save the ESO Price Control Financial Model; and
       4. submit the ESO Price Control Financial Model to the Authority.
    3. Step 2: The Authority will, taking into account any decisions made by it in relation to PCFM Variable Values under Chapters 3 to 4:
       1. review the ESO Price Control Financial Model submitted by the licensee and confirm or amend any PCFM Variable Values; or
       2. where the licensee has not complied with Step 1, complete the PCFM Variable Values Table.
    4. Step 3: The Authority will run the ESO Price Control Financial Model to calculate the term ARt.
    5. Step 4: The Authority will publish the value of the term SOIARt on its website in accordance with Part B.
    6. In relation to Step 1 in paragraph 5.2.4:
       1. where a PCFM Variable Value is not known at the time of submission, the licensee must calculate that value in accordance with the ET2 Price Control Financial Handbook or the PCFM Guidance, as applicable and otherwise provide its best estimate using the information available at the time; and
       2. where any PCFM Variable Value relies on a third-party publication that ceases to be published or no longer contains the value required, the value from the most recent publication that did contain the value must be used.

Part B: Publication of the value of the term SOIARt

* + 1. The value of the term SOIARt will be published by the Authority no later than 30 November prior to each Regulatory Year.
    2. Before publishing the value of the term SOIARt, the Authority will:
       1. send to the licensee:
          1. a notice stating the value for SOIARt that it proposes to publish; and
          2. a copy of the ESO Price Control Financial Model, which will contain the data used to calculate the value proposed for SOIARt; and
       2. specify a period during which representations may be made on the value of SOIARt, which will not be less than 14 days.

Part C: What if the Annual Iteration Process is not completed by 30 November?

* + 1. If the Authority does not publish a value for SOIARt by 30 November prior to any Regulatory Year, then the Annual Iteration Process will not have been completed and the provisions set out in paragraphs 5.2.12 and 5.2.13 will apply.
    2. The Authority will complete the Annual Iteration Process as soon as is reasonably practicable after 30 November by publishing a value for SOIARt.
    3. In the intervening period (between the 30 November and the date the value of SOIARt is published under paragraph 5.2.12), the value of SOIARt will be held to be equal to a value ascertained by:
       1. taking a copy of the ESO Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, will exclude the effect of any functional modifications under Special Condition 8.1(Governance of the ESO Price Control Financial Instruments) made after the completion of that Annual Iteration Process;
       2. using the selection facilities on the user interface sheet contained in that copy to select:
          1. the name of the licensee; and
          2. the Regulatory Year equating to the Regulatory Year t; and
       3. recording the value of the term SOIARt for the licensee that is shown as an output value.

Part D The final year of the ET2 Annual Iteration Process and other clarifications

* + 1. The last Regulatory Year in which there will be an Annual Iteration Process for the ESO Price Control Financial Model is 2024/2025 for the purpose of determining the value of the term SOIARt for Regulatory Year 2025/26.
    2. For the avoidance of doubt, neither:
       1. an Annual Iteration Process for the ESO Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A; nor
       2. a change to the Regulatory Year included in the name of and text within the ESO Price Control Financial Model (as referred to at paragraphs 5.1.11(b) and (c)) of Special Condition 5.1(Governance of the ESO Price Control Financial Instruments),

will constitute a modification of the ESO Price Control Financial Model within the meaning of Part B of Special Condition 5.1.

* + 1. Where any PCFM Variable Values are revised for years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOIARt for Regulatory Year t and, for the avoidance of doubt, it will not have any retrospective effect on a previously published value of the term SOIARt.

Part E The PCFM Guidance

* + 1. The licensee must comply with the PCFM Guidance when completing the Annual Iteration Process.
    2. The Authority will issue and amend PCFM Guidance by direction.
    3. The Authority will publish the PCFM Guidance on the Authority's Website.
    4. The PCFM Guidance will make provision about:
       1. instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;
       2. instructions and guidance on the process and timeframe for reporting and submitting the required data; and
       3. any requirements for supporting information, documentation or commentary that are to be submitted.
    5. Before directing that the PCFM Guidance comes into effect, the Authority will publish on the Authority's Website:
       1. the text of the proposed PCFM Guidance;
       2. the date on which the Authority intends the PCFM Guidance to come into effect; and
       3. a period during which representations may be made on the content of the PCFM Guidance, which will not be less than 28 days.
    6. Before directing an amendment to the PCFM Guidance, the Authority will publish on the Authority's Website:
       1. the text of the amended PCFM Guidance;
       2. the date on which the Authority intends the amended PCFM Guidance to come into effect;
       3. the reasons for the amendments to the PCFM Guidance; and
       4. a period during which representations may be made on the amendments to the PCFM Guidance, which will not be less than 28 days.