

To: National Grid Electricity Transmission plc

NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the "Authority") hereby gives Notice pursuant to section 11A(2) of the Electricity Act 1989 (the "Act") as follows:

1. The Authority proposes to modify the electricity transmission licence held by National Grid Electricity Transmission plc ("NGET") granted or treated as granted under section 6(1)(b) of the Act by amending Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) in the manner set out in the Annex to this Notice.
2. The reason why the Authority proposes to make this licence modification is to allow NGET to make adjustments to the system operator external costs incentive scheme that may arise from model or data errors in the previous six years in some circumstances.
3. The effect of the proposed licence modification is to adjust the system operator external costs incentive scheme payments either upwards or downwards where errors are caused by third parties and downwards when errors are caused by NGET.
4. A copy of our "Final Proposals for updating incentive performance in past incentive schemes letter dated 17 February 2016" and other related documents are available on the Ofgem website (www.ofgem.gov.uk).
5. Any representations with respect to the proposed licence modification must be made on or before **16 March 2016** to: Leonardo Costa, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to soincentive@ofgem.gov.uk.
6. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
7. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Mark Copley, Associate Partner, Wholesale Markets
Duly authorised on behalf of the Gas and Electricity Markets Authority

17 February 2016

Annex

[Deleted text is in strikethrough. Additional text is underlined]

1. Modify paragraph 4C.1 in Part A of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) in the following manner:

Part A: Balancing services activity revenue restriction on external costs

4C.1 The licensee shall use its best endeavours to ensure that in respect of Relevant Year t the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + IncPayExt_t + RFIIR_t + ROV_t + BSFS_t + NC_t + IONT_t + LBS_t$$

[ET_t has been replaced with TotAdj_t in the formula above]

ET_t TotAdj_t means the amount of any adjustment to be made during the Relevant Year t ~~in respect of any Relevant Year prior to Relevant Year t~~ as provided in paragraph 4C.2;

2. Modify paragraph 4C.2 in Part B of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) in the following manner:

Part B: Balancing Services Activity adjustments

4C.2 For the purposes of paragraph 4C.1, the term ~~ET_t TotAdj_t~~ ~~which relates to prior period adjustments in respect of the Relevant Year t~~ shall mean be derived from the following formula:

$$TotAdj_t = ET_t + IncAdj_t$$

where:

ET_t means the amount of any adjustment to be made during the Relevant Year t in respect of any Relevant Year prior to Relevant Year t as provided in paragraph 4C.3.

IncAdj_t means the amount of any adjustment to be made during the Relevant Year t in respect of any of the six Relevant Years prior to Relevant

Year t as provided in paragraph 4C.4.

4C.3 For the purposes of paragraph 4C.2, the term ET_t which relates to prior period adjustments in respect of the Relevant Year t shall mean:

- (a) the costs, whether positive or negative, to the licensee of:
 - (i) bids and offers in the Balancing Mechanism (excluding those relating to Supplemental Balancing Reserve and Demand Side Balancing Reserve) accepted by the licensee in any period before Relevant Year t less the total non-delivery charge for that period; and
 - (ii) contracts for the availability or use of balancing services during any period before Relevant Year t, excluding costs within $CSOBM_t$ and LBS_t 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 Relevant Year in computing the terms $CSOBM_t$ or $BSCC_t$; and

- (b) any amount within the term ET_t as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

4C.4 For the purposes of paragraph 4C.2, the term $IncAdj_t$ shall mean incentive adjustments in respect of Relevant Year t where the following criteria have been fulfilled:

- (a) where there has been one or more related errors for the same event (for the purposes of this Part B the “error”) in the calculation of the term $IncPayExt_t$ in one of the six Relevant Years prior to Relevant Year t where one of the following criteria have been fulfilled:
 - (i) where the error in the calculation of the term $IncPayExt_t$ was caused by or occurred as a result of an action or inaction of the licensee (including any employees, agents, contractors or advisers of the licensee), Affiliate or Related Undertaking which, if corrected, results in a negative adjustment to the term $IncAdj_t$; and
 - (ii) where the error in the calculation of the term $IncPayExt_t$ was caused by or occurred as a result of an action or inaction of a person other than the licensee (including any employees, agents, contractors or advisers of such person), which, if corrected, results in a positive or negative adjustment to the term $IncAdj_t$; and
- (b) where the absolute value of the adjustment for each error in sub-paragraph 4C.4(a) (whether positive negative) is greater than the value of one percent of the

upper limit of the term IncPayExt_t in the Relevant Year in which the error occurred;

- (c) where the cumulative adjustment for the errors in sub-paragraph 4C.4(a) in a Relevant Year do not lead to payments to or from the licensee outside of the scheme cap and scheme collar as set out in Table 3 in paragraph 4C.39 of this condition, for the Relevant Year in which the error occurred.

4C.5 The licensee shall give notice to the Authority as soon as reasonably practicable and in any event no later than 10 working days of it becoming aware of any error in the calculation of the term IncPayExt_t in any of the six Relevant Years prior to Relevant Year t.

4C.6 Unless the Authority directs otherwise, where the licensee gives notice to the Authority pursuant to paragraph 4C.5, the licensee shall provide the Authority with a written report on any proposed error within two months of such notice, containing the following :

- (a) evidence of how an error identified by the licensee meets the criteria set out in paragraph 4C.4;
- (b) the proposed value of the term IncAdj_t and evidence of how a proposed correction is consistent with this licence condition and the SO Methodologies established under paragraph 4C.42 (and in the case of the SO Methodologies, those in effect at the time when the error was made); and
- (c) any other information that is relevant for calculating the value of the term IncAdj_t.

4C.7 On receiving a report pursuant paragraph 4C.6, the Authority will have three months to direct that the term IncAdj_t shall not take the value proposed by the licensee pursuant to sub-paragraph 4C.6(b) but shall take an alternative value.

4C.8 If the Authority has not made a direction under paragraph 4C.7 within three months of the date on which the report was provided to the Authority pursuant to paragraph 4C.6, then the term IncAdj_t shall take the value proposed by the licensee in the report provided to the Authority.

4C.9 If the Authority requests any further information from the licensee during the three months period under paragraph 4C.7, the period will stop while the licensee compiles that information and will not commence again until the Authority receives the information requested.

3. Modify Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) to include the consequential changes to references resulting from the modifications to Part A and Part B of that condition. Paragraphs 4C.3 to 4C.40 will become paragraphs 4C.10 to 4C.47.