

To: National Grid Electricity Transmission plc

**Electricity Act 1989
Section 11A(2)**

Notice of statutory consultation on a proposal to modify special conditions 4L of the electricity transmission licence held by National Grid Electricity Transmission plc

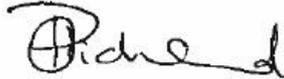
1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify special condition 4L (Financial incentives on EMR) ('the Condition') of the electricity transmission licence held by National Grid Electricity Transmission plc (NGET) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 by amending the Condition in the manner set out in the Annex to this Notice.
2. We are proposing this modification to ensure suitable performance incentives are in place for NGET in its role as the Electricity Market Reform (EMR) Delivery Body for the Early Capacity Auction confirmed by DECC in its 6 May 2016 Government Response to the 1 March 2016 consultation on changes to the electricity Capacity Market. The modification will concern in particular the following sub-clauses:
 - a. the dispute resolution incentive on how many of NGET's reviewable decisions are overturned by the Authority; and
 - b. the demand forecasting accuracy incentive on the licensee accurately forecasting demand.
3. The effect of the proposed modification is to adjust NGET's allowed revenue either upwards or downwards depending on how well it performs against the incentives set out in paragraph 2 of this Notice. The incentives proposed have almost the same effect as those set out in our 17 September 2015 decision entitled 'Decision on revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market Reform'. The exception is materially similar disputes for the same CMU,² across the T-4 auction and the Early Capacity Auction, will not count against both dispute resolution incentives, ensuring that NGET is not unduly penalised for the same mistake.
4. The modification is subject to the necessary amendments to the Electricity Capacity Regulations 2014 which will enable the ECA. These amendments are currently under Parliamentary scrutiny.
5. The modification has been proposed to account for the introduction of the Early Capacity Auction for delivery in 2017-8.
6. A copy of the proposed modification and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003).
7. Any representations with respect to the proposed licence modification must be made on or before 30 June 2016 to: Johannes Pelkonen, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to Johannes.pelkonen@ofgem.gov.uk.

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

² CMU as defined in regulation 2 of the Electricity Capacity Regulations 2014

8. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.

9. If we decide to make the proposed modification it will take effect on 1 June 2016.

A handwritten signature in black ink, appearing to read 'Philippa Pickford', written in a cursive style.

Philippa Pickford, Associate Partner
Duly authorised for and on behalf of the Authority

31/05/2016