

**To: Scottish Hydro Electric Transmission plc
SP Transmission plc
National Grid Electricity Transmission plc**

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

Modification of the financial instruments as defined in the special conditions of the electricity transmission licence held by the above licensees

1. The above licencees are the holders of an electricity transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 22nd March 2017 ('the Notice') that we propose to modify ET1 Price Control Financial Model as defined under Special Condition 5A of the Licence. We stated that any representations to the modification proposal must be made on or before 21st April 2017.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received two responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out at the accompanying letter.
5. We are making these licence changes to implement our recent decision on the mid-period review.
6. The effect of the modifications will be to:
 - a) Maintain the original Final Proposals profile of the Information Quality Incentive ex-ante reward;
 - b) Decrease NGET's totex allowances by £38.12; and
 - c) Increase NGET SO's totex allowance by £21.51m
7. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules² requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The attached Schedule 2 provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

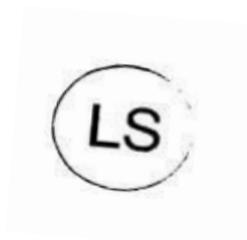
Under the powers set out in section section 11A(1)(a) of the Act, we hereby modify the ET1 Price Control Financial Model as defined under Special Condition 5A of the electricity transmission licence of the above licencees in the manner specified in attached Schedule 1. This decision will take effect from 13 July 2017.

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

² The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

This document is notice of the reasons for the decision to modify the electricity transmission licence held by the above licensees as required by section 49A(2) of the Act.

The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of



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Ian Rowson
Associate Partner, RIIO Finance
Duly authorised on behalf of the Gas and Electricity Markets Authority
17/05/17

Schedule 1 – Updated Price Control Financial Model

The updated MPR incorporating the MPR modification is available on our website at the following address:

<https://www.ofgem.gov.uk/network-regulation-riio-model/price-controls-financial-model-pcfm/riio-t1-financial-model-electric>

Schedule 2: Relevant Licence Holders³

Licensee	Company Number
Scottish Hydro Electric Transmission plc	SC213461
SP Transmission plc	SC189126
National Grid Electricity Transmission plc	02366977

³ Electricity licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-electricity-licensees-registered-addresses>