Chapter 1: Definitions
Special Condition 1A. Definitions and Interpretation

Introduction

1A.1 This condition sets out most of the defined words and expressions (most of which begin with capital letters) that are used in the Special Conditions, and gives their definitions.

1A.2 However:
   (a) some words and expressions which are only used in a particular Special Condition are defined in that condition; and
   (b) some words and expressions used in the Special Conditions are defined in Standard Condition 1 of the Standard Conditions (although capital letters are not used in those conditions to denote defined terms).

1A.3 Where a word or expression is defined both in this condition and in Standard Condition 1 of the Standard Conditions, the definition in this condition shall prevail.

1A.4 Any reference in these Special Conditions to:
   (a) a provision thereof;
   (b) a provision of the standard conditions of electricity transmission licences;
   (c) a provision of the standard conditions of electricity supply licences;
   (d) a provision of the standard conditions of electricity distribution licences;
   (e) a provision of the standard conditions of electricity generation licences;
   (f) a provision of the standard conditions of electricity interconnector licences

shall, 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.

Definitions in alphabetical order

1A.5 In the Special Conditions, unless the context otherwise requires:

   the Act has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

   Affiliate has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

   Allowable NIA Expenditure has the meaning given to that term in Part B of Special Condition 3H (The Network Innovation Allowance).

   Allowed Expenditure means the amount of costs, approved by the Authority, that is used to form a Price Control

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Allowed Pass-through Items means the items referred to in Special Condition 3B (Calculation of Allowed Pass-through Items).

Allowed Security Costs shall have the same meaning it has in the Fuel Security Code.

Annual Iteration Process means, in relation to the ET1 Price Control Financial Model, the process set out in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.

Associate means:

(a) an Affiliate or Related Undertaking of the licensee;

(b) an Ultimate Controller (as defined in standard condition A1 (Definitions and interpretation)) of the licensee;

(c) a Participating Owner of the licensee; or

(d) a Common Control Company.

Authority means the Gas and Electricity Markets Authority.

Authority’s website means www.ofgem.gov.uk.

Average Specified Rate means the average value of the Bank of England’s Official Bank Rate during the period in respect of which the calculation in question falls to be made.

Balancing Mechanism has the meaning given in Standard Condition C1 (Interpretation of Section C).

balancing services has the meaning given to this term in Standard Condition C1 (Interpretation of Section C).

Balancing Services Activity has the meaning given to this term in Standard Condition C1 (Interpretation of Section C).
Balancing Services Activity Revenue means the total revenue derived by the licensee from the carrying on of the Balancing Services Activity.

Balancing Services Activity Revenue Restriction means Special Conditions 4A (Restriction of System Operator Internal Revenue) and 4C (Balancing Services Activity Revenue Restriction on External Costs), together with such parts of Special Conditions 4B (Balancing Services Activity Conditions: Interpretation) and Special Conditions 4D (Restriction on Contracting with BSC Parties) to 4J inclusive as are ancillary thereto.

Black Start shall have the same meaning as is given to that term in the Grid Code.

BM Unit shall have the meaning given in the BSC.

BSC shall have the meaning given in Standard Condition C1 (Interpretation of Section C).

BSC Party has the meaning given in Standard Condition C1 (Interpretation of Section C).

Capital Contributions means any capital payment made by the licensee to a New Provider in order to facilitate the provision of Black Start services by the New Provider.

Common Control Company means any company, any of whose Ultimate Controllers (applying the definition in standard condition A1 (Definitions and interpretation) but substituting that company for the licensee) is also an Ultimate Controller of the licensee.

Competent Authority means the Secretary of State, the Authority, the Compliance Officer, the Stock Exchange, the Panel on Take-overs and Mergers, or any local or national agency, regulatory body, authority, department, inspectorate, minister (including Scottish Ministers), ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, the United Kingdom, the United States of America or the European Community.

CUSC has the meaning given in Standard Condition C1 (Interpretation of Section C).
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSC Party</td>
<td>has the meaning given in Standard Condition C1 (Interpretation of Section C).</td>
</tr>
<tr>
<td>Day Ahead Forecast</td>
<td>means the forecast of Wind Generation Output published by the licensee no later than 17:00 hours on the day before the day to which the forecast relates.</td>
</tr>
<tr>
<td>Directly Attributable Costs</td>
<td>has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).</td>
</tr>
<tr>
<td>Disallowed Expenditure</td>
<td>has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).</td>
</tr>
<tr>
<td>Disapplication Date</td>
<td>means the date on which the Licensee proposes that the Relevant Special Conditions should be disapplied in whole or in part as specified in a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions).</td>
</tr>
<tr>
<td>Disapplication Request</td>
<td>means a request to disapply the Relevant Special Conditions (in whole or in part) for the purposes of and in accordance with Special Condition 8A (Disapplication of Relevant Special Conditions).</td>
</tr>
<tr>
<td>Electricity Market Reform Enduring Solution</td>
<td>for the purposes of Special Condition 7D (Arrangements for the recovery of SO uncertain costs) means costs incurred, or expected to be incurred, by the licensee for the purposes of carrying on EMR Functions (as defined in Chapter 5 of Part 2 of the Energy Act 2013).</td>
</tr>
<tr>
<td>Electricity Transmission Group</td>
<td>means any group of Transmission Owners in which the licensee and every other Transmission Owner within the group are Affiliates.</td>
</tr>
<tr>
<td>Eligible NIA Expenditure</td>
<td>means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of Special Condition 3H (The Network Innovation Allowance).</td>
</tr>
<tr>
<td>Eligible NIA Internal Expenditure</td>
<td>means the amount of Eligible NIA Expenditure spent or accrued on the internal resources of the licensee.</td>
</tr>
<tr>
<td>Eligible NIA Projects</td>
<td>means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document</td>
</tr>
</tbody>
</table>
as are necessary to enable the projects to be funded under the provisions of Special Condition 3H (The Network Innovation Allowance).

Eligible NIC Bid Preparation Costs
means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition as defined in Special Condition 3I (The Network Innovation Competition) that satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition under the provisions of Special Condition 3H (The Network Innovation Allowance).

Eligible NIC Project
for the purposes of Special Condition 3I (The Network Innovation Competition) means a project undertaken by the Licensee or any other electricity Transmission Licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.

Embedded Transmission System
means a transmission system consisting of plant and equipment that includes relevant offshore lines which forms part of the National Electricity Transmission System by utilising a connection to an electricity distribution system.

Enhanced Security Costs
for the purposes of Special Condition 7D (Arrangements for the recovery of SO uncertain costs) means costs incurred, or expected to be incurred, by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the security of any of the IT systems required to operate the licensee’s Transmission System.

ET1 Price Control Financial Handbook
means the document of that name that was published by the Authority on 1 February 2013 and came into effect on 1 April 2013 that:

(a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and

(b) contains, in particular, the ET1 Price Control Financial Methodologies,

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ET1 Price Control Financial Instruments

comprise the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies, and the ET1 Price Control Financial Model.

ET1 Price Control Financial Methodologies

means the methodologies that:

(c) are named as such in the ET1 Price Control Financial Handbook; and

(d) together comprise a complete and documented explanation of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process,

as modified from time to time in accordance with the provisions of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

ET1 Price Control Financial Model

means the model of that name (with a suffix referring to the month of November in Relevant Year t-1 as that term is defined for the purpose of Special Condition 5A (Governance of ET1 Price Control Financial Instruments)) that was first published by the Authority on 1 February 2013 and came into effect on 1 April 2013:

(a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with the suffix referred to above) on the Authority’s Website; and

(b) that the Authority will use to determine the value of the terms MOD_t and SOMOD_t through the application of the Annual Iteration Process,

as modified from time to time in accordance with the provisions of Special Condition 5A.

ET1 Price Control Financial Model Working Group

means the working group identified in and whose terms of reference are set out in Chapter 1 of the ET1 Price Control Financial Handbook.
Excluded Services means the services that fall within the definition in Part C of Special Condition 8B (Services treated as Excluded Services).

Feasibility Studies means work undertaken by the licensee and any potential New Provider in order to assess the ability of the potential New Provider to provide Black Start services.

Funding Return has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

Funding Return Mechanism has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

Halted Project Revenues has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

Independent Examiner means a person or persons nominated by, and independent of, the licensee or any business or Associate of the licensee with the skill and knowledge to undertake an evaluation of the practices, procedures and systems implemented by the licensee in order to secure compliance with Special Condition 2N (Electricity Market Reform) and 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions).

Information for the purposes of Special Condition 2N (Electricity Market Reform) and Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions) means all information of whatever nature and in whatever form including, without limitation, in writing, orally, electronically and in a visual or machine-readable medium including CD ROM, magnetic and digital form.

Interconnector Owner means the holder for the time being of an electricity interconnector licence in relation to which licence the Authority has issued a Section G (Cap and Floor Conditions) Direction and in which Section G remains in effect (whether or not
subject to any terms included in the Section G (Cap and Floor Conditions) Direction or to any subsequent variation of its terms, to which the licensee may be subject).

**Maximum Revenue**

means the revenue calculated in accordance with the formula set out in Part B of Special Condition 3A (Restriction of Transmission Network Revenue).

**Maximum SO Internal Revenue (SOI)**

means the revenue calculated in accordance with the formula set out in Part B of Special Condition 4A (Restriction of System Operator Internal Revenue).

**National Electricity Transmission System**

has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

**Network Access Policy**

has the meaning given to that term in paragraph 2J.1 of Special Condition 2J (Network Access Policy).

**Network Innovation Allowance (NIA)**

has the meaning given to that term in paragraph 3H.1 of Special Condition 3H (The Network Innovation Allowance).

**Network Innovation Competition (NIC)**

has the meaning given to that term in Special Condition 3I (The Network Innovation Competition).

**New Provider**

means an authorised electricity or other provider in respect of a generation set or other asset in respect of which the licensee has not entered into any agreement to provide Black Start services prior to the date on which this condition takes effect in this licence.

**NIA Governance Document**

means the document issued by the Authority under Part D of Special Condition 3H (The Network Innovation Allowance), subject to the requirements of Part E of Special Condition 3H (The Network Innovation Allowance), relating generally to the establishment and operation of the NIA and including matters relating to the calculation of the Eligible NIA Expenditure.

**NIA Percentage**

means the percentage of Base Transmission Revenue which the licensee may use for Eligible NIA Projects as set out in Appendix 1 of Special Condition 3H (The Network Innovation Allowance).
NIC Funding
has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition).

NIC Funding Mechanism
has the meaning given to that term in Part B of Special Condition 3I (The Network Innovation Competition).

NIC Governance Document
means the document issued by the Authority under Part E of Special Condition 3I (The Network Innovation Competition), subject to the requirements of Part F, relating generally to the NIC and including matters relating to the operation of the NIC Funding Mechanism.

NOMs Methodology Objectives
means the objectives set out in Part B of Special Condition 2L (Methodology for Network Output Measures).

Non-chargeable Outage Change
means any change to the outage plan notified to a Transmission Owner by the licensee which the Transmission Owner and the licensee agree is not an outage change under Special Condition 4J (SO-TO Mechanism)

Non-Domestic Rates
means:
(a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and
(b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994, or any legislation amending or replacing those enactments.

Offshore Transmission Owner
means the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section E (offshore transmission owner standard conditions) Direction and where Section E remains in effect (whether or not subject to any terms included in Section E (offshore transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject).

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Operational Forum Meeting means the industry forum at which the licensee provides an update on the operation of the National Electricity Transmission System to relevant parties.

Outage Change shall have the meaning given in Part E of Special Condition 4J (SO-TO Mechanism)

Participating Interest has the meaning given in section 421A of the Financial Services and Markets Act 2000.

Participating Owner for the purposes of the definition of “Associate”, a person is subject to a Participating Interest by another person (a “Participating Owner”) if:

(a) that other person holds a Participating Interest in the person; or

(b) the person is subject to a Participating Interest by a person who is himself subject to a Participating Interest by that other person.

PCFM Variable Value means a value held in a PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and

whose revision does not constitute a modification to the ET1 Price Control Financial Model for the purposes of Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

PCFM Variable Values Table means the table on the Input sheet of the ET1 Price Control Financial Model for the licensee which has:

(a) column headings for:

(i) PCFM Variable Value names;

(ii) Special Condition numbers;

(iii) unit designations; and

(iv) Relevant Years;

(b) a row relating to each PCFM Variable Value specified in this licence; and

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a range of blue coloured cells containing the PCFM Variable Values specified in this licence.

Pension Protection Fund has the meaning given in the Glossary of the ET1 Price Control Financial Handbook.

Pension Scheme Administration has the meaning given in the Glossary of the ET1 Price Control Financial Handbook.

Pension Scheme Established Deficit has the meaning given in the Glossary of the ET1 Price Control Financial Handbook.

Period p means the period 1 April 2011 to 31 March 2013.

Power Station shall have the same meaning as is given to that term in the Grid Code.

Price Control Period means the period of eight years beginning on 1 April 2013 and ending on 31 March 2021 during which subject to Special Condition 8A (Disapplication), the Special Conditions will have effect in this licence.

Project Direction for the purposes of Special Condition 3I (The Network Innovation Competition) means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

Registered Capacity shall have the same meaning as is given to that term in the Grid Code.

Regulatory Asset Value (RAV) has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.

“RIGs” means Regulatory Instructions and Guidance pursuant to Standard Condition B15 (Regulatory Instructions and Guidance).

Related Undertaking has the meaning given to that term in Standard Condition A1 (Definitions and interpretation).

Relevant Other Competitive Business means the business of:

(a) participating in, or intending to participate in, a competitive tender exercise to determine a person to whom an offshore transmission licence is to be granted;

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(b) an Offshore Transmission Owner;

(c) undertaking carbon capture and storage activities; or

(d) owning and/or operating an entity participating in, or intending to participate in, activities which require a licence under section 6(1)(e) of the Electricity Act 1989.

**Relevant Special Conditions** means Special Condition 4A (Restriction of System Operator Internal Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 4A to which a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions) relates; and

Special Condition 3A (Restriction of Transmission Network Revenue), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 3A to a Disapplication Request under Special Condition 8A (Disapplication of Relevant Special Conditions) relates.

**Relevant User Agreement to Vary** means a bilateral contract between the licensee and user for a modification to an existing grid connection as defined in the CUSC.

**Relevant Year** a year beginning on 1 April to which the provisions of this licence apply.

**Relevant Year t** for the purposes of the Special Conditions in Chapters 5 and 7, means the Relevant Year in which the values for the term SOMOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Special Condition 4A (Restriction on System Operator Internal Revenue) and references to Relevant Year t-1 and Relevant Year t-2 are to be construed accordingly.

For the purposes of Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to 4J inclusive Relevant Year t means that Relevant Year for the purposes of which any calculation falls to be made and

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references to Relevant Year t-1 and t-2 are to be construed accordingly.

**Retail Prices Index**

 means: a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances.

**Retail Prices Index Forecast Growth Rate**

 means: a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) as defined as the “New forecasts (marked *)” in the HM Treasury “Forecasts for the UK Economy” publication, published in November each year; or b) if that growth rate in respect of any year has not been published, such growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances; or c) if there is a material change in the basis of that growth rate, such other growth rate as the Authority may, after consultation with the licensee, determine to be appropriate in the circumstances.

**Returned Project Revenues**

 has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

**Returned Royalty Income**

 has the meaning given to that term in Part C of Special Condition 3I (The Network Innovation Competition).

**RIIO Principles**

 means the principles for the assessment of business plans set out in the document entitled “Decision on strategy for the next transmission price control” (Ref 47/11) published on 31 March 2011.

**Security Period**

 for the purposes of Special Condition 3K (Allowances in respect of a Security Period) means a period commencing on the date on which any direction issued by the Secretary of State under section 34(4) of the Act enters into effect
and terminating on the date (being not earlier than the date such direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including, without limitation, licence holders liable to be principally affected) as it shall consider appropriate, may with the consent of the Secretary of State by notice to all licence holders determine after having regard to the views of such persons.

**Shared Services** for the purposes of Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions) means shared corporate services (which shall not include regulatory services) as specified in the compliance statement established under Part D of Special Condition 2O.

**Site-Specific Charges** means charges defined in Schedule Ten of the STC.

**SO Capex Rolling Incentive** means the mechanism giving rise to the adjustment term IncPayEXt in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) of this licence in the form it was in on 31 March 2013.

**SO Methodologies** means the documented explanation of the methods, principles and assumptions that the licensee will apply for the purposes of using the SO Models to determine the value of the term “Modelled Target Costs$_m$” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).

**SO Models** means the tools used by the licensee to forecast costs incurred by the licensee in carrying out the Balancing Services Activity and to determine the value of the term “Modelled Target Costs$_m$” in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).

**SO Opening Base Revenue Allowance** means the value of base revenue determined by the Authority and as set out in Appendix 1 of Special Condition 4A (Restriction of System Operator Internal Revenue).

**SO Totex** has the meanings given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

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SO Totex Capitalisation Rate  has the value provided in the table in Appendix 1 of Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator).

Specified Information  has the meaning given in Standard Condition B15 (Regulatory Instructions and Guidance).

System Operator (SO)  has the meaning given to the term in Standard Condition A1 (Definitions and interpretation).

System Operator Functions  for the purposes of Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions) means the activities of the licensee pursuant to the obligations under Section C of this licence, for which there are no equivalent obligations under Section D or Section E, of the standard licence conditions contained in an electricity transmission licence.

Time Value of Money Adjustment  has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.

Totex  has the meaning given in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

Totex Capitalisation Rate  has the meaning given in the glossary of the ET1 Price Control Financial Handbook.

Totex Incentive Mechanism  (a) has the meaning given to this term in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

Totex Incentive Mechanism Adjustment  has the meaning given to those terms in the methodology in chapter 6 of the ET1 Price Control Financial Handbook.

Totex Incentive Strength Rate (SO)  means the incentive rate for the licensee set out in Appendix 1 to Special Condition 7D (Arrangements for the recovery of SO uncertain costs).

Transmission Business  has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).

Transmission Business Activities  has the meaning given to this term in Standard Condition B1 (Regulatory Accounts).
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission Constraints</td>
<td>has the meaning given in Standard Condition C16 (Procurement and use of balancing services).</td>
</tr>
<tr>
<td>Transmission Licence</td>
<td>has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).</td>
</tr>
<tr>
<td>Transmission Licensee</td>
<td>has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).</td>
</tr>
<tr>
<td>Transmission Network Charges</td>
<td>means charges levied by the licensee in respect of the provision of Transmission Network Services.</td>
</tr>
<tr>
<td>Transmission Network Revenue</td>
<td>means the aggregate of revenue in the Relevant Year derived by the licensee from the provision of Transmission Network Services and from remote transmission asset rentals.</td>
</tr>
<tr>
<td>Transmission Network Services</td>
<td>has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).</td>
</tr>
<tr>
<td>Transmission Owner (TO)</td>
<td>has the meaning given to this term in Standard Condition A1 (Definitions and interpretation).</td>
</tr>
<tr>
<td>Transmission System</td>
<td>has the meaning given to this term in Section 4(4) of the Act.</td>
</tr>
<tr>
<td>Unrecoverable Expenditure</td>
<td>for the purposes of Special Condition 3H (The Network Innovation Allowance) means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document.</td>
</tr>
<tr>
<td>Vanilla Weighted Average Cost of Capital</td>
<td>has the meaning given to that term in the Glossary of the ET1 Price Control Financial Handbook.</td>
</tr>
<tr>
<td>Warming</td>
<td>means any actions taken by the licensee to ensure that a generator is able to provide a Black Start service where it would not otherwise be available to do so.</td>
</tr>
<tr>
<td>Wider Works (WW)</td>
<td>means transmission reinforcement works that are designed to reinforce or extend the National Electricity Transmission System in order to make it compliant with the terms of the National Electricity Transmission System Security and Quality of Supply Standard (or such other standard of planning and operation as the Authority may approve from time to time and with which the licensee may be required to comply in accordance with Standard Condition C17 (Transmission system security standard and quality of service)).</td>
</tr>
<tr>
<td>Work Force Renewal Costs</td>
<td>means costs incurred, or expected to be incurred, by the licensee in recruitment and training to</td>
</tr>
</tbody>
</table>
ensure a sustainable work force that are not included in allowed totex or recoverable through another Special Condition.
Special Condition 1B. Not Used
Special Condition 1C. Amended standard conditions

1. Standard condition A1 (Definitions and interpretation) shall be amended
   (a) by the addition of the following text at the correct place alphabetically:

   "EMR functions" has the same meaning as in Chapter 5 of Part 2 of the Energy Act 2013

2. Standard condition A1 (Definitions and interpretation) shall be amended as follows:
   (a) by the omission of the full stop and the addition of the following text at the end of subsection (c) in the definition of “permitted purpose”;

   “; and (d) the EMR functions.”
   (b) in the definition of "transmission business”:

   (aa) not used;
   (bb) not used;
   (cc) the words "or commercial management" shall be inserted after "maintenance";
   (dd) the word “or” shall be deleted at the end of paragraph (i);
   (ee) the word “;or” shall be inserted at the end of paragraph (ii); and
   (ff) a new paragraph (iii) shall be inserted as follows:

   “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”.

3. Standard Condition B1 (Regulatory Accounts) shall be amended at paragraph 2(a) by the insertion of “(which, for the purposes of this condition and Standard Conditions B5 and B6 only, includes the EMR functions)” after “business”.

4. Standard Condition B5 (Prohibition of Cross Subsidies) shall be amended by the insertion of “(which, for the purposes of this condition and Standard Condition B1 and B6 only, includes the EMR functions)” after “business” and “shall”.

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5. Standard Condition B6 (Restriction on Activity and Financial Ring Fencing) shall be amended at paragraph 1 by the insertion of “(which, for the purposes of this condition and Standard Conditions B1 and B5 only, includes the EMR functions)” after “transmission business”.

6. Standard condition B7 (Availability of Resources) shall be amended as follows:

(a) at paragraph 1, by the deletion of the full stop at the end of paragraph (b) and the addition of the following text after “electricity transmission”: “;and (c) to properly and efficiently carry on the EMR functions and to comply in all respects with its obligations under EMR legislation”.

(b) in the following places to insert “and EMR functions”:

a. in paragraph 2(a) between “business” and “for”;

b. in paragraph 2(b):

(aa). between “business” and “for”;

(bb). between “business” and “[followed”;

c. in paragraph 2(c) between “business” and “for”;

d. in paragraph 4(a) between “business” and “for”;

e. in paragraph 4(b):

(aa). between “business” and “for”;

(bb). between “business” and “[followed”;

f. in paragraph 4(c) between “business” and “for”.

7. Standard condition B8 (Undertaking from ultimate controller) shall be amended:

(a) at paragraph 1 by inserting “EMR legislation,” between “under” and “the”;  

(b) by the addition of the following text as a new paragraph 4:

“The licensee shall not be in breach of paragraph 1 if within 7 days of this paragraph coming 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”.

8. Standard condition B22 (Requirement for sufficiently independent directors) shall be amended at paragraph 1 by inserting the word “three” in place of the word “two” ahead of “non-executive directors”.

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9. Standard Condition C2 (Prohibited activities) shall be amended at paragraph 2 by inserting the words “that is not subject to Condition D6” ahead of “shall not, on its own account”.

10. Standard Condition C2 (Prohibited activities) shall be amended by the addition of the following text as paragraph 4:

“For the avoidance of doubt, paragraph 2 shall not prohibit or restrict the ability of the licensee to carry out its EMR functions.”
Chapter 2: General Obligations
Special Condition 2A. Not Used
Special Condition 2B. Not Used
Special Condition 2C. Prohibited Activities and Conduct of the Transmission Business

Prohibited Activities

1. Except with the written consent of the Authority, the licensee shall not and shall procure that any subsidiary of the licensee shall 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.

Conduct of the Transmission Business

2. The licensee shall conduct its transmission business in the manner best calculated to secure that, in meeting its obligations under this licence:

(a) the licensee;
(b) any affiliate or related undertaking of the licensee including, for the avoidance of doubt:
   (i) 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
   (ii) 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;
(c) any user of the national electricity transmission system; or
(d) any other transmission licensee;

obtains no unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an

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advantage accruing to the licensee, one in connection with a business other than its transmission business.
Special Condition 2D. Not used
Special Condition 2E. Not used
Special Condition 2F. Role in respect of the National Electricity Transmission System Operator area located in offshore waters

Part A: Purpose

1. The purpose of this condition is to ensure that the licensee prepares conduct and performance reports to facilitate the development of an efficient, co-ordinated and economical system of electricity transmission.

Part B:

2-5: Not Used

Part C:

6-19: Not Used

Part D:

20: Not Used

Part E: Offshore transmission report

21. The licensee shall until 31 March 2021, (or such earlier date as the Authority may direct) periodically deliver a report (the “offshore transmission report”) to the Authority containing information relating to the licensee’s activities undertaken pursuant to this licence in respect of that part of the National Electricity Transmission System located in offshore waters in accordance with any direction issued under paragraph 22.

22. The Authority shall, following consultation with the licensee, issue a direction to the licensee as to the form and content of the offshore transmission report and the frequency with which the licensee shall deliver the offshore transmission report to the Authority (being not more frequently than one report in each month).

23. The Authority may review and, following consultation with the licensee, vary any direction issued by the Authority pursuant to paragraph 22 by issuing a further direction to the licensee under paragraph 22 as to the form and content of the offshore transmission report and the frequency with which the licensee shall deliver the offshore transmission report to the Authority (being not more frequent than one report each month).

24. The licensee may request a review of any direction issued by the Authority pursuant to paragraph 22 or a variation to a direction issued by the Authority pursuant to paragraph 22. If, having considered the representations made by the licensee in such a request, the Authority considers that it is appropriate that the form and content of the offshore transmission report and/or the frequency with which the licensee shall deliver the offshore transmission report to the Authority should be varied, the Authority may issue a further direction under paragraph 22 to the licensee varying the form and content of the offshore report.

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transmission report and/or the frequency with which the licensee shall be required to deliver the offshore transmission report to the Authority. The Authority may not direct that the licensee shall deliver the offshore transmission report to it more frequently than once in each month.

25. The offshore transmission report shall be designed to facilitate monitoring and assessment of the conduct and performance of the licensee in relation to:

(a) the licensee’s compliance with this licence in respect of that part of the National Electricity Transmission System operator area located in offshore waters;

(b) the licensee’s performance in respect of that part of the National Electricity Transmission System operator area located in offshore waters in developing and facilitating the development of an efficient, co-ordinated and economical system of electricity transmission; and

(c) details of any complaints made by interested parties to the licensee in respect of its performance under this licence in respect of that part of the National Electricity Transmission System operator area located in offshore waters and of the actions taken by the licensee to resolve any complaints raised.

26. The licensee shall until 31 March 2021 (or such earlier date as the Authority may direct), provide to the Authority, by 1 December in each year, a certificate signed by the Single Appointed Director (appointed pursuant to Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions certifying that the information in the offshore transmission reports delivered to the Authority in the previous twelve months is fair and accurate.

27. In this condition:

“interested parties” includes authorised electricity operators, potential offshore transmission owners, the Crown Estate, Government bodies and institutions with an interest in the development of the National Electricity Transmission System in respect of the parts of the national electricity operator area located in offshore waters.
Special Condition 2G. Prohibition on engaging in preferential or discriminatory behaviour

1. The licensee shall not, in meeting its obligations under this licence, unduly discriminate as between or unduly prefer any other transmission licensee or transmission licensees or unduly prefer itself over any other transmission licensee or transmission licensees.

2. On notification by the Authority, the licensee shall 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 notification, and the licensee shall furnish to the Authority such records (or such of these as the Authority may require) in such manner and at such times as the Authority may require.
Special Condition 2H. Not Used

Special Condition 2I. Not used
Special Condition 2J. Network Access Policy

Introduction

2J.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 respective Transmission Owners’ Network Access Policy (“NAP”) designed to facilitate efficient performance and effective liaison between the System Operator and Transmission Owners in relation to the planning, management, and operation of the National Electricity Transmission System (NETS) for the benefit of consumers.

2J.2 For the avoidance of doubt, nothing in this condition replaces, overrides, or limits:

(a) any statutory duty imposed on the licensee;

(b) any other obligation of the licensee under licence or 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); and

(c) the System Operator - Transmission Owner Code (“the STC”).

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

2J.3 The licensee must incorporate the respective Transmission Owners’ NAP into its planning and operations within its licensed activities. It must act consistently with the NAPs, subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it.

2J.4 The licensee must take all reasonable endeavours to assist Transmission Owners in meeting their obligations for meeting the essential requirements of the NAP and amending the NAP.
Special Condition 2K. Not Used

Special Condition 2L. Not Used
Special Condition 2M. Not Used
Special Condition 2N. Electricity Market Reform

Introduction

2N.1 This condition sets out the licensee’s obligations as to its conduct in performing the EMR Functions.

Part A: Objectives

2N.2 The licensee shall:

(a) in performing the EMR Relevant Duties, act in a manner best calculated to secure:

   (i) the efficient and effective carrying on of the EMR Functions;
   
   (ii) compliance with the principles appearing to it to represent best regulatory practice; and

(b) 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

2N.3 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 2C (Prohibited Activities and Conduct of the Transmission Business) and Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions), the licensee shall at all times conduct its activities, including carrying out the EMR Functions, separately from the Relevant Other Competitive Businesses, provided that nothing in Part B of this Special Condition 2N shall prevent 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).

2N.4 Without prejudice to the generality of paragraph 2N.3, in order to comply with paragraph 2N.3 the licensee shall ensure that at a minimum:

(a) 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:

   (i) 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

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used in or dedicated to any of the Relevant Other Competitive Businesses; or

(ii) 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;

(b) the licensee’s accounts are maintained and to the extent required by law audited and reported separately from those of any corporate entity which conducts Relevant Other Competitive Business;

(c) 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:

(i) 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

(ii) 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);

(d) arrangements are in place which are effective in restricting access by persons engaged in, or engaged 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;

(e) the systems for the recording, processing or storage of Confidential EMR Information used by persons engaged in, or engaged 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

(f) the licensee establishes and maintains in force a code of conduct governing the disclosure of Confidential EMR Information by persons carrying out EMR Functions.
Part C: Establishment of the EMR Data Handling Team and the EMR Administrative Team

2N.5 By no later than 7 days after this condition comes into effect, the licensee shall establish an EMR Data Handling Team and shall thereafter operate, supervise and manage the EMR Data Handling Team in a manner compliant with this condition.

2N.6 Without prejudice to the generality of paragraph 2N.5, in order to comply with paragraph 2N.5 the licensee shall in particular ensure that at a minimum:

(a) subject to paragraphs 2N.6A, 2N.13 and 2N.13A, the EMR Data Handling Team shall, in presenting Confidential EMR Delivery Plan Information to a person who is not a member of the EMR Data Handling Team, use all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Delivery Plan Information;

(b) each member of the EMR Data Handling Team:

(i) signs a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2N.18(b)(ii); and

(ii) 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

(a) 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 2N.6.

2N.6A Paragraph 2N.6(a) shall 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:

(a) 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; and

(b) such other EMR Functions where the Authority has given its prior written consent.

2N.6B Subject to paragraphs 2N.13 and 2N.13A, where Confidential EMR Delivery Plan Information is disclosed to the EMR Administrative Team under paragraph 2N.6A, the licensee shall 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 all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Delivery Plan Information.
2N.7 By no later than 7 days after this condition comes into effect, the licensee shall establish an EMR Administrative Team and shall thereafter operate, supervise and manage the EMR Administrative Team in a manner compliant with this condition.

2N.8 The licensee shall ensure that:

(a) the EMR Administrative Team is responsible for carrying out the EMR Administrative Functions; and

(b) subject to paragraphs 2N.8A, 2N.13 and 2N.13A, in presenting Confidential EMR Administrative Information to a person who is not a member of the EMR Administrative Team, the EMR Administrative Team shall use all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Administrative Information.

2N.8A Paragraph 2N.8(b) shall 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:

(a) its EMR Functions under Part 3 (Electricity capacity reports) of the Electricity Capacity Regulations 2014 of preparing, amending and updating an annual capacity report; and

(b) such other EMR Functions where the Authority has given its prior written consent.

2N.8B Subject to paragraphs 2N.13 and 2N.13A, where Confidential EMR Administrative Information is disclosed to the EMR Data Handling Team under paragraph 2N.8A, the licensee shall 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 all reasonable endeavours to ensure that it is not possible for such a person to identify the generation set, or the owner or operator thereof, which is the subject of that Confidential EMR Administrative Information.

2N.9 The licensee shall ensure that each member of the EMR Administrative Team shall:

(a) sign a non-disclosure agreement in a form agreed with the Authority and annexed to the EMR compliance statement pursuant to paragraph 2N.18(c)(ii);

(b) not be, while a member of the EMR Administrative Team, simultaneously engaged in, or in respect of, any activity of the licensee other than:

(i) the performance of EMR Administrative Functions; or

(ii) 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 2N.8A; and
be, for periods of time agreed by the Authority and specified in the EMR compliance statement:

(i) assigned to the EMR Administrative Team for a minimum posting period; and

(ii) 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.

2N.10 For the avoidance of doubt, paragraph 2N.9 shall not prevent members of the EMR Administrative Team from engaging in the licensee’s recruitment, training and further education activities and such other activities:

(a) as may be specified in the EMR compliance statement; or

(b) to which the Authority has given its prior written consent.

2N.11 The licensee shall 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 Information

2N.12 The licensee shall, and shall procure that its employees, agents, contractors and advisers shall:

(a) treat and keep all Confidential EMR Information as confidential;

(b) ensure that any Confidential EMR Information is not directly or indirectly disclosed to any other person other than as provided in paragraphs 2N.13 and 2N.13A;

(c) not use any Confidential EMR Information for any purpose other than:

(i) performing the EMR Functions;

(ii) carrying on the Balancing Services Activity;

(iii) any other purpose for which the licensee has obtained prior written consent from the Authority or which is specified in the EMR compliance statement; or

(iv) as permitted by regulation 65 of the Electricity Capacity Regulations 2014;

PROVIDED THAT Confidential EMR Administrative Information and Confidential EMR Delivery Plan Information shall not be used for the purposes set out in sub-paragraphs (ii) and (iii) unless all reasonable endeavours have been taken pursuant to paragraphs 2N.6(a), 2N.6B, 2N.8(b) or 2N.8B to protect from disclosure the source of such information; and
(d) without prejudice to (c) above, ensure that Confidential EMR 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.

2N.13 The licensee may disclose Confidential EMR Information:

(a) 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;

(b) where authorised in advance in writing by the Authority;

(c) to the extent that the person to whom such Confidential EMR Information relates has consented to such disclosure;

(d) to such other bodies or persons 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 body or person to carry out those functions; or

(e) where such disclosure is permitted by regulation 65 of the Electricity Capacity Regulations 2014.

2N.13A The licensee may disclose Confidential EMR Information to:

(a) its employees, agents, contractors and advisers, other than persons referred to in paragraph 2N.18(a)(vi), to the extent that such disclosure is required to enable the licensee to perform its EMR Functions; or

(b) to 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 shall procure that:

(i) the recipients of such Confidential EMR Information only hold the information for such period as is necessary to enable the recipients to perform their respective functions; and

(ii) prior to disclosure, the recipients of such Confidential EMR Information enter into confidentiality obligations in respect of such information in a form specified in the EMR compliance statement.

**Part E: EMR Compliance Statement**

2N.14 By no later than 30 days after this condition comes into effect, the licensee shall, unless the Authority otherwise consents or directs, at all times have in place and comply with a statement (the “EMR compliance statement”) approved by the Authority, describing the practices,
procedures and systems by which the licensee will secure compliance with the EMR Relevant Duties.

2N.15 Where the Authority does not indicate otherwise within 60 days of receipt of the EMR compliance statement, or any revision thereof, the EMR compliance statement shall be deemed to be approved by the Authority.

2N.16 The licensee shall, at least every 12 months or at such other interval as the Authority may direct, review the description set out in the EMR compliance statement and shall revise such EMR compliance statement as necessary to ensure that the description set out in it continues to be complete and accurate in all material respects. The licensee shall alter the EMR compliance statement only with the approval of the Authority.

2N.17 The licensee shall send a copy of the EMR compliance statement, and each revision of it as and when it is made, to the Authority. The licensee shall publish a copy of such EMR compliance statement and each revision of it on its website.

2N.18 The EMR compliance statement shall in particular (but without prejudice to the generality of paragraphs 2N.14 and 2N.16) set out how the licensee will ensure the confidentiality of:

(a) Confidential EMR Information by means which shall include, but need not be limited to:

(i) compliance with the requirements set out in paragraph 2N.12;

(ii) requiring adherence to the code of conduct referred to in paragraph 2N.4(f), by those subject to it, to form part of the licensee’s disciplinary policies;

(iii) establishing and maintaining a training programme designed to ensure that employees, agents, contractors and advisers receive such initial and continuing training as is necessary to enable the licensee to comply with the requirements of this condition;

(iv) 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 Information;

(v) ensuring that:

(A) any parts of systems used for the recording, processing or storage of:

i. Confidential EMR Delivery Plan Information can be accessed only by the EMR Data Handling Team;

ii. Confidential EMR Administrative Information can be accessed only by the EMR Administrative Team; and
(B) neither Confidential EMR Delivery Plan Information nor Confidential EMR Administrative Information can be accessed by any other persons;

(vi) identifying the persons to whom Confidential EMR Information should never be disclosed by reference to the functions of those persons; and

(vii) maintaining a list of persons to whom Confidential EMR Information has been disclosed or who have access to Confidential EMR Information (whether on a regular or an occasional basis), a copy of which the licensee shall provide on request to the Authority;

(b) Confidential EMR Delivery Plan Information by means which shall include, but need not be limited to:

(i) compliance with the requirements set out in paragraph 2N.12;

(ii) establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2N.6(b)(i);

(iii) establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Delivery Plan Information;

(iv) maintaining the EMR Data Handling Team in accordance with paragraphs 2N.6(b)(ii) and 2N.6(c);

(v) establishing and maintaining information system security policies; and

(vi) establishing and maintaining document management and security policies; and

(c) Confidential EMR Administrative Information by means which shall include, but need not be limited to:

(i) compliance with the requirements set out in paragraph 2N.12;

(ii) establishing, maintaining and where appropriate enforcing the non-disclosure agreement referred to in 2N.9(a);

(iii) maintaining the EMR Administrative Team in accordance with paragraphs 2N.9(b), 2N.9(c) and 2N.11;

(iv) establishing and maintaining appropriate systems for the recording, processing and storage of Confidential EMR Administrative Information;

(v) establishing and maintaining information system security policies; and

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

2N.19 The licensee shall ensure, following consultation with the Authority, that a competent person (who shall be known as the “EMR compliance officer”) shall be appointed for the purpose of facilitating compliance by the licensee with the EMR Relevant Duties. 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.

2N.20 The licensee shall appoint a single responsible director (the “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 2N.24 and the licensee’s compliance with its EMR Relevant Duties. The Single Responsible Director shall report to the board of directors of the licensee in relation to the obligations set out in this Special Condition 2N.

2N.21 The licensee shall ensure that the EMR compliance officer:

(a) is provided with such employees, premises, equipment, facilities and other resources; and

(b) 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 Special Condition 2N.

2N.22 Except to the extent provided for in paragraph 2N.19, the licensee shall 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.

2N.23 The licensee shall 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.

2N.24 The duties and tasks of the EMR compliance officer shall include:

(a) 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;

(b) 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;

(c) 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;

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(d) investigating any complaint or representation made available to the EMR compliance officer in accordance with paragraph 2N.23;

(e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable; and

(f) 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.

2N.25 As soon as is reasonably practicable and in any event no later than 90 days following the annual report of the EMR compliance officer, the licensee shall produce a report in a form approved by the Authority:

(a) as to its compliance with the EMR Relevant Duties during the period since the last report; and

(b) as to its implementation of the practices, procedures and systems adopted in accordance with the EMR compliance statement.

2N.26 The report produced in accordance with paragraph 2N.25 shall in particular:

(a) detail the activities of the EMR compliance officer during the relevant period covered by the report;

(b) 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;

(c) set out the details of any investigations conducted by the EMR compliance officer, including:

   (i) the number, type and source of the complaints or representations on which such investigations were based;

   (ii) the outcome of such investigations; and

   (iii) any remedial action taken by the licensee following such investigations; and

(d) 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.

2N.27 The licensee shall, as soon as 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 2N.26(d), submit to the Authority a copy of the report and

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The licensee shall, if so directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:

(a) reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;

(b) assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee’s obligations under this condition; and

(c) reporting on the licensee’s compliance with the requirements of this condition.

The Independent Examiner’s report shall be provided to the Authority within three working days of the licensee receiving it from the Independent Examiner.

The Independent Examiner’s report shall be commissioned at such intervals as the Authority shall direct.

Part G: General

Should the licensee cease to perform the EMR Functions:

(a) paragraphs 2N.12 and 2N.13 shall continue in force to the extent required to protect Confidential EMR Information in accordance with the obligations set out in this condition; and

(b) the other obligations under this condition shall remain in force for such time and on such terms as the Authority shall direct in writing.

Part H: Definitions

In this condition:

“Confidential EMR Information” means all Information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee or any of its agents or representatives by virtue of the performance of EMR Functions by the licensee, but excluding:

(a) all Information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence;

(b) all Information which the licensee can demonstrate was lawfully in its written records prior to the date of disclosure of the same by the owner of the Confidential EMR Information or which it received from a third party independently entitled to disclose it; and

(c) all Information properly received in the usual course of the licensee’s activities pursuant to paragraphs (a) to (c) (inclusive) of the definition of Permitted Purpose.
“Confidential EMR Administrative Information” means Confidential EMR Information disclosed to or acquired by the licensee by virtue of its role in performing EMR Administrative Functions.

“Confidential EMR Delivery Plan Information” means Confidential EMR Information which comprises either:

(a) Information on the costs of low carbon electricity generation technologies; or

(b) Information, the unauthorised disclosure of which would be adverse to the commercial interests of the Information provider,

in each case, where such Information is:

(i) disclosed to or acquired by the licensee by virtue of its role in performing EMR Data Handling Functions; and

(ii) specific to an individual energy industry participant, plant, facility, generating station or generation set, or the owner or operator thereof.

“EMR Administrative Functions” means any functions conferred on the licensee by or by virtue of:

(a) the Electricity Capacity Regulations 2014, but excluding any functions conferred by or by virtue of Part 3 of those regulations;

(b) any capacity market rules made by the Secretary of State pursuant to section 34(1) of the Energy Act and any capacity rules made by the Authority pursuant to section 34(3) of the Energy Act;

(c) the Contracts for Difference (Allocation) Regulations 2014; and

(d) any allocation framework made by the Secretary of State pursuant to section 13(2)(a) of the Energy Act.

“EMR Administrative Team” means the team established or to be established by the licensee in accordance with paragraph 2N.7.

“EMR compliance statement” is defined under paragraph 2N.14 of this Special Condition 2N.

“EMR Data Handling Functions” means the data anonymisation and data aggregation functions which shall be performed in order to achieve the objective specified in paragraph 2N.6(a).

“EMR Data Handling Team” means the team established or to be established by the licensee in accordance with paragraph 2N.5.

“EMR Functions” has the same meaning as the term “EMR functions” in Chapter 5 of Part 2 of the Energy Act 2013.
“EMR Relevant Duties” means the licensee’s obligations pursuant to this licence condition.


“Permitted Purpose” shall have the meaning given in Standard Condition A1 (Definitions and interpretation).

“Shared Services” means shared corporate services (which shall not include regulatory services) as specified in the EMR compliance statement.

“Single Responsible Director” has the meaning given in paragraph 2N.20 of this Special Condition 2N.
Special Condition 2O. Business separation requirements and compliance obligations, and conduct of the System Operator in performing its System Operator Functions

Introduction

2O.1 The purpose of this condition is to set out the business separation requirements between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, the licensee’s obligations as to its conduct in performing its System Operator Functions, and the procedures the licensee must follow to comply with these obligations.

2O.2 Part A sets out the objectives that the licensee must achieve when undertaking its System Operator Functions. Part B sets out the business separation requirements between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses. Part C sets out the obligations on the licensee to restrict the use of information that the licensee has access to through its System Operator Functions. Part D sets out the compliance statement the licensee must publish to describe how it is meeting its specified business separation duties, as defined in paragraph 2O.20. Part E sets out requirements on the licensee to appoint an independent compliance officer and annually report on compliance against the licensee’s duties.

Part A: Conduct of the licensee when undertaking its System Operator Functions

2O.3 In performing its System Operator Functions, the licensee must act in a manner intended to secure that neither the licensee, nor any Associate of the licensee, obtains an unfair commercial advantage, including any advantage from a preferential or discriminatory arrangement as a result of the licensee carrying out its System Operator Functions.

Part B: Legal and functional separation of the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses

2O.4 The licensee must, in carrying out its licensed activities, put in place and at all times maintain such systems of control and other governance arrangements which are necessary to ensure that the licensee complies with the obligations contained in standard condition B5 (Prohibition of cross-subsidies), standard condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business).

2O.5 Without prejudice to the licensee’s obligations under the conditions referred to in paragraph 2O.4 and Special Condition 2N (Electricity Market Reform), the licensee must at all times conduct its licensed activities other than Dual Fuel Activities.
separately from the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, provided that nothing in Part B of this condition 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).

20.6 The licensee must ensure that the Relevant Other Competitive Businesses and the Relevant Regulated Businesses are conducted entirely by corporate entities each of which is separate from the licensee and that the licensee does not, directly or indirectly, hold any shares or other investments.

(a) in any corporate entity which conducts any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses or which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses or any of the assets used in or dedicated to any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses; or

(b) which give the holder an entitlement to vote at the general meetings of any of the corporate entities which conduct the Relevant Other Competitive Businesses or Relevant Regulated Businesses or in any company which exercises or otherwise has control of any of the Relevant Other Competitive Businesses or Relevant Regulated Businesses.

20.7 The licensee must ensure that its accounts are maintained and to the extent required by law audited and reported separately from those of any corporate entity which conducts Relevant Other Competitive Business or Relevant Regulated Businesses.

20.8 The licensee must ensure that persons engaged in the management or operation of the licensee (up to and including the members of the licensee’s board of directors (“board”)) are not simultaneously engaged, either full or part time, in the management or operation:

a) of any Relevant Other Competitive Business or any corporate entity which conducts Relevant Other Competitive Business; and/or

b) of any Relevant Regulated Business except for persons in Dual Fuel Roles engaged in Dual Fuel Activities,

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 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).
20.9 The licensee must ensure that arrangements are in place which are effective in restricting access by persons engaged in the management or operation of any of the Relevant Other Competitive Businesses and/or the Relevant Regulated Businesses (except for persons in Dual Fuel Roles engaged in Dual Fuel Activities) to:

(a) any part of any premises which is occupied by persons engaged in the management or operation of the licensee; or

(b) any equipment, facilities or property employed for the management or operation of the licensee.

20.10 Subject to Paragraph 20.11 the licensee must ensure that the systems for the recording, processing or storage of data (including System Operator Functions Information) to which persons engaged in the management or operation of the licensee have access cannot be accessed by persons engaged in the management or operation of the Relevant Other Competitive Businesses or by persons engaged in the management or operation of the Relevant Regulated Businesses.

20.11 Paragraph 20.10 shall not apply to the operational information systems accessed by persons engaged in the management or operation of the licensee and by persons engaged in the management or operation of the Relevant Regulated Businesses and that are specified in the compliance statement established under Part D of this condition.

**Part C: Restrictions on the use of System Operator Functions Information**

20.12 The licensee must establish and maintain a code of conduct governing the disclosure and use of System Operator Functions Information. The licensee must set out the code of conduct in the compliance statement, as provided for in paragraph 20.16.

20.13 The licensee must ensure that its employees, agents, contractors and advisers ensure that System Operator Functions Information is not directly or indirectly disclosed to, solicited, or used by any person who is not engaged in System Operator Functions (up to and including the members of the licensee’s board of directors), other than as provided for in paragraph 20.14.

20.14 Paragraph 20.13 shall not apply to the disclosure of System Operator Functions Information:

(a) where the licensee is specifically required to do so as a condition of this licence;

(b) as required or permitted under the STC;

(c) to persons engaged in the provision of Shared Services, to the extent necessary to allow them to carry out their respective functions in support of the System Operator Functions;

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(d) to persons in Dual Fuel Roles, to the extent necessary to allow them to carry out Dual Fuel Activities;

(e) which is required by any requirement of law or regulation, or the rules of any governmental or regulatory authority having jurisdiction over the licensee; or for the purposes of facilitating the performance of any functions of the Secretary of State or the Authority;

(f) where the licensee has obtained prior written consent for such disclosure from the owner(s) of such System Operator Functions Information, provided that the extent of such disclosure is consistent with the consent obtained.

(g) to National Grid Gas plc (“NGG”) where such disclosure is required by NGG for purposes connected with the carrying on of NTS System Operation Activity, as defined by special condition 1A.4 of NGG’s gas transporter licence, and so authorised by the gas transporter licence granted to NGG under the Gas Act 1986;

(h) to the shareholder of the licensee (being the ultimate controller of the licensee in accordance with paragraph (a) of the definition of ultimate controller in condition A1 (Definitions and interpretation)) to the extent that such disclosure is reasonably required to ensure effective corporate governance through enabling the shareholder to:

(i) provide effective oversight of the licensee;

(ii) consider and decide on matters that are required to be referred to it for approval; and

(iii) comply with any reporting requirement prescribed by a requirement of law, regulation or the rules of any authority having jurisdiction over the shareholder.

Provided always that that the use of such information by the shareholder of the licensee is at all times in accordance with the terms of the ultimate controller undertaking provided by the shareholder pursuant to condition B8 (Undertaking from ultimate controller); or

(i) where authorised in advance in writing by the Authority.

20.15 The licensee must ensure that any System Operator Functions Information received, disclosure of which would in the view of the owner(s) of the information affect their commercial interests, is treated as confidential. Any disclosure of such information must comply with paragraphs 20.13 and 2014.

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Part D: Compliance statement and compliance documents

2O.16 By no later than 30 days after this condition comes into effect, the licensee must submit to the Authority:

(a) a statement (“the compliance statement”), describing the practices, procedures and systems by which the licensee will secure compliance with the specified business separation duties, as defined in paragraph 2O.21;

(b) the proposed form of the compliance report, as provided for in paragraph 2O.28; and

(c) the proposed form of the compliance certificate, as provided for in paragraph 2O.29(d).

2O.17 On receipt of the documents provided for in paragraph 2O.16, or any revisions of them, as provided for in paragraph 2O.18 (b), the Authority will:

(a) approve the (individual) documents and notify the licensee of each approval; or

(b) give a direction to the licensee that any of the documents requires further development and the date by which the licensee is required to submit a revision to the Authority for approval.

2O.18 Following the Authority’s approval of the documents provided for in paragraph 2O.16, the licensee must:

(a) unless the Authority otherwise consents or directs, at all times comply with the terms of the approved compliance statement; and

(b) at least every 12 months, or at such other interval as the Authority may direct, review these documents and revise them as necessary, including when circumstances change such that the documents no longer secure compliance with the specified business separation duties as defined in paragraph 2O.21, to ensure that they continue to be complete and accurate in all material respects. The licensee must submit any revisions made to these documents to the Authority. Any revisions of these documents will only become effective once the Authority has approved them, in accordance with paragraph 2O.17.

2O.19 The licensee must publish a copy of the approved compliance statement and each revision of it on its website within 15 working days of its approval by the Authority.

2O.20 The compliance statement must in particular (but without prejudice to the generality of paragraph 2O.16) set out how the licensee will meet:

(a) the objectives in Part A of this condition;

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(b) the business separation requirements provided for in Part B, with specific reference to:

(i) the arrangements for managerial and operational separation (including (but not limited to) arrangements to ensure the independence of the licensee’s chief executive, directors, senior managers and staff), as required in paragraph 2O.8;

(ii) the arrangements for access restrictions, including processes to partition and control access to and visibility of data within operational information systems, as required in paragraphs 2O.9, 2O.10 and 2O.11;

(iii) the treatment of Shared Services across the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, together with a list of those services which fall under the definition of Shared Services. This treatment will include providing for certain Shared Services to be provided to the licensee under a dedicated business partner arrangement to ensure any real or perceived conflict of interests are addressed;

(iv) the arrangements to manage the transfer of employees between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, such arrangements to include treating all such transfers as sensitive and accordingly subject to the review of the compliance officer appointed under Part E of this condition;

(v) the arrangements relating to the recruitment and employment of the licensee’s employees and the incentivisation of the licensee’s managers which, save for managers in Dual Fuel Roles engaged in Dual Fuel Activities, will be linked to the performance of the licensee only;

(vi) developing and maintaining a new visual and corporate identity for the licensee’s Transmission Business that shall be distinct from those of the Relevant Other Competitive Businesses and the Relevant Regulated Businesses; and

(vii) a description of the Dual Fuel Activities and Dual Fuel Roles

(c) the restrictions on the use of System Operator Functions Information and the exceptions to such restrictions provided for in Part C; and
(d) the appointment of a compliance officer and compliance reporting, provided for in Part E.

**Part E: Appointment of a compliance officer and compliance reporting**

2O.21 The licensee must ensure, following consultation with the Authority, that a competent person (who shall be known as the “compliance officer”) is appointed for the purpose of facilitating compliance by the licensee with the obligations pursuant to this condition, standard condition B5 (Prohibition of Cross-subsidies), standard condition B6 (Restriction on Activity and Financial Ring Fencing) and Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business), together the “specified business separation duties”. The person appointed as the compliance officer pursuant to this paragraph may also hold other compliance officer roles for the licensee.

2O.22 The licensee must appoint a Single Appointed Director, being a member of the managerial board for the System Operator, for the purpose of ensuring the performance of, and overseeing the duties and tasks of, the compliance officer set out in paragraph 2O.21. The Single Appointed Director must report to the board of the licensee in relation to the obligations set out in this condition.

2O.23 The licensee must establish a compliance committee (the “compliance committee”), being a sub-committee of the board of the licensee, for the purpose of overseeing and ensuring the performance of the duties and tasks of the compliance officer set out in paragraph 2O.21 and the compliance of the licensee with its specified business separation duties. The compliance committee will be chaired by a sufficiently independent director appointed by the licensee in accordance with Condition B22 (Requirement for sufficiently independent directors). The compliance committee will report to the board of the licensee and will include among its members the Single Appointed Director and such persons from within the licensee’s business as are responsible for the management of regulatory issues relating to the licence.

2O.24 The licensee must ensure that the compliance officer:

(a) is provided with such employees, premises, equipment, facilities and other resources; and

(b) has such access to the licensee’s premises, systems, information and documentation,

as, in each case, the compliance officer might reasonably require for the fulfilment of the duties and tasks assigned to him or her pursuant to this condition.

2O.25 Except to the extent provided for in paragraph 2O.21, the licensee must ensure that the compliance officer is not engaged in the management or operation of the System Operator Functions, any Associate of the licensee or any Relevant Other Competitive Businesses.
20.26 The licensee must make available to the compliance officer details of any complaint or representation received by it from any person in respect of the conduct of the licensee in undertaking the specified business separation duties.

20.27 The duties and tasks of the compliance officer must include:

(a) providing advice and information to the licensee (including individual directors of the licensee) and the Single Appointed Director for the purpose of ensuring the licensee’s compliance with the specified business separation duties;

(b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the specified business separation duties and described in the compliance statement;

(c) 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;

(d) investigating any complaint or representation made available to the compliance officer in accordance with paragraph 20.26;

(e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;

(f) providing relevant advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 20.23, for the purpose of ensuring its implementation of:

(i) the practices, procedures and systems adopted in accordance with the compliance statement; and

(ii) any remedial action recommended in accordance with sub-paragraph (e);

(g) reporting to the compliance committee any instances which come to his or her attention, relating to a member of any of the managerial boards of the licensee, taking into account the interests of a business other than that in respect of which the board of which he is a member of has been established; and

(h) reporting annually to the compliance committee as to the compliance officer’s activities in respect of the specified duties during the period covered by the annual report.

20.28 As soon as is reasonably practicable and in any event no later than 90 days following each annual report of the compliance officer, the licensee must produce, in a form approved by the Authority in accordance with paragraph 20.17, a report (“the compliance report”):

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20.29 The compliance report produced in accordance with paragraph 20.28 must in particular:

(a) detail the activities of the compliance officer during the relevant period covered by the compliance report;

(b) 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 compliance statement;

(c) set out the details of any investigations conducted by the compliance officer, including:

   (i) the number, type and source of the complaints or representations on which such investigations were based;

   (ii) the outcome of such investigations; and

   (iii) any remedial action taken by the licensee following such investigations; and

(d) be accompanied by a certificate ("the compliance certificate"), in a form approved by the Authority in accordance with paragraph 20.17, approved by a resolution of the board of the licensee and signed in good faith by the sufficiently independent director chair of the compliance committee established under paragraph 20.23 pursuant to that resolution, on the licensee’s compliance with the specified business separation duties. The compliance certificate should certify that, to the best knowledge, information and belief of the sufficiently independent director chair of the compliance committee, having made due and careful enquiry, the report of the compliance officer fairly represents the licensee’s compliance with the specified business separation duties.

20.30 The licensee must, as soon as reasonably practicable, following the approval of the compliance certificate by the board of the licensee, and in any event no later than 120 days following each annual report of the compliance officer, submit to the Authority a copy of the compliance report and compliance certificate produced in accordance with paragraphs 20.28 and 20.29, and publish copies of each of them on its website.

20.31 The licensee must, if so directed by the Authority, appoint an Independent Examiner for the purpose of providing a written report to the Authority:

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(a) reviewing the practices, procedures and systems which have been implemented to secure compliance with this condition;

(b) assessing the appropriateness of such practices, procedures and systems for securing compliance with the licensee’s obligations under this condition; and

(c) reporting on the licensee’s compliance with the requirements of this condition.

20.32 The Independent Examiner’s report must be provided to the Authority within three working days of the licensee receiving it from the Independent Examiner.

20.33 The Independent Examiner’s report must be commissioned at such intervals as the Authority may direct.

Part F: Definitions

20.34 In this condition:

Dual Fuel Activities Means those activities which are conducted by the licensee in conjunction with National Grid Gas plc (company number 2006000) (and its successors in title) in its role as gas system operator in order to be delivered in a manner that provides a single combined view of energy security, insights and/or coordination into the interactions between the gas and electricity sectors, and where such activities add value for energy consumers

Dual Fuel Roles Means those employment roles which are engaged in Dual Fuel Activities and which are specified as such in the compliance statement established under Part D of this condition

Relevant Regulated Businesses Means National Grid Electricity Transmission plc (company number 2366977) (and its successors in title) and its affiliates or related undertakings that is participating in the transmission of electricity pursuant to a transmission licence treated as

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System Operator Functions Information

Means all Information disclosed to or acquired in any way (and whether directly or indirectly) by the licensee’s employees, agents, contractors and advisors solely by virtue of the performance of System Operator Functions by the licensee, but excluding all Information that is in or has entered the public domain otherwise than as a direct or indirect consequence of any breach of this licence.
Chapter 3: Transmission – Revenue Restriction

Special Condition 3A. Restriction of Transmission Network Revenue

Introduction

3A.1 The purpose of this condition is as follows:

(a) to establish the charging restrictions that determine the level of Maximum Revenue that may be recovered by the licensee through Transmission Network Charges; and

(b) to set out the obligations on the licensee in respect of those restrictions.

Part A: Licensee's obligation

3A.2 The licensee, in setting Transmission Network Charges, must use its best endeavours to ensure that, in Relevant Year t, Transmission Network Revenue (TNRt) does not exceed Maximum Revenue (TOt) in that year.

Part B: Calculation of Maximum Revenue (TOt)

3A.3 Maximum Revenue, in Relevant Year t, is derived in accordance with the following formula (in this condition, the “Principal Formula”):

\[ TO_t = TRU_t + PT_t + NIA_t + NICF_t + DIS_t + TS_t + FIN_t - K_t \]

3A.4 In the Principal Formula:

- \( TO_t \) means the amount of Maximum Revenue in Relevant Year t.
- \( TRU_t \) means the revenue adjustment made in Relevant Year t in respect of the actual value of the Retail Prices Index in Relevant Year t-2 minus the assumed value of the Retail Prices Index in Relevant Year t-2, as derived in accordance with paragraph 3A.5 of this condition.
- \( PT_t \) means the allowed pass-through items revenue adjustment made in Relevant Year t as derived in accordance with Special Condition 3B (Calculation of allowed pass-through items).
- \( NIA_t \) means the revenue adjustment made in Relevant Year t in respect of the Network Innovation Allowance as derived in accordance with Special Condition 3H (The Network Innovation Allowance).
- \( NICF_t \) means the revenue adjustment made in Relevant Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with Special Condition 3I (The Network Innovation Competition).

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DIS_t means the adjustment as a result of:
(a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro Electric Transmission Plc, SP Transmission Ltd and National Grid Electricity Transmission plc in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC) minus
(b) the total income recovered by the licensee in respect of Excluded Services in Relevant 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.

TS_t means the adjustment as a result of:
(a) the total amount charged to the licensee in Relevant 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 Relevant 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).

FIN_t Means the amount set out in Appendix 1 of this condition and represents the costs to the licensee relating to the provision of financial facilities allocated from National Grid Electricity Transmission plc.

K_t means the correction term in Relevant Year t as derived in accordance with the formula set out in Part E of this condition.

**Part C: Calculation of TRUt**

3A.5 For the purposes of the Principal Formula, TRU_t is derived in accordance with the following formula:

\[
TRU_t = \left( \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times REV_{t-2} \times PVF_{t-2} \times PVF_{t-1}
\]

3A.6 In the above formula for TRU_t:

- RPIF_t is the price index adjustment factor in Relevant Year t as derived in accordance with paragraph 3A.7 of this condition.
REV_{t-2} means the amount (in 2009/10 prices), for Relevant Year t-2, of the combined value of all Relevant Special Condition revenue adjustments that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 3A.8 of this condition.

PVF_t means the present value adjustment term for Relevant Year t and will be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority in accordance with the Annual Iteration Process, and the expressions PVF_{t-1} and PVF_{t-2} will be interpreted accordingly.

3A.7 For the purposes of paragraph 3A.6 of this condition, RPIF_t is derived in accordance with the following formula:

\[ RPIF_t = RPIA_{t-2} \times (1 + GRPIF_{t-1}) \times (1 + GRPIF_t) \]

where:

RPIA_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Relevant Year t divided by the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010 as derived in accordance with the following formula:

\[ RPIA_t = \frac{\text{RPI}_t}{\text{RPI}_{2009/10}} \]

where:

RPI_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April to 31 March in Relevant Year t.

RPI_{2009/10} means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from 1 April 2009 to 31 March 2010.

and:

GRPIF_c = (0.75 \times GRPIF_c) + (0.25 \times GRPIF_{c+1})

GRPIF_{t-1} = (0.75 \times GRPIF_{t-1}) + (0.25 \times GRPIF_c)

where:

GRPIF_c means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Relevant Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case, the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication “Forecasts for the UK Economy”, in Relevant Year t-1, subject to the Authority’s power to determine otherwise.

3A.8 For the purposes of paragraph 3A.6 of this condition, \( REV_{t-2} \) is derived in accordance with the following formula:

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\[
\text{REV}_{t-2} = \left( \frac{\text{RB}_{t-2} + \text{LF}_{t-2} + \text{ITC}_{t-2}}{\text{RPIF}_{t-2}} \right)
\]

where:
- \(\text{RB}_{t-2}\) means the business rate adjustment in Relevant Year \(t-2\) as derived in accordance with Part B of Special Condition 3B.
- \(\text{LF}_{t-2}\) means the licence fee adjustment in Relevant Year \(t-2\) as derived in accordance with Part C of Special Condition 3B.
- \(\text{ITC}_{t-2}\) means the inter-transmission system operator compensation mechanism adjustment in Relevant Year \(t-2\) as derived in accordance with Part E of Special Condition 3B.

**Part D: Not Used**

**Part E: Calculation of the correction term \((K_t)\)**

3A.10 For the purposes of the Principal Formula, subject to paragraph 3A.11, \(K_t\) is derived in accordance with the following formula:

\[
K_t = (\text{TNR}_{t-2} - \text{TO}_{t-2}) \times \left( 1 + \frac{I_{t-2} + PR_t}{100} \right) \times \left( 1 + \frac{I_{t-1} + 2}{100} \right)
\]

where:
- \(\text{TNR}_{t-2}\) means the Transmission Network Revenue as defined in Special Condition 1A (Definitions and interpretation) in respect of Relevant Year \(t-2\).
- \(\text{TO}_{t-2}\) means the Maximum Revenue as derived in accordance with Part B of this condition in respect of Relevant Year \(t-2\).
- \(I_t\) means the Average Specified Rate in Relevant Year \(t\).
- \(PR_t\) means the interest rate adjustment in Relevant Year \(t\) as derived in accordance with the formula set out in Part F of this condition.

3A.11 In the Relevant Years 2019/20 and 2020/21 \(K_t\) will have the value zero.

**Part F: Interest rate adjustment for over and under recoveries of revenue**

3A.12 For the purposes of Part E of this condition, the value of the interest rate adjustment \(PR_t\) is to be treated as follows:

(a) if, in respect of Relevant Year \(t-2\), Transmission Network Revenue exceeds 105.5 per cent of Maximum Revenue, \(PR_t\) will have the value of 4;

(b) if, in respect of Relevant Year \(t-2\), Transmission Network Revenue is less than 94.5 per cent of Maximum Revenue, \(PR_t\) will have the value of zero; and
(c) in all other cases PR_t will have the value of 2.

**Part G: Treatment of charges in the event of over recovery**

3A.13 Paragraph 3A.2014 applies from 1 April 2014.

3A.14 If, in respect of two successive Relevant Years t-2 and t-3, the licensee’s Transmission Network Revenue in each of those Relevant Years exceeds 109.5 per cent of Maximum Revenue for those Relevant Years, the licensee:

(a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Relevant Year t-1; and

(b) must not increase its Transmission Network Charges for Relevant Year t except and to the extent that the Authority has consented to such an increase.

**Part H: Treatment of charges in the event of under recovery**

3A.15 Paragraph 3A.13 applies from 1 April 2022.

3A.16 If, in respect of two successive Relevant Years t-2 and t-3, the licensee’s Transmission Network Revenue in each of those Relevant Years is less than 90.5 per cent of the Maximum Revenue for those Relevant Years, the licensee:

(a) must have provided an explanation for that event in writing to the Authority by 31 July in the associated Relevant Year t-1; and

(b) must use best endeavours in setting Transmission Network Charges to recover Maximum Revenue in Relevant Year t.

**Appendix 1**

Values for the FIN_t term (2009/10 prices) by licensee

(see paragraph 3A.4 of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>FIN (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid</td>
<td></td>
</tr>
<tr>
<td>Financing cost</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
| Electricity System Operator Limited | Parent company guarantee | - | - | - | - | - | - | 0 | 0 |
Special Condition 3B. Calculation of allowed pass-through items

Introduction

3B.1 The purpose of this condition is to provide for the calculation of the term \( PT_i \) (the allowed pass-through items revenue adjustment) for the purposes of Part B of Special Condition 3A (Restriction of Transmission Network Revenue).

3B.2 The effect of the application of the \( PT_i \) term in Part B of Special Condition 3A is to ensure that the level of the licensee’s Maximum Revenue derived in accordance with that condition reflects certain costs that can be passed through to users.

Part A: Formula for Transmission Network Revenue allowed pass-through items (\( PT_i \))

3B.3 For the purposes of Part B of Special Condition 3A, the \( PT_i \) term is derived in accordance with the following formula (in this condition, the “Principal Formula”):

\[
PT_i = RB_t + LF_t + ITC_t + Term_t + TSP_t + TSH_t + TNGET_t + TOFTO_t + OFET_t + TICF_t + TICPt
\]

3B.4 In the Principal Formula:

- \( RB_t \) means the business rate adjustment in Relevant Year \( t \) as derived in accordance with the formula set out in Part B of this condition.
- \( LF_t \) means the licence fee adjustment in Relevant Year \( t \) as derived in accordance with the formula set out in Part C of this condition.
- \( ITC_t \) means the adjustment in respect of participation in the inter-transmission system operator compensation mechanism in Relevant Year \( t \) as derived in accordance with the formula set out in Part E of this condition.
- \( Term_t \) means the adjustment equal to the income received by the licensee in Relevant Year \( t \) 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).
- \( TSP_t \) means the amount notified to the licensee by SP Transmission Ltd or any successor company in relation to Relevant Year \( t \) pursuant to its electricity transmission licence.
- \( TSH_t \) means the amount notified to the licensee by Scottish Hydro Electric Transmission Plc or any successor company in relation to Relevant Year \( t \) pursuant to its electricity transmission licence.
TNGET\textsubscript{t} means the amount notified to the licensee by National Grid Electricity Transmission plc or any successor company in relation to Relevant Year \( t \) pursuant to its electricity transmission licence.

TOFTO\textsubscript{t} means the total of the amounts notified to the licensee by each Offshore Transmission Owner in relation to Relevant Year \( t \) pursuant to their electricity transmission licences.

OFET\textsubscript{t} 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.

TICF\textsubscript{t} means the total of the amounts (whether of a positive or of a negative value) notified to the licensee by all Interconnector Owners in relation to Relevant Year \( t \) pursuant to their electricity interconnector licences.

TICP\textsubscript{t} means the total of the amounts notified to the licensee by each relevant electricity interconnector licensee in relation to Relevant Year \( t \) pursuant to the special conditions in their respective electricity interconnector licences.

**Part B: Calculation of the business rate adjustment term (RB\textsubscript{t})**

3B.5 For the purposes of the Principal Formula, subject to paragraph 3B.7 and 3B.8, RB\textsubscript{t} is derived in accordance with the following formula:

\[
RB_{t} = \left( \frac{RBA_{t-2}}{RPIA_{t-2}} - \frac{RBE_{t-2}}{RPIA_{t-2}} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_{t}
\]

3B.6 In the above formula for RB\textsubscript{t}:

- RBA\textsubscript{t-2} means the amount payable by the licensee, in Relevant Year \( t-2 \), in respect of Non-Domestic Rates.
- RBE\textsubscript{t-2} means the allowance in respect of Non-Domestic Rates (or any equivalent tax or duty replacing them) in Relevant Year \( t-2 \), and is represented by the amount set out in Appendix 1 of this condition.
- RPIA\textsubscript{t-2} has the value given to it by Part C of Special Condition 3A.
- PVF\textsubscript{t} has the value given to it by Part C of Special Condition 3A.
- RPIF\textsubscript{t} has the value given to it by Part C of Special Condition 3A.

3B.7 In the Relevant Years 2019/20 and 2020/21 RB\textsubscript{t} will have the value zero.

3B.8 In respect of any Relevant Year \( t-2 \) in which the revaluation by the Valuation Office Agency (in England and Wales) or the Scottish Assessors Association (in Scotland) of the assets of the licensee’s Transmission Network for the purposes of setting Non-Domestic Rates came into effect, RB\textsubscript{t} will have the value of zero in Relevant Year \( t \) and
in each subsequent Relevant Year, unless the Authority has satisfied itself that the licensee has used reasonable endeavours to minimise the amount of the prescribed Non-Domestic Rates. If the Authority has so satisfied itself, it will direct that the formula set out in this Part B is to apply for the purposes of calculating the RBt term in the specific Relevant Year and in each of the subsequent Relevant Years.

**Part C: Calculation of the licence fee adjustment term (LFt)**

3B.9 For the purposes of the Principal Formula, subject to paragraph 3B.11 of this condition, LFt is derived in accordance with the following formula:

\[
LF_t = \left( \frac{LFA_{t-2}}{RPIA_{t-2}} - LFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t
\]

3B.10 In the above formula for LFt:
- \(LFA_{t-2}\) means the amount in respect of licence fee payments that is equal to the payments, in total, made by the licensee in Relevant Year \(t-2\), in accordance with its obligations under standard condition A4 (Payments by the licensee to the Authority).
- \(LFE_{t-2}\) means the licence fee allowance in Relevant Year \(t-2\), and is represented by the amount set out in Appendix 2 of this condition.
- \(RPIA_{t-2}\) has the value given to it by Part C of Special Condition 3A.
- \(PVF_t\) has the value given to it by Part C of Special Condition 3A.
- \(RPIF_t\) has the value given to it by Part C of Special Condition 3A.

3B.11 In the Relevant Years 2019/20 and 2020/21 \(LF_t\) will have the value zero.

**Part D: Not Used**

**Part E: Calculation of the inter-transmission system operator compensation mechanism term (ITCt)**

3B.12 For the purposes of the Principal Formula, subject to paragraph 3B.17 of this condition, the value of ITCt is derived in accordance with the following formula:

\[
ITC_t = \left( \frac{ITP_{t-2}}{RPIA_{t-2}} - ITA_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t
\]

3B.13 In the above formula for ITCt:
- \(ITP_{t-2}\) means the compensation, in Relevant Year \(t-2\) (whether of a positive or negative value), arising from the participation by Great Britain in the inter-transmission system operator compensation mechanism as provided for in Article 13 of the Electricity Regulation.
- \(ITA_{t-2}\) is the inter-transmission system operator compensation mechanism allowance in Relevant Year \(t-2\) and has the value set out in Appendix 3 of this condition.

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019

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RPIA_t has the value given to it by Part C of Special Condition 3A.
PVF_t has the value given to it by Part C of Special Condition 3A.
RPIF_t has the value given to it by Part C of Special Condition 3A.

3B.14 In the Relevant Years 2019/20 and 2020/21 ITC_t will have the value zero.

**APPENDIX 1: Prescribed rates allowance (£m, 2009/10 prices)**
(see paragraph 3B.6 relating to the RBE term)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>RBE (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid Electricity System Operator Limited</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**APPENDIX 2: Licence fee allowance (£m, 2009/10 prices)**
(see paragraph 3B.10 relating to the LFE term)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>LFE (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid Electricity System Operator Limited</td>
<td>N/A</td>
</tr>
</tbody>
</table>
APPENDIX 3: Inter-transmission system operator compensation mechanism allowance (£m, 2009/10 prices)
(see paragraph 3B.16 relating to the ITA term)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>ITA (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid Electricity System Operator Limited</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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Special Condition 3C. Not Used
Special Condition 3D. Not Used

Special Condition 3E. Not used

Special Condition 3F. Not Used

Special Condition 3G. Not Used
Special Condition 3H. The Network Innovation Allowance

Introduction

3H.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the value of the NIA term that applies in Part B of Special Condition 3A (Restriction of Transmission Network Revenue) with respect to the funding of innovative projects carried out by the licensee.

3H.2 The effect of the application of the NIA term in Part B of Special Condition 3A is to adjust the calculation of the licensee’s Maximum Transmission Revenue (whether upwards or downwards) in order to fund investment in innovation under the NIA established pursuant to this condition.

3H.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the NIA.

Part A: Calculation of the NIA term

3H.4 For the purposes of Part B of Special Condition 3A, the NIA adjustment for the Relevant Year t is derived in accordance with the following formula (in this condition, the “Principal Formula”):

\[ \text{NIA}_t = \text{ANIA}_t - \text{NIAR}_t \]

For the purposes of the Principal Formula:

- \( \text{NIA}_t \) means the total allowed adjustment in Relevant Year t.
- \( \text{ANIA}_t \) means the total Allowable NIA Expenditure in Relevant Year t and is derived in accordance with the appropriate formula set out in Part B below.
- \( \text{NIAR}_t \) means an amount recovered by the licensee in relation to the Relevant Year t or a previous Relevant Year under the NIA which the Authority has determined, in accordance with provisions set out in paragraph 3H.8 of this condition and the NIA Governance Document, to be unrecoverable (see Part C below).

3H.5 Expenditure incurred by the licensee may only be recovered under the NIA if it is Allowable NIA Expenditure.

Part B: Calculation of Allowable NIA Expenditure (ANIA)

3H.6 For the purposes of the Principal Formula the amount of ANIA is derived from the following formula:

\[ \text{ANIA}_t = \text{PTRA} \times \min((\text{ENIA}_t + \text{BPC}_t), (\text{NIAV} \times \text{NGETBR}_t)) \]

where:

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PTRA is the pass-through factor and has the value of 0.9.

ENIA_t means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

BPC_t means the Eligible NIC Bid Preparation Costs for the Relevant Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with Standard Condition B15. Where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot exceed the amount calculated in accordance with this condition.

The value of BPC_t for Relevant Years t = 2013/14 to 2017/18 is the lower of:

a) £175,000 in total; or

b) 5% of the amount applied for by the Licencee or the group where the relevant under the Network Innovation Competition, as defined in Special Condition 3I (the Network Innovation Competition).

For Relevant Year 2018/19 and in subsequent Relevant Years BPC_t will have the value zero.

NIAV means the licensee’s NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition).

NGETBR_t means the Base Transmission Revenue in Relevant Year t, and is notified to the licensee by National Grid Electricity Transmission plc (“NGET”) on or before 1 calendar week after 30th November of the relevant year-t and derived in accordance with Part B of Special Condition 3A of the NGET licence.

For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE_t) that qualifies as Eligible NIA Expenditure in the Relevant Year t must not exceed the amount derived by the following formula:

\[ \text{NIAIE}_t \leq Z \times \text{ENIA}_t \]

where:

NIAIE_t is the Eligible NIA Internal Expenditure that qualifies as Eligible NIA Expenditure for the Relevant Year t; and

Z Z has the value of 0.25, except insofar as the Authority consents otherwise.

Part C: Treatment of Unrecoverable Expenditure

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
3H.8 In any Relevant Year t, the Authority may set, by direction given to the licensee, an amount for NIAR t that will reduce the licensee’s NIA revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

Part D: The NIA Governance Document

3H.9 The Authority will issue, and may from time to time revise, a document to be known as the NIA Governance Document, for purposes connected with the regulation, governance and administration of the NIA under this condition.

3H.10 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

(a) the eligibility criteria, which projects must meet, which the licensee confirms projects conform to before Eligible NIA Projects can be started;

(b) the information that is to be published by the licensee before Eligible NIA Projects can be started;

(c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;

(d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in paragraph 3H.10(c) of this condition;

(e) arrangements for ensuring that relevant matters the licensee has learned from Eligible NIA Projects can be captured and disseminated by the licensee to other Transmission Licensees and holders of an electricity distribution licence;

(f) 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 NIA Governance Document);

(g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and

(h) any other matters relating to the regulation, governance or administration of the NIA.

3H.11 Where provisions of the NIA Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the NIA Governance Document were part of this condition.

Part E: Procedure for issuing the NIA Governance Document

3H.12 Before issuing the NIA Governance Document under this condition, the Authority, by notice given to the licensee and all other electricity transmission licensees with a condition of similar effect to this condition in their licence, will:
(a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;

(b) set out the text of the NIA Governance Document and the Authority’s reasons for proposing to issue it; and

(c) specify the date (which will not be less than a period of 28 days from the date of the notice) within which representations with respect to the proposed NIA Governance Document may be made.

3H.13 The Authority will consider any representations that are duly made and not withdrawn.

3H.14 The requirements of paragraphs 3H.12 and 3H.13 of this condition may be satisfied by action taken by the Authority before, as well as by action taken after, the coming into force of this condition.

3H.15 In paragraph 3H.12 of this condition “issuing the NIA Governance Document” includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

Part F: Interpretation

3H.16 Defined terms used in this condition and set out in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further clarification that might be set out in the NIA Governance Document in relation to such terms.

APPENDIX 1: NIA Percentage

(see the NIADV term under Part B of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>NIA Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid Electricity System Operator Limited</td>
<td>0.2</td>
</tr>
</tbody>
</table>
Special Condition 3I. The Network Innovation Competition

Introduction

3I.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) that will enable the Authority to determine the value of the Network Innovation Competition Funding (NICF) term that is to apply in Part B of Special Condition 3A (Restriction of Transmission Network Revenue) with respect to the funding of innovative low carbon or environmental projects.

3I.2 The effect of the application of the NICF term in Part B of Special Condition 3A is to adjust the calculation of the licensee’s Maximum Revenue in order to fund investment in innovation under the NIC established pursuant to this condition.

3I.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

Part A: Function of the Network Innovation Competition (NIC)

3I.4 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its Transmission Network Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.

3I.5 The value of the NICF term that is to be incorporated into the Maximum Revenue in accordance with the provisions of Special Condition 3A in respect of any Relevant Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.

3I.6 Accordingly, for the purposes of Part B of Special Condition 3A, the amount of the NIC adjustment in the NICF term in any Relevant Year is determined in accordance with Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

Part B: The NIC Funding Mechanism

3I.7 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Relevant Year and apportions that amount between the licensee and other Transmission Licensees and Electricity Distribution Licensees as appropriate in accordance with the NIC Governance Document.

3I.8 NIC Funding is the total amount of funding authorised by the Authority for the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

Part C: The Funding Return Mechanism

3I.9 The Funding Return Mechanism provides for the recovery from the licensee and from other electricity Transmission Licensees and Electricity Distribution Licensees, in each case to such extent (if any) as may be relevant, of:
(a) Halted Project Revenues;
(b) Disallowed Expenditure;
(c) Returned Royalty Income; and
(d) Returned Project Revenues.

3I.10 The Funding Return is the total amount (in respect of the licensee and other electricity Transmission Licensees and Electricity Distribution Licensees) of any amounts arising under paragraph 3I.9 of this condition.

3I.11 Halted Project Revenues are revenues received (whether by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

3I.12 Disallowed Expenditure is revenue received (whether by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

3I.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee and Electricity Distribution Licensees), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.

3I.14 For the purposes of paragraph 3I.13 of this condition, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other Transmission Licensee and Electricity Distribution Licensees) that have not been otherwise remunerated through Transmission Network Charges, do not fall within the Statement of General Principle for Excluded Services set out in Part B of Special Condition 8B (Services treated as Excluded Services), or the NIC Funding Mechanism.

3I.15 Returned Project Revenues are:

a) revenues received (whether by the licensee or any other Electricity Transmission Licensee or Electricity Distribution Licensees) under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, and where the Project has been carried out in accordance with the applicable provisions of the NIC Governance Document and/or the terms of the relevant Project Direction; or

b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other electricity Transmission Licensee or Electricity Distribution Licensees) other than Returned Royalty Income, that the Authority determines are payable to customers.

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
3I.16 The Authority may direct how the relevant revenues under paragraphs (a) and (b) above 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.

**Part D: Determination of the NICF term**

3I.17 The NICF term is the amount for Relevant Year $t$ that is to be recovered by the licensee on behalf of itself, other electricity Transmission Licensees and Electricity Distribution Licensees, as determined by the Authority under paragraph 3I.16 in relation to:

- (a) the NIC Funding specified for that year; and
- (a) any Funding Return specified for that year.

3I.18 In each Relevant Year $t$, as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and other electricity Transmission Licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:

- (a) the value of the NICF term for the licensee (being the amount, if any, to be recovered by the licensee in order to contribute to its own and other electricity Transmission Licensees’ and Electricity Distribution Licensees’ NIC Funding for that Relevant Year);

- (b) the net amounts that are to be transferred between the licensee and other electricity 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 Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and

- (c) the manner in which and the timescale over which the net amounts referred to in paragraph (b) are to be transferred.

3I.19 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 3I.18 of this condition.

**Part E: The NIC Governance Document**

3I.20 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.

3I.21 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;

- (b) the evaluation criteria against which the funding of such projects will be assessed and approved (where necessary);

- (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects’ funding (where necessary);

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(d) 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 electricity Transmission Licensees;

(e) 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);

(f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and

(g) any other matters relating to the regulation, governance, or administration of the NIC.

3I.22 Where provisions of the NIC Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the NIC Governance Document were part of this condition.

Part F: Procedure for issuing and revising the NIC Governance Document

3I.23 Before issuing the NIC Governance Document under this condition, the Authority, by notice given to the licensee and other electricity Transmission Licensees with a condition of similar effect to this condition in their licence, shall:

(a) state that it proposes to issue the NIC Governance Document, and specify the date on which it proposes that the NIC Governance Document should take effect;

(b) set out the text of the document and the Authority’s reasons for proposing to issue it; and

(c) specify the date (which must not be less than a period of 28 days from the date of the notice) within which representations with respect to the proposed NIC Governance Document may be made.

3I.24 The Authority will consider any representations that are duly made and not withdrawn.

3I.25 The requirements of paragraphs 3I.23 and 3I.24 of this condition may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

3I.26 In paragraph 3I.23 of this condition, “issuing the NIC Governance Document” includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

Part G: Interpretation

3I.27 Defined terms used in this condition and set out in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further clarification that might be set out in the NIC Governance Document in relation to such terms.
**Special Condition 3J. Not Used**

**Special Condition 3K. Allowances in respect of a Security Period**

**Introduction**

3K.1 The purpose of this condition is to set out the process for the licensee to recover Allowed Security Costs in the event of a Security Period.

**Part A: Process for the recovery of Security Costs**

3K.2 At any time during a Security Period, the licensee may give notice in writing to the Authority suspending, with effect from the date of receipt of the notice by the Authority, application of the Relevant Special Conditions as may be specified in the notice, for the remaining duration of the Security Period.

3K.3 At any time during a Security Period, the Authority may (having regard to its duties) by means of a direction:

(a) suspend or modify for the remaining duration of the Security Period the Relevant Special Conditions or any part or parts thereof; or

(b) introduce for the remaining duration of the Security Period new Special Conditions;

in either case, so as to make such provision as in the opinion of the Authority is necessary or appropriate to enable the licensee to recover by means of an appropriate equitable increase on all of the charges made in the course of the provision of Transmission Network Services an amount estimated as being equal to the licensee’s Allowed Security Costs attributable to the provision of Transmission Network Services during such period. The licensee must comply with the terms of any directions so issued.

3K.4 Subject to paragraphs 3K.5 and 3K.7 of this condition, the licensee is entitled in any Relevant Year to recover an aggregate amount equal to its Allowed Security Costs attributable to the provision of Transmission Network Services in that year or (in so far as not previously recovered) any previous year, by means of appropriate equitable increases on all of the charges made by the licensee in the course of the provision of Transmission Network Services.

3K.5 Paragraph 3K.4 of this condition will not apply in so far as such Allowed Security Costs:

(a) were otherwise recovered by the licensee; or

(b) were taken into account by the Authority in setting the Special Conditions by means of a direction issued under paragraph 3K.3 of this condition.

3K.6 Following the end of each Relevant Year the licensee must provide to the Authority details in respect of that Relevant Year of:

(a) the licensee’s estimate of Allowed Security Costs;

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(b) the aggregate amounts charged under paragraph 3K.4 of this condition on account of the licensee’s Allowed Security Costs; and

(c) the basis and calculations underlying the increases in charges made by the licensee in its provision of Transmission Network Services together with an explanation of the basis of attribution of Allowed Security Costs to the provision of Transmission Network Services.

3K.7 Where the Authority is satisfied that the licensee has recovered amounts in excess of the Allowed Security Costs attributable to the provision of Transmission Network Services, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of Transmission Network Services for the excess amounts charged to them, and the licensee must comply with any directions so issued provided that if the excess amounts relate to Allowed Security Costs paid to any authorised electricity operator, the licensee is not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.

3K.8 No amounts charged by the licensee under this condition (whether or not subsequently required to be reimbursed) will be taken into account for the purpose of applying the provisions of Special Condition 3A (Restriction of Transmission Network Revenue).
Special Condition 3L. Not Used
Chapter 4: System Operator – Revenue Restriction
Special Condition 4A. Restriction of System Operator Internal Revenue

Introduction

4A.1 The purpose of this condition is as follows:

(d) 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 its additional internal costs associated with preparing for the performance of EMR Functions; and

(e) to set out the obligations of the licensee in respect of those charging restrictions.

Part A: Licensee’s obligation

4A.2 The licensee must use its best endeavours to ensure that, in Relevant Year $t$, the revenue collected by the licensee from the Balancing Services Activity associated with internal costs (i.e. excluding the revenue associated with procuring and using balancing services) does not exceed the amount derived in accordance with the Maximum SO Internal Revenue (SOI) formula set out in Part B below.

Part B: Calculation of Maximum SO Internal Revenue

4A.3 The Maximum SO Internal Revenue is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$SOI_t = (SOPU_t + SOMOD_t + SOEMRINC_t + SOEMR_t + SOEMRCO_t + SOTRU_t) \times RPIF_t$$

4A.4 In the Principal Formula:

$SOI_t$ means the amount of Maximum SO Internal Revenue in Relevant Year $t$.

$SOPU_t$ means the amount set out against the licensee’s name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year $t$ determined by the Authority.

$SOMOD_t$ has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year is the value of the incremental change for Relevant Year $t$ from the licensee’s SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

$SOEMRINC_t$ means the adjustment in Relevant Year $t$ to the licensee’s Maximum SO Internal Revenue (either positive or negative) as a result of the financial incentives placed upon the licensee to undertake the EMR Functions, collectively referred to as the System Operator Electricity.
Market Reform Incentives as derived in accordance with Special Condition 4L (Financial Incentives on EMR).

$SOEMR_t$ means the initial amount of allowed revenue for the licensee’s internal costs associated with preparing for the performance of EMR Functions in Relevant Year $t$ and has the value as set out in Appendix 2.

$SOEMR_CO_t$ means the adjustment to allowed revenue in Relevant Year $t$ and will be determined by the Authority as a result of a calculation which compares $SOEMR_t$ with the licensee’s actual incremental and efficiently incurred internal costs associated with preparing for the performance of EMR Functions that are conferred upon the licensee. $SOEMR_CO_t$ will have the value of zero until such time as the EMR Functions either are or are not conferred on the licensee under the Energy Act 2013, thereafter:

i. where the EMR Functions are not conferred on the licensee then $SOEMR_CO_t$ will have a value which is equal and opposite to the value for $SOEMR_t$ so that the net impact of these two terms on $SOI_t$ is zero, or

ii. where the EMR Functions are conferred on the licensee then $SOEMR_CO_t$ will be calculated by 31 March 2016 in respect of Relevant Year 2016/17 and will have the value of zero for all other Relevant Years.

$SOTRU_t$ has the value zero in Relevant Year 2013/14 and in each subsequent Relevant Year means the revenue adjustment made in Relevant Year $t$ in respect of the actual value of the Retail Prices Index in Relevant Year $t-2$ minus the assumed value of the Retail Prices Index in Relevant Year $t-2$, as derived in accordance with paragraph 4A.5 of this condition.

$RPIF_t$ has the value given to it by Part C of Special Condition 3A.

**Part C: Calculation of $SOTRU_t$**

4A.5 For the purposes of the Principal Formula, $SOTRU_t$ is derived in accordance with the following formula:

$$SOTRU_t = \left( \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times SOREV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

4A.6 In the above formula for $SOTRU_t$:

- $RPIA_{t-2}$ has the value given to it by Part C of Special Condition 3A.
- $RPIF_{t-2}$ has the value given to it by Part C of Special Condition 3A.
SOREV\(_{t-2}\) means the amount (in 2009/10 prices), for Relevant Year \(t-2\), of the combined value of all revenue adjustments under the Relevant SO Special Conditions that are indexed by the Retail Prices Index as derived in accordance with the formula in paragraph 4A.7 or 4A.8 of this condition.

PVF\(_t\) has the value given to it by Part C of Special Condition 3A.

4A.7 For the purposes of paragraph 4A.6 of this condition, but subject to paragraph 4A.8, SOREV\(_{t-2}\) is derived in accordance with the following formula:

\[
\text{SOREV}_{t-2} = \text{SOPU}_{t-2} + \text{SOMOD}_{t-2} + \text{SOEMR}_{t-2} + \text{SOEMRINC}_{t-2} + \text{SOEMRCO}_{t-2} + \text{SOTRU}_{t-2}
\]

where:

- \(\text{SOPU}_{t-2}\) means an amount set out against the licensee’s name in Appendix 1 of this condition and represents the SO Opening Base Revenue Allowance in Relevant Year \(t-2\) determined by the Authority.
- \(\text{SOMOD}_{t-2}\) means the value of the incremental change for Relevant Year \(t-2\) from the licensee’s SO Opening Base Revenue Allowance as derived in accordance with the Annual Iteration Process set out in Parts A and B of Special Condition 5B.
- \(\text{SOTRU}_{t-2}\) means the revenue adjustment made in Relevant Year \(t-2\) in respect of the actual value of the Retail Prices Index in Relevant Year \(t-2\) minus the assumed value of the Retail Prices Index in Relevant Year \(t-2\), as derived in accordance with paragraph 4A.5 of this condition.
- \(\text{SOEMR}_{t-2}\) means the initial amount of allowed revenue for the licensee’s internal costs associated with preparing for the performance of EMR Functions and has the value as set out in Appendix 2 for the Relevant Year \(t-2\).
- \(\text{SOEMRINC}_{t-2}\) means the adjustment made in Relevant Year \(t-2\) to the licensee’s Maximum SO Internal Revenue (either positive or negative) as a result of the financial incentives placed upon the licensee to undertake the EMR Functions, collectively referred to as the System Operator Electricity Market Reform Incentives as derived in accordance with Special Condition 4L.
- \(\text{SOEMRCO}_{t-2}\) means the adjustment to allowed revenue determined by the Authority as a result of a calculation which compares \(\text{SOEMR}_{t}\) with the licensee’s actual incremental and efficiently internal costs incurred associated with preparing for the performance of EMR Functions that are conferred upon the licensee.

4A.8 For the purposes of paragraph 4A.6 of this condition, in Relevant Year 2014/15 only SOREV\(_{t-2}\) is derived in accordance with the following formula:

\[
\text{SOREV}_{t-2} = \frac{\text{CSOC}_{t-2} + \text{NC}_{t-2}}{\text{RPIF}_{t-2}}
\]

where:

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CSOC_{t-2} means, in respect of the Relevant Year commencing 1 April 2012, the Base Transmission Revenues derived in accordance with Part 2 (ii) of Special Condition AA5A (Balancing Services Activity Revenue Restriction) of this licence in the form in which it was in force at 31 March 2013.

NC_{t-2} means, in respect of the Relevant Year commencing 1 April 2012, the non-incentivised costs as derived in accordance with Part 2 (ii) of Special Condition AA5A of this licence in the form in which it was in force at 31 March 2013.

**Part D: Calculation of SOEMRCO_t**

4A.9 SOEMRCO_t will be determined, using 2009/10 prices, by comparing the actual efficient incremental costs incurred by the licensee in preparing for the performance of EMR Functions with the sum allowed for SOEMR_t. The calculation will be performed by using a workbook agreed between the licensee and the Authority.

4A.10 The value of SOEMRKO_t as determined by the Authority in accordance with condition 4A.9, will be directed by the Authority by 31 March 2016.

**Part E: Interpretation**

For the purposes of this condition ‘EMR Functions’ has the same meaning as in Chapter 5 of the Energy Act 2013.

**Appendix 1**

**Value of the SOPU_t term (2009/10 prices)**

(see paragraph 4A.4 of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>SOPU (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid Electricity Transmission plc</td>
<td>113.976</td>
</tr>
</tbody>
</table>

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Appendix 2

Value of the SOEMR\(_t\) term (2009/10 prices)

(see paragraph 4A.4 of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>SOEMR(_t) (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid Electricity Transmission plc</td>
<td>0.0</td>
</tr>
</tbody>
</table>
**Special Condition 4B: Balancing Services Activity Conditions:**

**Interpretation**

4B.1 In this Special Condition and in Special Conditions 4C (Balancing Services Activity Revenue Restriction on External Costs) to Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements) inclusive, all revenue shall be measured on an accruals basis, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.

4B.2 Any term used in the formulae appearing in Special Conditions 4C to Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements) inclusive and defined for the purposes of those formulae shall have the same meaning if used in any other formulae in those Special Conditions.

4B.3 In this Special Condition and in Special Conditions 4C to Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements), any cost, charge, payment or amount may either be positive or negative.
Special Condition 4C: Balancing Services Activity Revenue Restriction on External Costs

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:

\[
BX_{\text{ext}}_t = CSOBM_t + BSCC_t + \text{TotAdj}_t - OM_t + \text{IncPayExt}_t + \text{IncPayRec}_t + BSC_t + SOTOC_t
\]

where:

- \( BX_{\text{ext}}_t \) represents the maximum allowed revenue derived in Relevant Year t from and associated with procuring and using balancing services;
- \( CSOBM_t \) which represents the cost to the licensee of bids and offers in the Balancing Mechanism accepted by the licensee in Relevant Year t less the total non-delivery charge for that Relevant Year, is the sum across Relevant Year t of the values of \( CSOBM_j \) (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);
- \( BSCC_t \) means the costs to the licensee of contracts for the availability or use of balancing services during the Relevant Year t, excluding costs within \( CSOBM_t \) and \( BSC_t \) but including charges made by the licensee for the provision of balancing services to itself in the Relevant Year t;
- \( \text{TotAdj}_t \) means the amount of any adjustment to be made during the Relevant Year t as provided in paragraph 4C.2;
- \( OM_t \) means an amount representing the revenue from the provision of balancing services to others during the Relevant Year t, calculated in accordance with paragraph 4C.10;

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IncPayExt_t \text{ means an incentive payment for Relevant Year } t \text{ calculated in accordance with Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements);}\\

IncPayRec_t \text{ means an amount treated as a cost or payment by the licensee for Relevant Year } t \text{ with the prior written consent of the Authority, which equals the difference between the value of IncPayExt}_{t-1} \text{ in respect of Relevant Year } t-1 \text{ (directed by the Authority in accordance with paragraph 4M.19 of Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements)) and the amount the licensee has recovered in Relevant Year } t-1 \text{ based on its reasonable expectations of revenue associated with IncPayExt}_{t-1} \text{ in respect of Relevant Year } t-1;}\\

SOTOCT_t \text{ means the SO-TO cost allowance term in each Relevant Year } t \text{ calculated in accordance with Special Condition 4J (SO-TO Mechanism);}\\

BSC_t \text{ means the allowed revenue derived in Relevant Year } t \text{ from and associated with Black Start services in accordance with Special Condition 4G (Black Start Allowed Revenue); and}\\

j \text{ shall mean a settlement period (being half an hour) as defined in the BSC.}\\

**Part B: Balancing Services Activity adjustments**\\

4C.2 For the purposes of paragraph 4C.1, the term TotAdj_j shall be derived from the following formula:\\

$$\text{TotAdj}_j = \text{ET}_t + \text{IncAdj}_t$$\\

where:\\

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

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IncAdj\textsubscript{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\textsubscript{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 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\textsubscript{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\textsubscript{t} or BSCC\textsubscript{t}; and

(b) any amount within the term ET\textsubscript{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\textsubscript{t} shall mean incentive adjustments in respect of Relevant Year \( t \) where all of 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\textsubscript{t} in one of the six Relevant Years prior to Relevant Year \( t \) where one of the following criteria have been fulfilled:

(i) the error in the calculation of the term IncPayExt\textsubscript{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\textsubscript{t}; or

(ii) the error in the calculation of the term IncPayExt\textsubscript{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;

(b) 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 in the Relevant Year in which the error occurred; and

(c) 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.29 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 after becoming aware of any error that meets the criteria laid out in paragraph 4C.4 in the calculation of the term IncPayExt 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 and evidence of how a proposed correction is consistent with this licence condition and the SO Methodologies established under paragraph 4C.26 (and in the case of the SO Methodologies, those in effect at the time when the error was made); or

(c) any other information that is relevant for calculating the value of the term IncAdj.

4C.7 On receiving a report pursuant paragraph 4C.6, the Authority will have three months to direct that the term IncAdj 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 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 month 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.

Part C: Provision of balancing services to others
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4C.10 For the purposes of paragraph 4C.1, OM(t) (the amount representing the revenue from the provision of balancing services to others) shall be the sum of:

(a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of Relevant Year t under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the Grid Code) 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 (as defined in the Grid Code) are charged to that electricity supplier or network operator (as defined in the Grid Code); and

(b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of Relevant Year t 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 4C.10(a) of this Special Condition) or network operator (as defined in the Grid Code).
Special Condition 4D: Not used
Special Condition 4E: Not used
Special Condition 4F: Not used
Special Condition 4G: Black Start Allowed Revenue

4G.1 The purpose of this condition is to establish arrangements to determine the allowed revenue derived from Black Start that the licensee may recover in each Relevant Year \( t \) through the term \( BSC_t \) in paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).

4G.2 The term \( BSC_t \) shall be calculated in accordance with the following formula:

\[
BSC_t = BSTC_t - BSTA_t
\]

where:

- \( BSC_t \) means the allowed revenue derived in Relevant Year \( t \) from the Total Costs;
- \( BSTC_t \) means the Total Costs to the licensee incurred in Relevant Year \( t \);
- \( BSTA_t \) means the amount of any adjustments to \( BSTC_t \) as may be directed by the Authority in accordance with Part F of this condition where such adjustment shall not exceed 10% of the Total Costs for Relevant Year \( t \).

Part A: Black Start Strategy

4G.3 Further to the statement prepared pursuant to paragraph 3 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 methodology (the “Black Start Strategy”) setting out how the licensee will approach the delivery of Black Start onto the National Electricity Transmission System. The Black Start Strategy must include, but need not be limited to:

(a) The strategy for Black Start provision which is to be applied for the duration of the Black Start Strategy including an appropriate Restoration Approach, the Minimum Service Level required and appropriate Restoration Time;

(b) The strategy for Black Start provision between one and three years 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

(c) The strategy for Black Start provision beyond three years 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

4G.4 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 methodology (the “Black Start Procurement Methodology”) for the purposes of determining that any procurement of Black Start during Relevant Year t is economic and efficient, including that it provides value for money for current and future electricity consumers in Great Britain. The Black Start Procurement Methodology must include, but need not be limited to:

(a) the methodology for determining the value to current and future electricity consumers in Great Britain of Black Start provision;

(b) 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;

(c) 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

(d) 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

4G.5 The Authority shall determine, following receipt of any of the methodologies referred to in Parts A and B above (“the Methodologies”) whether to approve or reject those Methodologies.

4G.6 If the Authority rejects any of the Methodologies in accordance with paragraph 4G.5 it may direct the licensee to resubmit a revised methodology to the Authority for approval, within the time specified in that direction.

4G.7 If the Authority approves any of the Methodologies in accordance with paragraph 4G.5, the licensee must publish the approved Methodologies (the “Approved Methodologies”)

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and each an “Approved Methodology”) on its website as soon as practicable following approval.

4G.8 Where the licensee considers that there are legitimate reasons for not publishing certain information or data in the Approved Methodologies on its website the Authority may approve the publication of the Approved Methodologies without such information or data.

**Part D: Revision to Methodologies**

4G.9 During the 12 month period to which the Approved Methodologies apply the licensee may submit to the Authority for approval notification of proposals for the revision of any of the relevant Approved Methodologies. Where the licensee submits revisions for approval the licensee must send a copy of the proposed revisions to the Authority and, unless in the licensee’s view it would not be appropriate to do so, to any person who requests a copy.

4G.10 Following receipt of a notification under paragraph 4G.9 the Authority may direct the licensee to revise the relevant Approved Methodology to reflect the proposed revision, where the Authority is satisfied that the revisions are economic and efficient and will provide value for money for electricity consumers in Great Britain. Unless the Authority, within three months of their submission under paragraph 4G.9, issues such a direction, the proposed revisions shall be deemed not to be approved.

4G.11 If the Authority directs revisions to any of the relevant Approved Methodologies in accordance with paragraph 4G.10, the licensee must revise the relevant Approved Methodology. The licensee must also publish the revised Approved Methodology on its website within 7 days of receipt of that direction.

4G.12 Where the licensee considers that there are legitimate reasons for not publishing certain information or data in the revised Approved Methodologies on its website the Authority may approve the publication of the Approved Methodologies without such information or data.

**Part E: Publication of annual report**

4G.13 Within one month after the end of each Relevant Year, the licensee shall prepare a report in a form approved by the Authority in respect of the Total Costs the licensee has incurred in that Relevant Year.

4G.14 The report provided to the Authority under paragraph 4G.13 must give particulars of:

(a) the Total Costs incurred for that Relevant Year, and how the Total Costs have been calculated;

(b) how the Total Costs have been incurred in accordance with the relevant Approved Methodologies; and
(c) any other analysis or information which the licensee considers to be relevant to enable the Authority to fully assess the particulars to which the report relates.

4G.15 The report prepared pursuant to paragraph 4G.13 must be accompanied by a statement from an independent auditor of internationally recognised standing appointed by the licensee:

(a) confirming that the report is accurate; and

(b) detailing the auditor's independent assessment of the extent to which the licensee has complied with the relevant Approved Methodologies;

4G.16 The licensee must make public its annual report produced under this part. Where the licensee considers that there are legitimate reasons for not publishing certain information or data in its annual report on its website it may submit these reasons to the Authority, which may approve the publication of the report without such information or data.

Part F: Authority Determination of Adjustment

4G.17 If the Authority considers that the analysis or information provided in accordance with Part E is insufficient to enable it to assess whether it should direct an adjustment to BSTC, the Authority may direct that it be provided within a reasonable period with such additional information as it considers appropriate in order to enable it to make such an assessment.

4G.18 Where the licensee fails to comply with a direction given under paragraph 4G.17 in accordance with the timescale set out in such direction the Authority may extend the deadline for determination provided for in paragraph 4G.21.

4G.19 If the Authority considers that, taking account of:

(a) the nature and extent of the information and analysis provided to it by the licensee in accordance with Part E;

(b) the nature and extent of any further information and analysis provided to it in response to a direction under paragraph 4G.17; and

(c) the materiality of the costs incurred,

it requires an extension of time to reach a determination, it may by way of a direction extend the deadline for determination provided for in paragraph 4G.21.
4G.20 The Authority shall determine, following receipt of an annual report in accordance with Part E, whether the Total Costs in that Relevant Year were incurred in accordance with the relevant Approved Methodologies.

4G.21 Where the Authority determines that the Total Costs in that Relevant Year were not incurred in accordance with the relevant Approved Methodologies, it shall, within 3 months of receipt of an annual report in accordance with Part E, direct a value for the term BSTA, where such value shall not exceed 10% of the Total Costs for that Relevant Year.

4G.22 The definitions in this condition will have the following meaning:

<table>
<thead>
<tr>
<th>Definition</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black Start Capability</td>
<td>shall have the meaning given in the Grid Code.</td>
</tr>
<tr>
<td>Minimum Service Level</td>
<td>means the minimum service level required to provide an appropriate Black Start Capability for Great Britain.</td>
</tr>
<tr>
<td>Restoration Approach</td>
<td>means the method by which the licensee would Black Start the National Electricity Transmission System.</td>
</tr>
<tr>
<td>Restoration Time</td>
<td>means the time the licensee expects it would take to energise a part or parts of the National Electricity Transmission System following a Total Shutdown or Partial Shutdown (each as defined in the Grid Code).</td>
</tr>
<tr>
<td>Total Costs</td>
<td>means the total costs associated with the provision of Black Start, including procuring, testing, warming, utilising, capital contributions and payments for Feasibility Studies costs.</td>
</tr>
</tbody>
</table>
Special Condition 4H: Not used
Special Condition 4I: Not used
**Special Condition 4J. SO-TO mechanism**

**Part A: Purpose of licence conditions**

4J.1 The purpose of this condition is to:

(a) establish the value of the SO-TO Cost allowance term (SOTOC\(_t\)) in the formula in Special Condition 4C (Balancing Services Activity Revenue Restriction).

4J.2 For the purposes of paragraph 4J.1, the term SOTOC\(_t\) shall be derived from the following formula:

\[
SOTOC\(_t\) = (OC\(_t\) + COS\(_t\) + OCTRU\(_t\) + ONTRU\(_t\)) \times RPIF\(_t\) + JW\(_t\) + IONT\(_t\)
\]

where:

- **OC\(_t\)** means an allowance for payments by the licensee to SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company to each in respect of Outage Changes and has the value £1,146,800 (in 2009/10 prices) for the Relevant Year \(t\) unless determined otherwise by the Authority in accordance with Part D of this condition;

- **COS\(_t\)** means an allowance for payments to SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company by the licensee in respect of Commercial Operational Services and has the value £1,146,800 (in 2009/10 prices) for Relevant Year \(t\) unless determined otherwise by the Authority in accordance with Part D of this condition;

- **OCTRU\(_t\)** means the revenue adjustment made in Relevant Year \(t\) in respect of the actual value of the Retail Prices Index in Relevant Year \(t-2\) minus the assumed value of the Retail Prices Index in Relevant Year \(t-2\), as derived in accordance with paragraph 4J.3 of this condition;

- **ONTRU\(_t\)** means the revenue adjustment made in Relevant Year \(t\) in respect of the actual value of the Retail Prices Index in Relevant Year \(t-2\) minus the assumed value of the Retail Prices Index in Relevant Year \(t-2\), as derived in accordance with paragraph 4J.4 of this condition and has the value zero in Relevant Years 2018/19 and in each subsequent Relevant Year.

---

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RPIF\(_t\) has the value given to it by Special Condition 3A (Restriction of Transmission Network Revenue);

JW\(_t\) means an allowance for payments to SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company to each by the licensee in respect of a Joint Works Projects and has the value of zero unless determined otherwise by the Authority in accordance with Part D of this condition; and

IONT\(_t\) means the amount of any allowed outage cost adjustments in each Relevant Year \(t\) determined in accordance with Part D of this condition;

4J.3 For the purposes of paragraph 4J.2, OCTRU\(_t\) is derived in accordance with the following formula:

\[
OCTRUT = \left( \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times \frac{SOTOC_{t-2}}{RPIF_{t-2}} \times PVF_{t-2} \times PVF_{t-1}
\]

where:

\(RPIA_{t-2}\) has the value given to it by Part C of Special Condition 3A;

\(RPIF_{t-2}\) has the value given to it by Part C of Special Condition 3A;

\(SOTOC_{t-2}\) means the SO-TO Cost allowance as derived in accordance with paragraph 4J.2 of this condition; and

\(PVF\(_t\) has the value given to it by Part C of Special Condition 3A.

4J.4 For the purposes of paragraph 4J.2, ONTRU\(_t\) is derived in accordance with the following formula:

\[
ONTRUT = \left( \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right) \times \frac{NC_{t-2}}{RPIF_{t-2}} \times PVF_{t-2} \times PVF_{t-1}
\]

where:

\(RPIA_{t-2}\) has the value given to it by Part C of Special Condition 3A;

\(RPIF_{t-2}\) has the value given to it by Part C of Special Condition 3A;

\(NC_{t-2}\) means the Outage Change cost allowance calculated in accordance with the licence in effect in Relevant Year 2016/17; and
PVF_t has the value given to it by Part C of Special Condition 3A.

**Part B: Outage cost adjusting event**

4J.5 This part sets out the procedure for the licensee notifying the Authority of an outage cost adjusting event for Outage Changes and Commercial Operational Services.

4J.6 An outage cost adjusting event in Relevant Year t may arise from any of the following:

(a) where the actual costs incurred by the licensee in making Outage Changes are, or where the licensee’s reasonable expectation of the actual costs in making Outage Changes will be either less than or in excess of OC_t in each case by more than £300,000 (the “outage threshold amount”) or such other figure as the Authority has specified for the Relevant Year, where OC_t has the value ascribed to it in paragraph 4J.2 above;

(b) where the actual costs incurred by the licensee in making Commercial Operational Services, or where the licensee’s reasonable expectation of the actual costs in making Commercial Operational Services will be less than the value of COS_t or such other figure as the Authority has determined for the Relevant Year where COS_t has the value ascribed to it in paragraph 4J.2 above;

(c) an event or circumstance other than that in paragraph 4J.6(a) or 4J.6(b) above which is, in the opinion of the Authority, an outage cost adjusting event and is approved by it as such in accordance with Part D.

4J.7 Where the licensee considers, and can provide supporting evidence that, in respect of Relevant Year t, there have been costs and/or expenses that have been incurred or saved by an outage cost adjusting event, then the licensee shall give notice of this event to the Authority.

4J.8 A notice provided to the Authority under paragraph 4J.7 shall give particulars of:

(a) the event to which the notice relates and the reason(s) why the licensee considers this event to be an outage cost adjusting event;

(b) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;

(c) the amount of any allowed outage cost adjustment proposed as a consequence of that event and how this allowed outage cost adjustment has been calculated; and

(d) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to Part D of this condition to fully assess the event to which the notice relates.
4J.9 If the Authority considers that the analysis or information provided in sub-paragraphs 4J.8(a) to 4J.8(d) above is insufficient to enable both the Authority and the relevant parties referred to in Part D of this condition to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed outage cost adjustment that should be approved, the Authority can direct that the supporting evidence be supplemented with additional information that it considers appropriate.

4J.10 A notice under paragraph 4J.7 shall be given as soon as is reasonably practicable after the occurrence of the outage cost adjusting event, and, in any event, not later than three months after the end of the Relevant Year in which it occurs.

4J.11 The Authority will make public, excluding any confidential information, any notice of an outage cost adjusting event and any supporting information following its receipt.

4J.12 Any notice submitted to the Authority under paragraph 4J.7 above must clearly identify whether any of the information contained in the approval notice and any supporting information is of a confidential nature.

**Part C: Joint Works Projects**

4J.13 Where the licensee considers, and can provide supporting evidence that, in respect of a Joint Works Project, where the cost exceeds the COSt value and the benefits of the Joint Works Project outweigh the associated costs, then the licensee shall give notice of this Joint Works Project to the Authority.

4J.14 To qualify as a Joint Works Project, a project must meet the following principles:

(a) provide benefits to existing and future electricity consumers in Great Britain; and

(b) not be funded or not be capable of being funded elsewhere,

and must be supported by an independent review by an appropriate third-party independent expert on the licensee’s analysis and conclusions on 4J.14(a) and 4J.14(b).

4J.15 A notice provided to the Authority under paragraph 4J.13 must give particulars of:

(a) the project to which the approval notice relates and the reason(s) why the licensee considers the project is a Joint Works Project;

(b) 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;

(c) how the project satisfies the principles set out in paragraph 4J.14; and

(d) any other analysis or information which the licensee considers to be relevant to enable the Authority and the relevant parties referred to in paragraph 4J.20 to fully assess the projects savings to which the notice relates.

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4J.16 If the Authority considers that the analysis or information provided in sub-paragraphs 4J.15(a) to 4J.15(d) above is insufficient to enable the Authority to assess whether a project is a Joint Works Project, the Authority can either request that supporting evidence be supplemented with additional information that it considers appropriate or return the project to the licensee for resubmission.

4J.17 If the Authority considers that assessing the application at that time places a too high an administrative burden on the Authority, the Authority may decide not to assess the Joint Works Project or defer such assessment to such time as it considers to be appropriate.

4J.18 The Authority will publish, excluding any confidential information duly identified, any notice of a Joint Works Project as soon as reasonably practicable following its receipt.

4J.19 Any notice submitted to the Authority under paragraph 4J.13 above must clearly identify whether any of the information contained in the approval notice is of a confidential nature.

Part D: Approval from Authority

4J.20 The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):

(a) whether to approve or reject any notice including the value submitted by the licensee under Part B; and

(b) whether to approve or reject the Joint Works Project submitted under Part C and the level of costs that the licensee can recover in Relevant Year t.

4J.21 In the event that the licensee does not incur those costs outlined in the Joint Works Project submission, it should notify the Authority.

4J.22 In relation to the Relevant Year t, the allowed outage cost adjustment (IONTt) for the purposes of paragraph 4J.2 shall be:

(a) the value determined by the Authority under paragraph 4J.20(a) above; or

(b) if the Authority has not made a determination under paragraph 4J.20(a) above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority, the amount of the allowed outage cost adjustment proposed as a consequence of the event in the notice given to the Authority under Part B of this condition; or

(c) in all other cases zero, including situations where the Authority has not made a determination under paragraph 4J.20 above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 4J.8 and/or 4J.9 is insufficient to enable the Authority to assess...
whether an outage cost adjusting event has occurred and/or the amount of any allowed outage cost adjustment.

4J.23 The Authority may revoke an approval of an outage cost adjusting event and allowed outage cost adjustment by direction, following consultation with the licensee and relevant parties.

4J.24 In relation to the Relevant Year t, the Joint Works Project allowance (JWt) for the purposes of paragraph 4J.2 shall be:

(a) the value determined by the Authority under paragraph 4J.20 (b) above minus any unspent costs notified to the Authority under paragraph 4J.21; or

(b) in all other cases zero.

**Part E Definitions**

4J.25 The definitions in this condition will have the following meaning:

| **Commercial Operational Services** | means a service provided to the licensee by SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company to each with the purpose of lowering the overall costs associated with the procurement and use of balancing services by the licensee above these parties obligations under the licence or the STC. |
| **Joint Works Projects** | means where the licensee and SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company agree to a Commercial Operational Services so as to minimise costs on the national electricity transmission system when the costs are higher than £1,146,800 (in 2009/10 prices); |
| **Outage Change** | means a change notified to a SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company by the licensee to the Outage Plan on or after Week 49, as updated from time to time in accordance with the STC, other than:

  (a) a change to the Outage Plan requested by SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company (the “original change”); and |
such changes notified to the SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company by the licensee which:

(i) the licensee and SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company agree are necessary in order to give effect to the original change; or

(ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change, and

(c) without prejudice to sub-paragraphs (a) and (b) above, any change to the Outage Plan notified to SP Transmission plc, Scottish Hydro Electric Transmission Plc or any successor company by the licensee which the licensee and the Transmission Owner agree is not an Outage Change under this licence condition (a “non-chargeable outage change”)

<table>
<thead>
<tr>
<th><strong>Outage Plan</strong></th>
<th>has the meaning used or given in the STC;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Week 49</strong></td>
<td>has the meaning used or given in the STC;</td>
</tr>
</tbody>
</table>
Special Condition 4K: Not Used
Special Condition 4L. Financial incentives on EMR

Introduction

4L.1 The purpose of this condition is to establish arrangements to determine an adjustment to the licensee’s Maximum SO Internal Revenue (either positive or negative) in Relevant Year \( t \) by means of the term \( \text{SOEMRINC}_t \), for the purposes of paragraphs 4A.3 and 4A.4 of Special Condition 4A (Restriction of System Operator Internal Revenue) as a result of the financial incentives placed upon the licensee relating to the EMR Functions.

4L.2 The financial incentives placed upon the licensee are as follows:

(a) the dispute resolution incentive which adjusts the licensee’s revenue depending on how many of the Reviewable Decisions made by the licensee are overturned by the Authority (the “Dispute Resolution Incentive”);

(b) the demand forecasting accuracy incentive which adjusts the licensee’s revenue as a result of the accuracy with which the licensee forecasts Peak National Demand (the “Peak National Demand Forecasting Accuracy Incentive”);

(c) the demand side response incentive which adjusts the licensee’s revenue as a result of the licensee encouraging and facilitating participation of Demand Side Response providers in the Year Ahead Capacity Auction (the “Demand Side Response Incentive”); and

(d) the customer and stakeholder satisfaction survey incentive which adjusts the licensee’s revenue depending on the licensee’s performance as measured by the customer and stakeholder satisfaction survey (the “Customer and Stakeholder Satisfaction Survey Incentive”) which is described in Part F of this condition.

4L.3 The “Regulations” for the purposes of this condition are:

(a) The Contracts for Difference (Allocation) Regulations 2014, as amended from time to time (the “CfD Regulations”); and

(b) The Electricity Capacity Regulations 2014, as amended from time to time (the “CM Regulations”).

Part A: Calculation of \( \text{SOEMRINC}_t \)

4L.4 For the purposes of paragraphs 4A.3 and 4A.4 in Special Condition 4A the value of the term \( \text{SOEMRINC}_t \) is derived in accordance with the following formula:

\[
\text{SOEMRINC}_t = \text{DRI}_t + \text{DFA}_t + \text{DSR}_t + \text{CSSS}_t
\]

where:

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SOEMRINC_t means the adjustment to the licensee’s Maximum SO Internal Revenue (either positive or negative) in Relevant Year t as a result of the financial incentives placed upon the licensee in relation to the EMR Functions, collectively known as the System Operator Electricity Market Reform Incentives.

DRI_t means the Dispute Resolution Incentive as described in paragraph 4L.2(a) above and calculated pursuant to the provisions in Part B of this condition.

DFA_t means the Peak National Demand Forecasting Accuracy Incentive as described in paragraph 4L.2(b) above and calculated pursuant to the provisions in Part C of this condition.

DSR_t means the Demand Side Response Incentive as described in paragraph 4L.2(c) above and calculated pursuant to the provisions in Part D of this condition.

CSSS_t means the Customer and Stakeholder Satisfaction Survey Incentive as described in paragraph 4L.2(d) above and calculated pursuant to the provisions in Part E of this condition.

Part B: Calculation of DRI_t

4L.5 The DRI_t term has the value derived in accordance with the following formula:

\[
DRI_t = CfDQD_t + CMQD_t + CMECAQD_t + CANMR_t
\]

where:

CfDQD_t means the revenue adjustment for the licensee related to CfD Qualification Decisions. It is equal to:

for Relevant Years 2016/17 and 2017/18 the amount shown in column 1 of the table in Schedule 1 of this condition; and

for Relevant Years from 2018/19 onwards the amount shown in column 1 of the table in Schedule 2 of this condition,

against the number of decisions made in relation to CfD Qualification Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation 46 of the CfD Regulations.

CMQD_t means the revenue adjustment for the licensee related to CM Qualification Decisions. It is equal to:
for Relevant Years 2016/17 and 2017/18 the amount shown in column 2 of the table in Schedule 1 of this condition; and

for Relevant Years from 2018/19 onwards the amount shown in column 2 of the table in Schedule 2 of this condition,

against the number of decisions made in relation to CM Qualification Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation 71 of the CM Regulations.

\[ \text{CMECAQD}_t \]

means the revenue adjustment for the licensee related to CM Early Capacity Auction Qualification Decisions.

It is equal to, for Relevant Year 2018/19, the amount shown in column 3 of the table in Schedule 2 of this condition, against the number of decisions made in relation to CM Early Capacity Auction Qualification Decisions in Relevant Year 2016/17, which have been overturned by the Authority under regulation 71 of the CM Regulations.

Where a CM Early Capacity Auction Qualification Decision is overturned by the Authority and that decision is materially the same as a CM Qualification Decision that has also been overturned by the Authority for the same CMU, the CM Early Capacity Auction Qualification Decision overturned will not count for the purposes of this incentive.

\[ \text{CANMR}_t \]

means the revenue adjustment for the licensee related to Capacity Agreement Notice Decisions and Capacity Market Register Decisions. It is equal to:

for Relevant Years 2016/17 and 2017/18 the amount shown in column 3 of the table in Schedule 1 of this condition against the number of decisions made in relation to CM Capacity Agreement Notice (“CAN”) Decisions and CM Capacity Market Register (“CMR”) Decisions in Relevant Year t-2, which have been overturned by the Authority under regulation 71 of the CM Regulations.

For all other years, \( \text{CANMR}_t \) shall take the value zero.
4L.6 If no CfD qualification process took place either in or in respect of Relevant Year t-2, CfDQD\textsubscript{t} shall equal zero and if no CM pre-qualification process took place either in or in respect of Relevant Year t-2, CMQD\textsubscript{t} shall equal zero.

4L.7 The Authority shall, after consultation with the licensee, and having regard to the rest of Part B of this condition, direct the value of DRI\textsubscript{t} for Relevant Year t.

4L.8 The direction made pursuant paragraph 4L.7 shall be made by the Authority on or before 30 November in the year preceding Relevant Year t.

**Part C: Calculation of DFA\textsubscript{t}**

4L.9 The DFA\textsubscript{t} term is derived in accordance with the following formula:

\[
DFA\textsubscript{t} = DFAQ\textsubscript{t-2} + DFAB\textsubscript{t-2} + DFAC\textsubscript{t-2}
\]

where:

\[
DFAQ\textsubscript{t-2} = £1,000,000,000 \times \frac{4\% - \min(DFEA\textsubscript{t-2}, 8\%)}{4\%}
\]

\[
DFAB\textsubscript{t-2} = £2,000,000,000 \times \frac{2\% - \min(DFEB\textsubscript{t-2}, 4\%)}{2\%}
\]

\[
DFAC\textsubscript{t-2} = £2,000,000,000 \times \frac{2\% - \min(DFEC\textsubscript{t-2}, 4\%)}{2\%}
\]

- **DFAQ\textsubscript{t-2}** means the Peak National Demand Forecasting Accuracy Incentive for Relevant year t-2 arising from the Peak National Demand Forecast made in year t-6.
- **DFAB\textsubscript{t-2}** means the Peak National Demand Forecasting Accuracy Incentive for year t-2 arising from the Peak National Demand Forecast made in year t-3.
- **DFAC\textsubscript{t-2}** means the Peak National Demand Forecasting Accuracy Incentive for year 2017/18 arising from the Peak National Demand Forecast made in year 2016/17.
- **DFEA\textsubscript{t-2}** means the difference between Peak National Demand observed in year t-2 and the Peak National Demand Forecast for year t-2 made in year t-6 expressed as an absolute percentage.
DFEB_{t-2} \text{ means the difference between Peak National Demand observed in year } t-2 \text{ and the Peak National Demand Forecast for year } t-2 \text{ made in year } t-3 \text{ expressed as an absolute percentage.}

DFEC_{t-2} \text{ means the difference between Peak National Demand observed in Relavant Year 2017/18 and the Peak National Demand Forecast for year 2017/18 made in year 2016/17 expressed as an absolute percentage.}

4L.10 If either of the Peak National Demand Forecasts in DFEA, DFEB or DFEC are not available, or such forecast has been prepared before this condition came into force (1 April 2016), then DFAA, DFAB or DFAC as applicable shall take the value zero.

4L.11 The Weather Correction Methodology used for calculating Peak National Demand will be the Weather Correction Methodology in place at the time each Peak National Demand Forecast was produced.

4L.12 The Weather Correction Methodology must be published by the licensee at the same time as the Electricity Capacity Report that uses that Peak National Demand Forecast.

4L.13 The licensee shall write annually to the Authority, at the same time it publishes the Electricity Capacity Report, setting out the steps it has taken to improve its Peak System Demand Forecast and publish this letter on its website.

Part D: Calculation of DSR_t

4L.14 The DSR_t term is derived in accordance with the following formula except in respect of any Relevant Year up to and including the Relevant Year when the first Year Ahead Capacity Auction takes place, where the value of DSR_t is nil:
If $\text{DSRC}_t \geq \text{DSRT}_t + 0.2$, then

\[
\text{DSR}_t = £1,000,000 \times \frac{\min(\text{DSRC}_t, \text{DSRT}_t + 2) - \text{DSRT}_t - 0.2}{1.8}
\]

If $\text{DSRT}_t + 0.2 > \text{DSRC}_t \geq \text{DSRT}_t - 0.2$, then

\[
\text{DSR}_t = £0
\]

If $\text{DSRC}_t < \text{DSRT}_t - 0.2$, then

\[
\text{DSR}_t = £1,000,000 \times \frac{\max(\text{DSRC}_t, \text{DSRT}_t - 2) - \text{DSRT}_t + 0.2}{1.8}
\]

where:

- $\text{DSR}_t$ means the revenue adjustment for the licensee related to additional volume of Demand Side Response Capacity that pre-qualifies for the Year Ahead Capacity Auction for delivering electricity capacity one year ahead in Relevant Year $t-2$.
- $\text{DSRC}_t$ means the volume of Demand Side Response Capacity (expressed in gigawatts to three decimal places) that pre-qualifies for the Year Ahead Capacity Auction for delivering electricity capacity one year ahead in Relevant Year $t-2$.
- $\text{DSRT}_t$ means the target for the volume of Demand Side Response Capacity to be delivered.

For the first Relevant Year following the first Year Ahead Capacity Auction $\text{DSRT}_t$ is equal to the volume in gigawatts (expressed to three decimal places) of pre-qualified Demand Side Response Capacity in the first Year Ahead Capacity Auction.

For the second and subsequent Relevant Years following the first Year Ahead Capacity Auction, $\text{DSRT}_t$ is calculated as the average of the volume in gigawatts (expressed to three decimal places) of pre-qualified Demand Side Response Capacity in the two previous Year Ahead Capacity Auctions.
4L.15 The licensee shall, as soon as practicable, but in any event no later than three months after the corresponding Year Ahead Capacity Auction pre-qualification round, submit to the Authority a report setting out the steps that it has taken in each Year Ahead Capacity Auction pre-qualification round to encourage and facilitate the participation of Demand Side Response, including how it has ensured that Demand Side Response providers understand the implications of capacity market participation.

4L.16 The licensee shall publish the report described in paragraph 4L.15 on its website.

Part E: Calculation of CSSS

4L.17 The CSSS term is derived in accordance with the following formula:

\[
\text{CSSS}_t = \text{CSSS}_{\text{CfD}} + \text{CSSS}_{\text{CM}}
\]

where:

- \( \text{CSSS}_{\text{CfD}} \) means the adjustment to revenues resulting from the incentive on Contracts for Difference (“CfD”) Customer and Stakeholder Satisfaction Survey Scores in Relevant Year \( t-2 \) as calculated below.

- \( \text{CSSS}_{\text{CM}} \) means the adjustment to revenues resulting from the incentive on Capacity Market (“CM”) Customer and Stakeholder Satisfaction Survey Scores in Relevant Year \( t-2 \) as calculated below.

If \( \text{CfDS}_{t-2} \geq \text{CfDT} \), then:

\[
\text{CSSS}_{\text{CfD}} = £300,000 \times \frac{\min(\text{CfDS}_{t-2}, \text{CfDC}) - \text{CfDT}}{\text{CfDC} - \text{CfDT}}
\]

If \( \text{CfDS}_{t-2} < \text{CfDT} \), then:

\[
\text{CSSS}_{\text{CfD}} = -£300,000 \times \frac{\text{CfDT} - \max(\text{CfDS}_{t-2}, \text{CfDF})}{\text{CfDT} - \text{CfDF}}
\]

If \( \text{CMS}_{t-2} \geq \text{CMT} \), then:

\[
\text{CSSS}_{\text{CM}} = £300,000 \times \frac{\min(\text{CMS}_{t-2}, \text{CMC}) - \text{CMT}}{\text{CMC} - \text{CMT}}
\]

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If \( CMS_{t-2} < CMT \), then:

\[
CSSSCM_t = \frac{-£300,000 \times \max(CMS_{t-2}, CMF)}{CMT - CMF}
\]

where:

- \( CfDS_{t-2} \) means the arithmetic average of all CfD Customer and Stakeholder Satisfaction Survey Scores.
- \( CfDT \) means the target for all CfD Customer and Stakeholder Satisfaction Survey Scores. CfDT is equal to the higher of:
  1. \( CfDS_k \) where \( k \) equals 2015/16 or if no CfD allocation round commenced in 2015/16, the first Relevant Year in which a CfD allocation round takes place, rounded to one decimal place, and
  2. 5.0.
- \( CfDC \) means the score cap applying to all CfD Customer and Stakeholder Satisfaction Survey Scores and is equal to CfDT + \( CfDSD_k \), rounded to one decimal place, but in any event, must not be lower than CfDT + 1.
- \( CfDF \) means the score floor applying to all CfD Customer and Stakeholder Satisfaction Survey Scores and is equal to CfDT – \( CfDSD_k \), rounded to one decimal place, but in any event, must not be higher than CfDT – 1.
- \( CfDSD_k \) means the standard deviation of all CfD Customer and Stakeholder Satisfaction Survey Scores in year \( k \) where \( k \) equals 2015/16 or if no CfD allocation round takes place in 2015/16, the first Relevant Year in which a CfD allocation round takes place. The standard deviation is calculated as the square root of the sum of the squared variances from the population average.
- \( CMS_{t-2} \) means the arithmetic average of all CM Customer and Stakeholder Satisfaction Survey Scores.
- \( CMT \) means the target for all CM Customer and Stakeholder Satisfaction Survey Scores. CMT is equal to the higher of:
  1. \( CMS_k \) where \( k \) equals 2015/16 or if no CM auction commenced in 2015/16, the first Relevant Year in which a CM auction takes place, rounded to one decimal place, and
(ii) 5.0.

CMC means the score cap applying to all CM Customer and Stakeholder Satisfaction Survey Scores and is equal to CMT + CMSD_k, rounded to one decimal place, but in any event, must not be lower than CMT + 1.

CMF means the score floor applying to all CM Customer and Stakeholder Satisfaction Survey Scores and is equal to CMT − CMSD_k, rounded to one decimal place, but in any event, must not be higher than CMT − 1.

CMSD_k means the standard deviation of all CM Customer and Stakeholder Satisfaction Survey Scores in year k where k equals 2015/16 or if no CM auction takes place in 2015/16, the first Relevant Year in which a CM auction takes place. The standard deviation is calculated as the square root of the sum of the squared variances from the population average.

4L.18 If no results of a CfD allocation round were published either in or in respect of Relevant Year t-2, then CSSSCfD_t shall take the value zero, and the licensee is not obliged to conduct the CfD Customer and Stakeholder Satisfaction Survey.

4L.19 In case of multiple CfD allocation rounds in Relevant Year t-2, the licensee is only obliged to conduct one CfD Customer and Stakeholder Satisfaction Survey.

4L.20 If no results of a capacity market auction were published either in or in respect of Relevant Year t-2, then CSSSCM_t shall take the value zero, and the licensee is not obliged to conduct the CM Customer and Stakeholder Satisfaction Survey.

4L.21 In case of multiple capacity market auctions in Relevant Year t-2, the licensee is only obliged to conduct one CM Customer and Stakeholder Satisfaction Survey.

Part F: Customer and Stakeholder Satisfaction Surveys

4L.22 In each CM and CfD Customer and Stakeholder Satisfaction Survey, the licensee may include such questions as it deems appropriate, subject to the inclusion of one question that asks for overall satisfaction with the licensee’s performance of its CfD or CM activity respectively to be rated on a scale of 1 to 10, when 1 is low and 10 is high.

4L.23 The licensee must report on the outcomes of each overall customer and stakeholder satisfaction question in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

4L.24 The licensee must publish the outcomes from these surveys on its website within three months of these surveys taking place.

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019

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4L.25 The Authority will review the licensee’s approach to conducting the surveys and reporting the outcome of the satisfaction questions as required by paragraph 4L.22 of this condition and provide feedback to the licensee.

Part G: Definitions

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

<table>
<thead>
<tr>
<th>Term</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Average</td>
<td>as defined in the Grid Code;</td>
</tr>
<tr>
<td>Cold Spell Conditions</td>
<td></td>
</tr>
<tr>
<td>Capacity Agreement Notice</td>
<td>as defined in regulation 2 of the CM Regulations;</td>
</tr>
<tr>
<td>Capacity Market Register</td>
<td>as defined in regulation 2 of the CM Regulations;</td>
</tr>
<tr>
<td>CfD Qualification Decisions</td>
<td>means decisions made by the licensee under regulation 20(4) of the CfD</td>
</tr>
<tr>
<td></td>
<td>Regulations to uphold Non-qualification Determinations;</td>
</tr>
<tr>
<td>CfD Customer and Stakeholder Satisfaction</td>
<td>means the score from 1 to 10 that a survey participant assigns to the</td>
</tr>
<tr>
<td>Survey Score</td>
<td>question referred to in paragraph 4L.22 of this condition in Relevant</td>
</tr>
<tr>
<td></td>
<td>Year t-2;</td>
</tr>
<tr>
<td>CM Capacity Agreement Notice (“CAN”)</td>
<td>means decisions made by the licensee under regulation 69(3) of the CM</td>
</tr>
<tr>
<td></td>
<td>Regulations to uphold the decision not to amend the Capacity Agreement</td>
</tr>
<tr>
<td></td>
<td>Notice;</td>
</tr>
<tr>
<td>CM Capacity Market Register (“CMR”)</td>
<td>means decisions made by the licensee under regulation 69(3) of the CM</td>
</tr>
<tr>
<td></td>
<td>Regulations to uphold the decision not to rectify the Capacity Market</td>
</tr>
<tr>
<td></td>
<td>Register;</td>
</tr>
<tr>
<td>CM Customer and Stakeholder Satisfaction</td>
<td>means the score from 1 to 10 that a survey participant assigns to the</td>
</tr>
<tr>
<td>Survey Score</td>
<td>question referred to in paragraph 4L.22 of this condition in Relevant</td>
</tr>
<tr>
<td></td>
<td>Year t-2;</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>CM Qualification Decisions</strong></td>
<td>means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions;</td>
</tr>
<tr>
<td><strong>CM Early Capacity Auction Qualification Decisions</strong></td>
<td>means decisions made by the licensee under regulation 69(3) of the CM Regulations to uphold Prequalification Decisions in relation to the Early Capacity Auction in Relevant Year 2016/17;</td>
</tr>
<tr>
<td><strong>Demand Side Response</strong></td>
<td>means a commitment by a person to provide an amount of electricity capacity by either reducing the import of electricity or exporting electricity generated (as more fully defined in the CM Regulations);</td>
</tr>
<tr>
<td><strong>Demand Side Response Capacity</strong></td>
<td>means amount of electricity capacity made available by Demand Side Response providers;</td>
</tr>
<tr>
<td><strong>Electricity Capacity Report</strong></td>
<td>as defined in regulation 7 of the CM Regulations;</td>
</tr>
<tr>
<td><strong>EMR Functions</strong></td>
<td>has the same meaning as the term “EMR functions” in Chapter 5 of Part 2 of the Energy Act 2013;</td>
</tr>
<tr>
<td><strong>National Demand</strong></td>
<td>as defined in the Grid Code;</td>
</tr>
<tr>
<td><strong>Non-qualification Determinations</strong></td>
<td>as defined in regulation 19(2)(b) of the CfD Regulations;</td>
</tr>
<tr>
<td><strong>Peak National Demand</strong></td>
<td>means the outturn peak National Demand adjusted in accordance with the Weather Correction Methodology;</td>
</tr>
<tr>
<td><strong>Peak National Demand Forecast</strong></td>
<td>means the one-year or four-year ahead forecast of Peak National Demand that is associated with the licensee’s Peak System Demand Forecast and estimate of capacity to meet that Peak System Demand Forecast in the Electricity Capacity Report;</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Peak System Demand Forecast</td>
<td>means the forecast in the Electricity Capacity Report of peak demand across the whole of the electricity system met by all forms of generation; which includes forecasts of Peak National Demand, peak demand met by distributed generation and peak demand reduction by Demand Side Response.</td>
</tr>
<tr>
<td>Prequalification Decisions</td>
<td>as defined in regulation 2 of the CM Regulations;</td>
</tr>
<tr>
<td>Early Capacity Auction</td>
<td>means the additional capacity auction held in Relevant Year 2016/17 to provide capacity in Relevant Year 2017/18;</td>
</tr>
<tr>
<td>Weather Correction Methodology</td>
<td>means the methodology used by the licensee at the time a Peak National Demand Forecast was produced to correct the associated outturn Peak National Demand to Annual Average Cold Spell Conditions;</td>
</tr>
<tr>
<td>Year Ahead Capacity Auction</td>
<td>means a capacity auction held not less than one year and not more than two years before the start of the delivery year for which the capacity auction is held (as more fully defined in the CM Regulations).</td>
</tr>
</tbody>
</table>

**Schedule 1**

Components of the term DRI, in 2009/10 prices for qualification decisions taken in respect of CfD allocation and/or CM auctions conducted in 2014/15 and 2015/16

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### Schedule 2

Components of the term $DRI_t$ in 2009/10 prices for qualification decisions taken in respect of CfD allocation and/or CM auctions conducted from 2016/17 onwards

<table>
<thead>
<tr>
<th>Number of overturned decisions</th>
<th>(1) $\text{CfDQD}_t$ £000s</th>
<th>(2) $\text{CMQD}_t$ £000s</th>
<th>(3) $\text{CANMR}_t$ £000s</th>
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<tbody>
<tr>
<td>No overturned decisions</td>
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<td>50</td>
<td>25</td>
</tr>
<tr>
<td>1 overturned decision</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2 overturned decisions</td>
<td>-10</td>
<td>-10</td>
<td>-5</td>
</tr>
<tr>
<td>3 overturned decisions</td>
<td>-20</td>
<td>-20</td>
<td>-10</td>
</tr>
<tr>
<td>4 overturned decisions</td>
<td>-30</td>
<td>-30</td>
<td>-15</td>
</tr>
<tr>
<td>5 overturned decisions</td>
<td>-40</td>
<td>-40</td>
<td>-20</td>
</tr>
<tr>
<td>6 or more overturned decisions</td>
<td>-50</td>
<td>-50</td>
<td>-25</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of overturned decisions</th>
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<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No overturned decisions</td>
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<td>100</td>
<td>50</td>
</tr>
<tr>
<td>1 overturned decision</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2 overturned decisions</td>
<td>-35</td>
<td>-35</td>
<td>-18</td>
</tr>
<tr>
<td>3 overturned decisions</td>
<td>-65</td>
<td>-65</td>
<td>-35</td>
</tr>
<tr>
<td>4 or more overturned decisions</td>
<td>-100</td>
<td>-100</td>
<td>-50</td>
</tr>
</tbody>
</table>
Special Condition 4M. Electricity System Operator Reporting and Incentive Arrangements

Part A: Introduction

4M.1 The purpose of this licence condition is to:

(a) establish the arrangements known as the Electricity System Operator Reporting and Incentive (ESORI) Arrangements, which includes a set of reporting requirements on the licensee and arrangements for determining the amount of the IncPayExt t term in respect of Relevant Year t under paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs); and

(b) make provision for the arrangements relating to the governance of the ESORI Arrangements.

Part B: Function of the ESORI Arrangements

4M.2 The function of the ESORI Arrangements is to create transparency around the licensee’s actions and its performance and encourage it to identify and make changes to improve the way it performs its role as the System Operator for the benefit of current and future electricity consumers in Great Britain.

Part C: Establish the Forward Plan

4M.3 The licensee shall have in place, at the start of each Relevant Year, a Forward Plan that sets out:

(a) for each of the Principles, the changes the licensee considers it needs to make to the way it performs its role as the System Operator in order to deliver the greatest overall benefits for consumers, considering both the Relevant Year t, and as many of the years following the Relevant Year t as is reasonably possible (the “Long Term Vision”);

(b) the steps the licensee proposes to take to meet the Long Term Vision in the Relevant Year (the “Deliverables”); and

(c) for each of the Principles, the information the licensee proposes to use to measure its performance against the Long Term Vision and Deliverables during the Relevant Year (the “Performance Metrics”), including what outcomes the licensee proposes would constitute a reasonable representation of performance that is:

(i) below the expectations of the FP Consultees in paragraph 4M.5;
(ii) in line with the expectations of the FP Consultees; and
(iii) above the expectations of the FP Consultees;

4M.4 The licensee shall, in developing the Forward Plan in respect of Relevant Year t, consult on the contents of the Forward Plan, including all the information specified in paragraph 4M.3, prior to 31 January in Relevant Year t-1.

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4M.5 The licensee shall, in fulfilling its obligations under paragraph 4M.4 in relation to the Forward Plan, consult with:

(a) current and potential new electricity industry parties;

(b) the Authority;

(c) the ESO Performance Panel (for a Forward Plan in respect of Relevant Year 2019/20 and any Relevant Year thereafter); and

(d) any other interested parties, including consumer representatives and academics,

(together the “FP Consultees”).

4M.6 The licensee shall, following consultation with the FP Consultees under paragraph 4M.5:

(a) consider any responses made as part of the consultation;

(b) make any changes to the Forward Plan that it considers appropriate;

(c) demonstrate in the Forward Plan how it has taken into account the responses of the FP Consultees when making the changes under paragraph 4M.6(b);

(d) publish any non-confidential responses to the consultation on its website.

4M.7 The licensee shall, unless otherwise directed by the Authority, publish on its website a final version of the Forward Plan for Relevant Year t on or before 31 March in Relevant Year t-1.

4M.8 The licensee shall:

(a) keep the Forward Plan under review during a Relevant Year t, including taking into account any representations made by FP Consultees in that year; and

(b) make any appropriate changes to the Forward Plan for the Relevant Year t+1, ahead of any consultation on the contents of the Forward Plan under paragraph 4M.4 of this condition.

4M.9 The Authority will, in accordance with the ESORI Arrangements Guidance Document established under Part D of this condition, compile and publish a Formal Opinion containing its views on the content of the Forward Plan on or before 1 May in Relevant Year t.

Part D: The ESORI Arrangements Guidance Document

4M.10 The Authority will issue a document to be known as the ESORI Arrangements Guidance Document that explains the process by which the Authority will assess the performance of the licensee and how it will determine the IncPayExt term in respect of Relevant Year t.

4M.11 The Authority may make appropriate provision about or impose requirements in the ESORI Arrangements Guidance Document, which may include, but not be limited to:
(a) the criteria against which the performance of the licensee will be assessed;

(b) 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;

(c) 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;

(d) the information used for the performance assessment, including how the Forward Plan, the Formal Opinion, the Mid-Year Report and the End of Year Report will be used in that evaluation;

(e) how the assessment of the performance of the licensee will be used by the Authority to determine IncPayExt for the Relevant Year t; and

(f) any other matters relating to the regulation, governance, or administration of the ESORI Arrangement.

4M.12 Where provisions of the ESORI Arrangements Guidance Document require the compliance of the licensee, the licensee must comply with those provisions as if the ESORI Arrangements Guidance Document were part of this condition.

4M.13 Before issuing or issuing any material revision of the ESORI Arrangements Guidance Document under this condition, the Authority will consult with the licensee.

Part E: Within Year reporting, Mid-Year Report and End of Year Report

4M.14 The licensee shall publish information on its performance in relation to the Principles and the Forward Plan on a regular basis, in line with the requirements in ESORI Arrangements Guidance Document.

4M.15 The licensee shall, on or before the 15th working day in October in Relevant Year t, prepare and publish a report on its website (the “Mid-Year Report”), containing the latest available information specified in paragraphs 4M.16 (a) to (c) in respect of that Relevant Year t.

4M.16 The licensee shall, on or before 7 May in Relevant Year t prepare, publish and submit a report to the Authority (the “End of Year Report”) setting out how the licensee has performed during the Relevant Year t-1, including:

(a) information on the progress it has made against the Deliverables;

(b) a summary of the licensee’s performance against the Performance Metrics, including the explanations and justifications for its performance; and

(c) any evidence of benefits to consumers that have been, or will be, delivered during that Relevant Year, or in the following Relevant Years, as a result of the actions taken by the licensee during that Relevant Year.
4M.17 The licensee shall ensure to the best of its knowledge that the information provided in respect of paragraphs 4.M14 to 4.M16, including any explanations and justifications for its performance, is accurate and correct.

4M18 Where the licensee identifies that the information provided in respect of Part E of this condition is not accurate or correct, the licensee must notify the Authority and publish or resubmit corrected information as soon practicably possible, unless otherwise agreed by the Authority.

**Part F: Incentive payments**

4M.19 The Authority will direct by 31 July, or such later date that it considers appropriate, the value of IncPayExt\(_t\), in respect of Relevant Year \(t - 1\) as determined under this condition and the ESORI Arrangements Guidance Document.

4M.20 For each Relevant Year, the value of IncPayExt\(_t\) will be no greater than a maximum value of £30m and not less than a minimum value of (minus) -£30m.

**Part G: Definitions:**

- **Deliverables** means the steps the licensee intends to take during a Relevant Year to meet the Long Term Vision as set out in 4M.3(b);

- **End of Year Report** means the report produced by the licensee in accordance with 4M.16;

- **ESO Performance Panel** means a panel established by the Authority to make recommendations to the Authority on the performance of the licensee in a Relevant Year;

- **ESORI Arrangements Guidance Document** means a document developed and published by the Authority in accordance with Part D of this condition;

- **ESORI Arrangements** means the arrangements established in respect of special condition 4M;

- **Formal Opinion** means an opinion published by the Authority on the licensee’s Forward Plan in accordance with condition 4M.9;

- **Forward Plan** means the plan established and published under Part C of this condition;

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
<table>
<thead>
<tr>
<th><strong>Long Term Vision</strong></th>
<th>means the changes the licensee intends to make to the way it performs its role as the System Operator in accordance with 4M.3(a);</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mid-Year Report</strong></td>
<td>means the report produced by the licensee in accordance with 4M.15;</td>
</tr>
<tr>
<td><strong>Performance Metrics</strong></td>
<td>means, in relation to each of the Principles, the information used to measure the licensee’s performance against the Long Term Vision and Deliverables as set out in 4M.3(c); and</td>
</tr>
<tr>
<td><strong>Principles</strong></td>
<td>means the principles and associated guidance set out in the document issued by the Authority entitled ‘ESO Roles and Principles’ (as amended from time to time).</td>
</tr>
</tbody>
</table>
Chapter 5: Price Control Financial Instruments
Special Condition 5A. Governance of ET1 Price Control Financial Instruments

Introduction

5A.1 The purpose of this condition is to establish a change control framework for each of the following ET1 Price Control Financial Instruments, namely:

(a) the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies; and

(b) the ET1 Price Control Financial Model.

5A.2 Each of the ET1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 5A.3) may only be modified by the Authority in accordance with the provisions of Parts A and B below.

5A.3 Parts A and B are without prejudice to the powers of the Authority to modify any part of this condition (including any ET1 Price Control Financial Instrument) under sections 11A and 11B of the Act.

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

5A.4 Before initiating any modification of an ET1 Price Control Financial Instrument, the Authority must assess whether that modification would be likely to have a significant impact on any of the following persons:

(a) the licensee;

(b) any other electricity Transmission Licensee in whose licence a condition equivalent to this one has effect;

(c) 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

(d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.

5A.5 In making the assessment required by paragraph 5A.4, the Authority will:

(a) have particular regard to any impact which an intended modification would be likely to have on any component of the licensee’s allowed revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and

(b) in respect of modifications to the ET1 Price Control Financial Model, have regard to any views expressed by the ET1 Price Control Financial Model Working Group.

5A.6 For the purposes of paragraph 5A.4, it is to be presumed (subject to paragraph 5A.7) that a modification which serves to correct a manifest error contained in an ET1 Price

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.

5A.7 The presumption established by paragraph 5A.6 is without prejudice to the licensee’s right under paragraph 5A.13 to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 5A.4 or 5A.5(a).

Part B: Circumstances in which a modification may (and may not) be made

5A.8 If, having carried out the required assessment under Part A above, the Authority considers that an intended modification of an ET1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 5A.4, it may modify that instrument in accordance with paragraphs 5A.9 to 5A.12 below.

5A.9 Before making any modification of an ET1 Price Control Financial Instrument under this Part B, the Authority will give the licensee and all electricity Transmission Licensees in whose licence a condition equivalent to this one has effect a notice that:

(a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
(b) explains why in the Authority’s opinion the modification is necessary;
(c) sets out the Authority’s view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 5A.4; and
(d) specifies a period of at least 14 days from the date of the notice within which any representations with respect to the proposal may be made.

5A.10 The Authority will publish any notice issued under paragraph 5A.9 on its website.

5A.11 The Authority will consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.

5A.12 Following issue of the notice referred to in paragraph 5A.9 of this condition and consideration of representations referred to in paragraph 5A.11 of this condition, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).

5A.13 If the licensee demonstrates in representations made under paragraph 5A.9(d) that it reasonably considers that the proposed modification would be likely to have a significant impact of the type referred to in paragraph 5A.4 or 5A.5(a), the Authority may not make the modification under this Part B.

Part C: Availability and updating of ET1 Price Control Financial Instruments

5A.14 This Part C has effect in relation to the publication and availability of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies and the ET1 Price Control Financial Model.

5A.15 The Authority will ensure that any modifications of the ET1 Price Control Financial Handbook, including the constituent ET1 Price Control Financial Methodologies,
whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Handbook maintained on the Authority’s website.

5A.16 The Authority will ensure that any modifications of the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Model maintained on the Authority’s Website.

5A.17 Without limiting the general effect of paragraph 5A.16, the Authority will by not later than 30 November in each Relevant Year t-1:

(a) publish on its website, in Microsoft Excel ® format, the version of the ET1 Price Control Financial Model that will be used to determine the value of the term SOMOD with respect to Relevant Year t for the purposes of Special Condition 4A;

(b) ensure that the electronic name of the file is “ET1 PCFM” followed by “November 20XX” where 20XX represents the calendar year containing the month of November in Relevant Year t-1;

(c) ensure that the words “ET1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November” followed by the Relevant Year t-1 expressed in the format 20XX/XX are included as text within the file itself; and

(d) publish an up-to-date schedule of any modifications that have been made to the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.

Part D: Interpretation

5A.18 This condition should be read and construed in conjunction with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).
Special Condition 5B. Annual Iteration Process for the ET1 Price Control Financial Model

Introduction

5B.1 The purpose of this condition is to set out the steps of the Annual Iteration Process, that the Authority will, subject to paragraph 5B.2, carry out in each Relevant Year t-1, in relation to the ET1 Price Control Financial Model in order to determine the values of the term SOMOD for Relevant Year t, for the purposes of the formulae that is specified in Special Condition 4A (Restriction of System Operator Internal Revenue).

5B.2 The last Relevant Year in which there will be an Annual Iteration Process for the ET1 Price Control Financial Model is Relevant Year 2019/20 for the purpose of determining the values of the term SOMOD for Relevant Year 2020/21.

5B.3 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A below, in a manner that is in accordance with the procedures set out in chapter 1 of the ET1 Price Control Financial Handbook.

5B.4 The outcome of the Annual Iteration Process with respect to the value of the term SOMOD, will be notified to the licensee in accordance with Part B of this condition.

Part A: Steps comprising the Annual Iteration Process

5B.5 The Authority will save a record copy of the ET1 Price Control Financial Model in the form, and with the content it has before any of the steps of the Annual Iteration Process set out below are commenced.

5B.6 Step 1: The Authority will make revisions to PCFM Variable Values where and to the extent required in relation to adjustments for the licensee under:

(a) Special Condition 6A (Legacy price control adjustments – Transmission Owner) of the Transmission Licence held by National Grid Electricity Transmission plc and/or Special Condition 7A (Legacy price control adjustments – System Operator);

(b) Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) of the Transmission Licence held by National Grid Electricity Transmission plc and/or Special Condition 7B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator);

(c) Special Condition 6D (Specified financial adjustments – Transmission Owner) of the Transmission Licence held by National Grid Electricity Transmission plc and/or Special Condition 7C (Specified financial adjustments – System Operator);

(d) Special Condition 6E (The Innovation Roll-out Mechanism) of the Transmission Licence held by National Grid Electricity Transmission plc;

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(e) Special Condition 6F (Baseline Generation Connection Outputs and Generation Connections volume driver) of the Transmission Licence held by National Grid Electricity Transmission plc;

(f) Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) of the Transmission Licence held by National Grid Electricity Transmission plc;

(g) Special Condition 6H (Arrangements for the recovery of uncertain costs) of the Transmission Licence held by National Grid Electricity Transmission plc and/or Special Condition 7D (Arrangements for the recovery of SO uncertain costs);

(h) Special Condition 6I (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) of the Transmission Licence held by National Grid Electricity Transmission plc;

(i) Special Condition 6J (Allowed Expenditure for Incremental Wider Works) of the Transmission Licence held by National Grid Electricity Transmission plc;

(j) Special Condition 6K (Allowed Expenditure for meeting planning requirements and volume driver) of the Transmission Licence held by National Grid Electricity Transmission plc; and

(k) Special Condition 6L (Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver) of the Transmission Licence held by National Grid Electricity Transmission plc.

5B.7 Step 2: The Authority will cause the ET1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the PCFM Variable Values Table(s) for the licensee, where and to the extent required.

5B.8 Step 3: The Authority will identify and record the values of the term SOMODt for the licensee, calculated as a result of Step 2 and shown as an output of the ET1 Price Control Financial Model, including the effects of any revised PCFM Variable Values which, for the avoidance of doubt, will not have any retrospective effect on any previously directed value of the term SOMOD.

5B.9 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the values for the term SOMODt which is to be used in the formulae set out in Special Condition 4A for the purposes of ascertaining the value of the term SOI.

Part B: Direction of the values of SOMODt

5B.10 Subject to paragraph 5B.2, the values of the term SOMOD for Relevant Year t will be directed by the Authority no later than 30 November in each Relevant Year t-1.

5B.11 If, subject to paragraph 5B.2, for any reason, the Authority does not direct a value for the term SOMODt by 30 November in any Relevant Year t-1, then the Annual Iteration Process set out in Part A of this condition will not have been completed and the provisions set out in paragraphs 5B.12 and 5B.13 will apply.

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
5B.12 The Authority will complete the Annual Iteration Process set out in Part A of this condition as soon as is reasonably practicable after 30 November in the Relevant Year t-1 concerned by directing a value for SOMODt.

5B.13 In the intervening period (between the 30 November in the Relevant Year t-1 concerned and the making of a direction under paragraph 5B.12), the value of SOMODt will be held to be equal to values ascertained by:

(a) taking a copy of the ET1 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 5A (Governance of ET1 Price Control Financial Instruments) made after the completion of that Annual Iteration Process;

(b) using the selection facilities on the user interface sheet contained in that copy to select:
   
   i. the name of NGET; and
   
   ii. the Relevant year equating to Relevant Year t; and

(c) recording the values of the term SOMODt for the licensee that is shown as output value.

5B.14 For the avoidance of doubt, neither:

(a) an Annual Iteration Process for the ET1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor

(b) a change to the Relevant Year included in the name of and text within the ET1 Price Control Financial Model (as referred to at paragraphs 5A.17(b) and (c) of Special Condition 5A,

will constitute a modification of the ET1 Price Control Financial Model within the meaning of Part B of Special Condition 5A.

5B.15 This condition should be read and construed in conjunction with Special Condition 5A.
Chapter 6: Not Used
Chapter 7: Annual Iteration Process - Adjustments to the System Operator Revenue
Special Condition 7A. Legacy price control adjustments – System Operator

Introduction

7A.1 The purpose of this condition is to determine any appropriate revisions to the PCFM Variable Values for Relevant Year 2013/14 relating to the items specified in Part A of this condition for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7A.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment of the licensee’s Maximum SO Internal Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:

(a) activities carried out by the licensee;
(b) incentivised performance by the licensee; and/or
(c) costs or expenditure incurred by the licensee,

in Relevant Years prior to Relevant Year 2013/14 (the ‘legacy period’), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition.

7A.3 This condition should be read and construed in conjunction with Special Condition 5B and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

7A.4 There are no provisions to revise PCFM Variable Values relating to legacy price control adjustments for Relevant Years other than Relevant Year 2013/14 because, under the Annual Iteration Process, all of the calculations necessary to achieve the result referred to in paragraph 7A.2 are made using values for Relevant Year 2013/14.

Part A: Determination and direction of revised PCFM Variable Values relating to SO legacy price control adjustments for Relevant Year 2013/14.

7A.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

(a) SO legacy price control revenue allowance adjustments (SOLAR values); and
(b) SO legacy price control adjustments to SO RAV balance additions (SOLRAV values),

for Relevant Year 2013/14.

7A.6 The SOLAR and SOLRAV values for each Relevant Year are zero as at 1 April 2013.

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
7A.7 Subject to paragraph 7A.8 of this condition, the Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter:

(a) determine whether any SOLAR or SOLRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and

(b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined.

7A.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7A.7 is Relevant Year 2013/14 for the Annual Iteration Process that will take place by 30 November 2013.

7A.9 Revisions to the SOLAR value for Relevant Year 2013/14 will be determined in accordance with the following formula:

\[
\text{SOLAR} = \text{SOCAR} + \text{SOOIR}
\]

where:

- **SOCAR** means the revenue allowance adjustment in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.

- **SOOIR** means the revenue allowance adjustment in respect of legacy period System Operator expenditure incentive scheme adjustments, determined in accordance with Part B of this condition.

7A.10 Revisions to the SOLRAV value for Relevant Year 2013/14 will be determined in accordance with the following formula:

\[
\text{SOLRAV} = \text{SOCRAV}
\]

where:

- **SOCRAV** means the adjustment to the licensee’s SO RAV balance additions in respect of the SO Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.

7A.11 The effect of using revised SOLAR and SOLRAV values for Relevant Year 2013/14 in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt, in respect of any particular Annual Iteration Process, no previously directed value of the term SOMOD will be retrospectively affected.
Part B: Determination of component term values for the formulae set out in Part A

7A.12 This Part B provides for the determination of component term values for the formulae set out in Part A that are used to determine revisions to SOLAR and SOLRAV values for Relevant Year 2013/14.

7A.13 Subject to paragraph 7A.8, the Authority will, by 30 November in each Relevant Year t-1, determine the value of the component terms SOCAR, SOOIR and SOCRAV, in accordance with the methodology set out in part 2 of chapter 15 of the ET1 Price Control Financial Handbook.

7A.14 The first Relevant Year in which the Authority will make determinations pursuant to paragraph 7A.13 of this condition is Relevant Year 2013/14 for the purpose of determining any revisions to SOLAR and SOLRAV values for the Annual Iteration Process that will take place by 30 November 2013.

Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to SO legacy price control adjustments by the Authority

7A.15 Subject to paragraph 7A.8 of this condition, revised SOLAR values and SOLRAV values for Relevant Year 2013/14, determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

7A.16 Any direction issued under paragraph 7A.15 of this condition will include a statement of the component term values determined under Part B of this condition.

7A.17 Before issuing any directions under paragraph 7A.15 of this condition, the Authority will give notice to the licensee of all of the values that it proposes to direct.

7A.18 The notice referred to in paragraph 7A.15 of this condition must:

(a) state that any revised SOLAR and SOLRAV values for Relevant Year 2013/14 have been determined in accordance with Parts A and B of this condition; and

(b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOLAR or SOLRAV values.

7A.19 The Authority will have due regard to any representations duly received under paragraph 7A.18, and give reasons for its decisions in relation to them.

7A.20 If, subject to paragraph 7A.8, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOLAR and SOLRAV values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraph 5B.12 of Special Condition 5B, and in any case, before directing a value for SOMODt under that paragraph.

Part D: Interpretation

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
7A.21 Definitions used in this condition and defined in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.
Special Condition 7B. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator

Introduction

7B.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee’s actual SO Totex expenditure in relation to the Totex Incentive Mechanism, that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7B.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

(a) the value of the term SOMOD as calculated for Relevant Year $t$ for the purposes of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an adjustment of the licensee’s Maximum SO Internal Revenue; and

(b) appropriate adjustments will be made to the licensee’s Regulatory Asset Value (RAV) balance, that reflect the licensee’s performance under the Totex Incentive Mechanism, in accordance with the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

7B.3 This condition should be read and construed in conjunction with, Special Conditions 5A (Governance of ET1 Price Control Financial Instruments) and 5B.

Part A: SO Totex Incentive Mechanism applicable to the licensee

7B.4 The SO Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Relevant Year, between:

(a) the licensee’s allowed SO Totex expenditure; and

(b) the licensee’s actual SO Totex expenditure.

7B.5 The ‘appropriate share’ referred to in paragraph 7B.4 of this condition is represented by the Totex Incentive Strength Rate (set down against the licensee’s name in the table at Appendix 1 to this condition).

7B.6 SO Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the ET1 Price Control Financial Model. The SO Totex Capitalisation Rate set down against the licensee’s name in the table at Appendix 1 to this condition is a fixed value, contained in the Price Control Financial Model, that is used in the calculation of SO Totex Incentive Mechanism adjustments.

7B.7 This condition provides for the determination and direction of revisions to the two PCFM Variable Values that relate to the licensee’s actual SO Totex expenditure. PCFM Variable Values which relate to the licensee’s allowed SO Totex expenditure are

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specified in other Special Conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the ET1 Price Control Financial Handbook.

Part B: Process for determining PCFM Variable Values for the SO Totex Incentive Mechanism

7B.8 This Part provides for the determination and direction of revised PCFM Variable Values for:

(a) actual controllable opex (SOACO values); and
(b) actual non-operational capex (SOANC values).

7B.9 Subject to paragraph 7B.10, the Authority will, by 30 November in each Relevant Year t-1:

(a) determine revised SOACO and SOANC values for Relevant Year t-2; and
(b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Relevant Years to which they relate,

in each case in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook.

7B.10 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7B.9 is Relevant Year 2014/15.

7B.11 The Authority may also direct revisions to SOACO and SOANC values for Relevant Years earlier than Relevant Year t-2, where that is necessary to take into account any restatement of, or correction to, Specified Information submitted by the licensee, under any provision of this licence. Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.

7B.12 Where the Authority directs any revised SOACO or SOANC values for Relevant Years earlier than Relevant Year t-2, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to the licensee’s actual SO Totex expenditure by the Authority

7B.13 Subject to paragraph 7B.10 of this condition, revised SOACO and SOANC values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

7B.14 Before issuing any directions under paragraph 7B.13 of this condition the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7B.15 The notice referred to in paragraph 7B.14 will:

(a) state that any revised SOACO or SOANC values have been determined in accordance with Part B of this condition; and

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
(b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOACO or SOANC values.

7B.16 The Authority will have due regard to any representations duly received under paragraph 7B.15 of this condition, and give reasons for its decisions in relation to them.

7B.17 If, subject to paragraph 7B.10, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOACO and SOANC values by 30 November, the Authority will direct the values concerned as soon as is reasonably practicable, consistent with the purpose of paragraphs 5B.12 of Special Condition 5B and, in any case, before directing a value for SOMODt under that paragraph.

APPENDIX 1: TOTEX INCENTIVE STRENGTH AND SO TOTEX CAPITALISATION RATES

(see Part A of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>Totex Incentive Strength Rate</th>
<th>SO Totex Capitalisation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Grid Electricity System Operator Limited</td>
<td>46.89%</td>
<td>27.9%</td>
</tr>
</tbody>
</table>
Special Condition 7C. Specified financial adjustments – System Operator

Introduction

7C.1 The purpose of this condition is to determine:

(a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Parts A to C of this condition; and

(b) the Relevant Years to which the revised values referred to in sub-paragraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7C.2 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of Special Condition 4A (Restriction on System Operator Internal Costs) will result in an appropriate adjustment to the licensee’s Maximum SO Internal Revenue in a manner that appropriately reflects the licensee’s:

(a) revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy;

(b) revenue allowances for tax liabilities; and

(c) allowed SO percentage cost of corporate debt,
determined under the methodologies set out in chapters 3, 4 and 5 of the ET1 Price Control Financial Handbook respectively.

7C.3 This condition should be read and construed in conjunction with Special Conditions 5A and 5B (Governance of ET1 Price Control Financial Instruments).

Part A: SO revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy

7C.4 This Part provides for the determination and direction of revised PCFM Variable Values for:

(a) Pension Scheme Established Deficit SO revenue allowances (SOEDE values); and

(b) Pension Scheme Administration and Pension Protection Fund levy SO revenue allowances (SOAPFE values).

7C.5 Subject to paragraph 7C.6 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOEDE values should be revised as a result of:

(a) a valuation of each pension scheme sponsored by the licensee;
(b) a review of the valuations referred to in sub-paragraph (a) and of the reasonableness of the licensee’s Pension Scheme Established Deficit funding levels; and

(c) a review of the level of payments actually made by the licensee to its pension scheme,

in each case in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

7C.6 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.5 of this condition is Relevant Year 2014/15.

7C.7 Subject to paragraph 7C.9 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOAPFE values should be revised as a result of a review of the licensee’s reported levels of:

(a) Pension Scheme Administration costs; and/or

(b) Pension Protection Fund levy costs,

in each case, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook.

7C.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.7 of this condition is Relevant Year 2014/15.

7C.9 If the Authority determines under paragraph 7C.5 or 7C.7 that, in accordance with the methodology contained in chapter 3 of the ET1 Price Control Financial Handbook, any SOEDE values or SOAPFE values are to be revised, it will by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOEDE values and SOAPFE values that have been determined and the Relevant Years to which they relate.

7C.10 Where the Authority directs any revised SOEDE values or SOAPFE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

Part B: SO tax liability allowances

7C.11 This Part provides for the determination and direction of revised PCFM Variable Values for:

(a) SO tax liability revenue allowance adjustments in respect of tax trigger events (SOTTE values); and

(b) SO tax liability revenue allowance adjustments in respect of the licensee’s gearing levels and corporate debt interest costs (SOTGIE values).

7C.12 The SOTTE values and SOTGIE values for each Relevant Year are zero as at 1 April 2013.
7C.13 Subject to paragraph 7C.14 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOTTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

7C.14 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 7C.13 of this condition is Relevant Year 2013/14.

7C.15 Subject to paragraph 7C.16 of this condition, the Authority will, by 30 November in each Relevant Year t-1 determine whether any SOTGIE values should be revised as a result of a review of:

(a) the licensee’s actual level of gearing; and

(b) the level of debt interest charges actually incurred by the licensee,

in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

7C.16 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.15 of this condition is Relevant Year 2014/15.

7C.17 If the Authority determines under paragraph 7C.13 or 7C.15 of this condition that, in accordance with the methodologies contained in chapter 4 of the ET1 Price Control Financial Handbook, any SOTTE values or SOTGIE values are to be revised, it will by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOTTE values and SOTGIE values that have been determined and the Relevant Years to which they relate.

7C.18 Where the Authority directs any revised SOTTE values or SOTGIE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

Part C: Allowed SO percentage cost of corporate debt

7C.19 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee’s allowed SO percentage cost of corporate debt (SOCDE values).

7C.20 Subject to paragraph 7C.22, the Authority will by 30 November in each Relevant Year t-1:

(a) determine a revised SOCDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook; and

(b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised SOCDE values that have been determined and the Relevant Years to which they relate.

7C.21 The Authority may also revise the SOCDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.

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7C.22 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 7C.20 of this condition is Relevant Year 2013/14.

7C.23 Where the Authority directs any revised SOCDE values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt no previously directed value of the term SOMOD will be retrospectively affected.

Part D: Procedure to be followed for direction of revised SO PCFM Variable Values relating to specified SO financial adjustments by the Authority

7C.24 Subject to, and in accordance with, the provisions of Parts A, B and C of this condition, revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

7C.25 Before issuing any directions under paragraph 7C.24 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7C.26 The notice referred to in paragraph 7C.25 of this condition will:

(a) state that any revised SOEDE and SOAPFE values have been determined in accordance with Part A of this condition;

(b) state that any revised SOTTE and SOTGIE values have been determined in accordance with Part B of this condition;

(c) state that any revised SOCDE values have been determined in accordance with Part C of this condition; and

(d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised SOEDE, SOAPFE, SOTTE, SOTGIE or SOCDE values.

7C.27 The Authority will have due regard to any representations duly received under paragraph 7C.26 of this condition, and give reasons for its decisions in relation to them.

7C.28 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values by 30 November, the Authority will direct the values concerned as soon as reasonably practicable, consistent with the purpose of paragraphs 5B.12 of Special Condition 5B, and in any case, before directing a value for SOMODt under that paragraph.

Part E: Interpretation

7C.29 Definitions used in this condition and defined in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

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Special Condition 7D. Arrangements for the recovery of SO uncertain costs

Introduction

7D.1 The purpose of this condition is as follows:

(a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of Allowed Expenditure (“relevant adjustments”) in relation to the categories set out in paragraph 7D.3 of this condition (each “uncertain cost category”); and

(b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable Values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

7D.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term SOMOd as calculated for Relevant Year t for the purposes of Part B of Special Condition 4A (Restriction of System Operator Internal Revenue) will result in an appropriate adjustment to the licensee’s Maximum SO Internal Revenue in a manner that takes account of Allowed Expenditure levels in relation to the uncertain cost categories specified in paragraph 7D.3 of this condition, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapters 6 and 7 of the ET1 Price Control Financial Handbook.

7D.3 The uncertain cost categories referred to in paragraph 7D.1 of this condition are:

(a) Enhanced Security Costs; and

(b) Electricity Market Reform Enduring Solution.

7D.4 This condition should be read and construed in conjunction with Special Condition 5A (Governance of ET1 Price Control Financial Instruments) and Special Condition 5B.

Part A: Proposal and determination of relevant adjustments

7D.5 This Part provides for:

(a) the proposal of relevant adjustments by the licensee or by the Authority;

(b) the determination of relevant adjustments by the Authority; and

(c) the deeming of relevant adjustments in certain circumstances.

Proposal of relevant adjustments
7D.6 Subject to paragraph 7D.9 and 7D.10 of this condition, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to Allowed Expenditure:

(a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee’s SO Opening Base Revenue Allowance was derived;
(b) takes account of any relevant adjustments previously determined under this condition;
(c) except where the proposed change is in relation to paragraph 7D.10(a) of this condition, in aggregate constitutes a material amount within the meaning of paragraph 7D.7 of this condition;
(d) relates to costs incurred or expected to be incurred after 1 April 2013; and
(e) constitutes an adjustment to Allowed Expenditure which cannot be made under the provisions of any other Special Condition of this licence.

7D.7 A material amount is an amount of change to Allowed Expenditure which, when multiplied by the licensee’s Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed one per cent of the licensee’s materiality threshold amount as set out in Appendix 2 of this condition.

7D.8 A proposal made under paragraph 7D.6 of this condition must include statements setting out:

(a) the uncertain cost category to which the proposal relates;
(b) the changes to the licensee’s Allowed Expenditure levels that are proposed and the Relevant Years to which those changes relate; and
(c) the basis of calculation for the changes to the licensee’s Allowed Expenditure levels referred to in sub-paragraph (b) of this paragraph.

Application windows for relevant adjustment proposals

7D.9 In relation to relevant adjustment proposals that are not proposals on Electricity Market Reform Enduring Solution, the licensee and the Authority may only propose relevant adjustments during the following application windows:

(a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
(b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.

7D.10 In relation to relevant adjustment proposals on Electricity Market Reform Enduring Solution, the licensee or the Authority may only propose relevant adjustments during the following application windows:
(a) the first application window which opens on 1 August 2014 and closes on 12 January 2015; and

(b) the second application window which opens on 1 May 2019 and closes on 31 May 2019. The only relevant adjustments that may be proposed in this window are those in relation to implementing major scope changes to the Electricity Market Reform Enduring Solution.

7D.11 Relevant adjustments relating to any uncertain cost category may be proposed during any applicable application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs 7D.6 to 7D.8 of this condition, to the extent that those paragraphs apply.

Authority’s power to determine relevant adjustments

7D.12 Where a proposal has been duly made under paragraph 7D.6 of this condition, the Authority may determine any relevant adjustments that are to be made to the licensee’s Allowed Expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate:

(a) in the case of a proposal on Electricity Market Reform Enduring Solution, made during the first application window under paragraph 7D.10(a) of this condition, by 31 October 2015 (or as soon as reasonably practicable thereafter); and

(b) in the case of any other proposal, within four months after the close of the relevant application window.

7D.13 In determining any relevant adjustment under paragraph 7D.12 of this condition, the Authority will:

(a) consult with the licensee and other interested parties;

(b) have particular regard to the purposes of this condition; and

(c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.

7D.14 A determination under paragraph 7D.12 of this condition may confirm, reject, or vary the proposed relevant adjustment.

7D.15 Without limiting the general effect of paragraph 7D.14 of this condition, a determination by the Authority of a relevant adjustment may specify changes to Allowed Expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.

7D.16 The Authority will notify the licensee of any determination made under paragraph 7D.12 of this condition within 14 days of making the determination concerned.

7D.17 Except in relation to a proposal made under paragraph 7D.10(a), if the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 7D.6 of this condition within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant

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adjustment, insofar as it relates to changes to Allowed Expenditure levels for the licensee for Relevant Years specified in the proposal, will be deemed to have been made.

**Provisional allowance for Electricity Market Reform Enduring Solution for 2014/15 and 2015/16**

7D.18 Without limiting the general effect of paragraphs 7D.14 and 7D.15 of this condition, relevant adjustments to the licensee’s levels of Allowed Expenditure in relation to Electricity Market Reform Enduring Solution for the Relevant Years 2014/15 and 2015/16 are set out in Appendix 3 of this Condition.

**Part B: Determination of revisions to PCFM Variable Values**

7D.19 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

(a) Enhanced Security Costs (SOIAE EPS values); and

(b) Electricity Market Reform Enduring Solution (SOEMRES values).

7D.20 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

7D.21 Determinations under paragraph 7D.20 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.

7D.22 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year t, the effect of using those revised values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term SOMOD_t for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term SOMOD_t will be retrospectively affected.

**Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

7D.23 Subject to paragraph 7D.27 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition will be directed by the Authority by:

(a) in the case of SOEMRES values:

(i) 30 November 2014 (or as soon as is reasonably practicable thereafter), in respect of the relevant adjustment set out in paragraph 7D.18 of this condition;

(ii) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(a) of this condition; and

(iii) 30 November 2019 (or as soon as is reasonably practicable thereafter), following the application window set out in paragraph 7D.10(b) of this condition.

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(b) in the case of any of any other PCFM Variable Values:
   (i) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window set out in paragraph 7D.9(a) of this condition; and
   (ii) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the second application window set out in paragraph 7D.9(b) of this condition.

7D.24 Before issuing any directions under paragraph 7D.23 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

7D.25 The notice referred to in paragraph 7D.24 of this condition will:
   (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
   (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised PCFM Variable Values.

7D.26 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 7D.25 of this condition, and give reasons for its decisions in relation to them.

7D.27 If, for any reason, the Authority does not make a direction required under paragraph 7D.23 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraphs 5B.11 to 5B.13 of Special Condition 5B and, in any case, before directing a value for SOMOD under paragraph 5B.12 of that condition.

Part D: Interpretation

7D.28 Expressions used in this condition and defined in Special Condition 1A (Definitions and interpretation) are to be read and given effect subject to any further clarification set out in the relevant Regulatory Instructions and Guidance issued by the Authority under Special Condition B15 (Regulatory Instructions and Guidance).

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 7D.7 of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>Totex Incentive Strength Rate (%)</th>
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<tbody>
<tr>
<td>National Grid Electricity System Operator Limited</td>
<td>46.89</td>
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</table>

APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

Note: Consolidated conditions are not formal Public Register documents and should not be relied on. National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04 October 2019
(see paragraph 7D.7 of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>£m</th>
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APPENDIX 3: PROVISIONAL ALLOWANCE FOR ELECTRICITY MARKET REFORM ENDURING SOLUTION FOR 2014/15 AND 2015/16

(see paragraph 7D.18 of this condition)

<table>
<thead>
<tr>
<th>Licensee</th>
<th>£m  (2009/10 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014/15 (8 months)</td>
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<tr>
<td>National Grid Electricity System Operator Limited</td>
<td>1.72</td>
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Note: Consolidated conditions are not formal Public Register documents and should not be relied on.
Chapter 8: Other Revenue Restriction Related Conditions
Special Condition 8A. Disapplication of Relevant Special Conditions

Introduction

8A.1 The purpose of this condition is to enable the licensee to make a formal request for the disapplication of the Relevant Special Conditions (in whole or in part) and for such provisions to be disapplied following such a request in the circumstances specified below.

Part A: Conditions are to continue subject to disapplication

8A.2 The Relevant Special Conditions apply for as long as this licence continues in force, but will cease to have effect (in whole or in part, as the case may be) if the licensee serves a Disapplication Request on the Authority in accordance with the provisions of Part B and C below and:

(a) the Authority agrees in writing to the Disapplication Request; or
(b) the application of the Relevant Special Conditions (in whole or in part) is terminated by Notice given by the licensee in accordance with the provisions of Part D below.

Part B: Procedure for making a Disapplication Request

8A.3 The licensee may ask the Authority to consent to the disapplication of the Relevant Special Conditions (in whole or in part) by serving a Disapplication Request on the Authority under this condition.

8A.4 A Disapplication Request must:

(a) be in writing and addressed to the Authority;
(b) specify to which of the Relevant Special Conditions (or any part or parts of them) the request relates;
(c) provide a full statement of the licensee’s reasons for making the request;
(d) contain such other information or analysis as the licensee considers sufficient to enable the Authority to fully assess the Disapplication Request; and
(e) state the date that is proposed by the licensee (which must not be earlier than the appropriate date that is mentioned in Part C below) on and after which the specified Relevant Special Conditions (or part or parts of them) would cease to have effect (the “Disapplication Date”).

8A.5 A Disapplication Request served under this condition may be served in respect of a specified geographical area.
8A.6 If, within 28 days of a Disapplication Request, the Authority gives notice to the licensee
(a) specifying further information or analysis that it reasonably considers is
required in order to fully assess the Disapplication Request, and
(b) requests the licensee to provide that information or analysis,
the Disapplication Request shall be treated for the purposes of paragraph 8A.8 of this
condition as not served on the Authority until that further information or analysis is
provided to the Authority and, if in consequence the Disapplication Date set out in the
Disapplication Request no longer complies with paragraph 8A.8 below, the
Disapplication Date shall be treated as being the earliest date that would comply with
that paragraph.

8A.7 The licensee may withdraw a Disapplication Request at any time.

Part C: Date from which a disapplication may take effect

8A.8 Except where the Authority otherwise consents, a disapplication following the service of
a Disapplication Request may not have effect until a date that is no earlier than 18
months after it is served on the Authority of the Disapplication Request.

Part D: Licensee’s right to terminate under a Disapplication Request

8A.9 If the licensee has served on the Authority a Disapplication Request that complies with
the requirements of Parts B and C of this condition, it may subsequently give the
Authority a notice (a “Disapplication Notice”) that terminates the application of some or
all of the provisions of this Licence specified in that request:
(a) in the circumstance described in Part E; or
(b) in the circumstance described in Part F,
but in either case the Disapplication Notice may not take effect before the
Disapplication Date or such earlier date to which the Authority may have consented
under Part C.

Part E: Termination without involvement of the Competition Commission

8A.10 The circumstance referred to in paragraph 8A.9(a) above is that by the beginning of the
period of [six] months that would end on the Disapplication Date, the Authority has not
in response to the Disapplication Request published a decision under section 11A(7) of
the Act to modify:
(a) the Relevant Special Conditions (or any part or parts of them) to which the
Disapplication Request applies; or
(b) this Condition so as to remove the licensee’s right to give the Authority a
Notice under paragraph 8A.9 in respect of the relevant Disapplication
Request.

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National Grid Electricity System Operator Limited (company number 11014226): Special Conditions Consolidated – 04
October 2019
Part F: Termination after involvement of the Competition Commission

8A.11 The circumstance referred to in paragraph 8A.9(b) above is that the Authority has published a decision as described in paragraph 8A.10(a) or 8A.10(b) above and:

(a) the licensee has exercised its right to appeal to the Competition Commission against that decision of the Authority as provided for by section 11C of the Act;

(b) the Competition Commission, acting under section 11F of the Act, has, in respect of the provision to which the Disapplication Notice relates: (i) quashed the Authority’s decision, and (ii) neither remitted the matter back to the Authority under section 11F(2)(b) of the Act nor substituted its own decision for that of the Authority’s under section 11F(2)(c) of the Act; and

(c) no more than 30 days have elapsed since the date on which the Competition Commission quashed the decision in the circumstances described in paragraph 8A.11(b) above.
Special Condition 8B. Services treated as Excluded Services

Introduction

8B.1 The purpose of this condition is to set out the basis on which certain services provided by the licensee may be treated as Excluded Services under the Special Conditions.

8B.2 Excluded Services are services that conform with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph 8B.10 of this condition.

8B.3 Revenue derived by the licensee from the provision of Excluded Services is excluded from the calculation of the Maximum Revenue formula.

Part A: Structure of this condition

8B.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.

8B.5 Part C of this condition sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.

8B.6 Part D of this condition provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service provided by the licensee should not be treated as an Excluded Service.

Part B: Statement of General Principle

8B.7 The General Principle is that a service provided by the licensee as part of its Transmission Business Activities is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 8B.8 of this condition.

8B.8 The charges referred to in paragraph 8B.7 of this condition are:

(a) Transmission Network Charges, under the provisions of Special Condition 3A (Restriction of Transmission Network Revenue);

(b) Internal balancing services activity charges, under the provisions of Special Condition 4A (Restriction of System Operator Internal Revenue);

(c) External balancing services activity charges, under the provisions of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs); and

(d) Charges arising from any activity carried out under any provision the provisions of Special Condition 3I (Network Innovation Competition) which results in Returned Royalty Income for the licensee as defined in that condition.
Part C: Categories of Excluded Services

8B.9 The descriptions of categories of Excluded Services set out at paragraph 8B.10 of this condition are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance) of this licence.

8B.10 Subject to Part D of this condition, Excluded Services will include, but are not limited to, the following services:

ES1. 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 8B.8 of this condition).

ES2. Miscellaneous: This category consists of the provision of any other service that:

(a) is for the specific benefit of any third party who requests it; and
(b) is not made available by the licensee as a normal part of the activities of its Transmission Business Activities.

Part D: Authority’s power to give directions

8B.11 Where the Authority (having regard to the General Principle) is satisfied:

(a) that any service treated by the licensee as an Excluded Service should not be so treated; or
(b) that any service not treated by the licensee as an Excluded Service should be so treated,

it may issue to the licensee a direction to that effect.

8B.12 Where a direction is given under paragraph 8B.11 of this condition, the licensee must, in accordance with the direction, either:

(a) stop treating the service or services specified in the direction as Excluded Services; or
(b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.
Special Condition 8C. Not used