

**NOTICE OF MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC'S ELECTRICITY TRANSMISSION LICENCE UNDER SECTION 11 OF THE ELECTRICITY ACT 1989**

1. National Grid Electricity Transmission plc ("NGET") holds an electricity transmission licence ("the licence") treated as granted pursuant to section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. In accordance with section 11(2) and (3) of the Act, the Gas and Electricity Markets Authority ("the Authority") gives notice that it proposes to modify the special conditions of NGET's licence in accordance with the Schedule to this Notice.
3. The proposed licence modification is intended to implement proposals relating to the NGET balancing services activity incentive scheme from 1 April 2010 and to put a requirement on NGET in relation to the development of incentive schemes beyond 1 April 2010. In summary:
  - (a) the parameters for the NGET balancing services activity revenue restriction on external costs intended to run from 1 April 2010 to 31 March 2011 are set out in the table below:

	Target	Deadband	Upside (reward to NGET if costs are below target)		Downside (penalty to NGET if costs are above target)	
	£m	£m	Sharing factor (%)	Cap (£m)	Sharing factor (%)	Floor (£m)
Final Proposal	577.5	550-605	15	15	15	15

- (b) the transmission losses element of the balancing services activity incentive scheme is included in line with the proposals. The transmission losses target is set at 6,000,000 MWh with a deadband between 5,800,000 MWh and 6,200,000 MWh, and the transmission losses reference price is set at 39 £/MWh;
  - (c) a mechanism has been included that enables the Authority to direct that a lower target be implemented if a material change occurs in the volume of specified key variables that affect the cost of constraints;
  - (d) the sharing factors for the operating costs element of the internal incentive scheme are set out for the year 1 April 2010 to 31 March 2011; and
  - (e) a new requirement has been placed on NGET relating to the development of a balancing services activity incentive scheme covering two or more years.
4. Subject to the outcome of this statutory consultation, consideration of respondents' views and the consent of NGET being given, it is the intention of the Authority that the proposed licence modification shall have retrospective effect from 00:00 hours on 1 April 2010.
5. Information in relation to the proposed licence modification is contained in the following documents:

"National Grid Electricity Transmission System Operator (SO) Incentives for 1 April 2010: Initial Proposals Consultation Report", National Grid, January 2010.

"National Grid Electricity Transmission System Operator (SO) Incentives for 1 April 2010: Initial Proposals Consultation Document", National Grid, October 2009.

"National Grid Electricity Transmission System Operator (SO) Incentives for 1 April 2010: Consultation of the Development of SO Incentives for Constraints", National Grid, September 2009.

"National Grid Electricity Transmission System Operator (SO) Incentives for 1 April 2010: Consultation of Developments of the Incentive for the Energy Related Components of the Balancing Services Use of System (BSUoS) Costs", National Grid, August 2009.

"National Grid Electricity Transmission System Operator (SO) Incentives for 1 April 2010: Consultation of the Development of Incentives for Reactive Power, Transmission Losses and Black Start", National Grid, August 2009.

These documents are available from the National Grid website at [www.nationalgrid.com/uk](http://www.nationalgrid.com/uk).

6. The reasons why the Authority proposes to make the licence modification were published by the Authority in the following document:

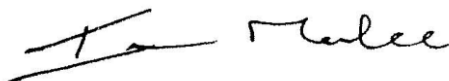
"National Grid Electricity Transmission System Operator Incentives from 1 April 2010: Final Proposals Consultation", Ofgem, March 2010.

This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

7. Any representations or objections to the proposed licence modification may be made by 12 April 2010 and sent to:

Ian Marlee  
Partner, Trading Arrangements  
Office of Gas and Electricity Markets  
9 Millbank  
London SW1P 3GE

or by e-mail to [gb.markets@ofgem.gov.uk](mailto:gb.markets@ofgem.gov.uk).



**Ian Marlee**  
**Partner, Trading Arrangements**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**

**11 March 2010**

## **SCHEDULE**

### **PROPOSED MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC'S ELECTRICITY TRANSMISSION LICENCE UNDER SECTION 11 OF THE ELECTRICITY ACT 1989**

1. In special condition AA5A (Balancing Services Activity Revenue Restriction on external costs):
  - (a) in paragraph 10(b):
    - (i) for “1 April 2009”, substitute “1 April 2010”;
    - (ii) for “31 March 2010”, substitute “31 March 2011”
  - (b) in paragraph 16(b):
    - (i) for “1 April 2009”, substitute “1 April 2010”;
    - (ii) for “31 March 2010”, substitute “31 March 2011”.
2. In special condition AA5E (Duration of the Balancing Services Activity Revenue Restriction):
  - (a) in paragraph (4)(ii) for “31 March 2010”, substitute “31 March 2011”;
  - (b) in paragraph 4(B) for “1 April 2009”, substitute “1 April 2010”.
3. Schedule A (Supplementary Provisions of the Charge Restriction Conditions), PART B (Terms used in the balancing services activity revenue restriction), is amended in accordance with paragraphs 4, 5 and 6 below.
4. For paragraph B1 substitute:

“B1. For the purpose of paragraph 8 of Part 2(i) of special condition AA5A, the terms  $MT_t$ ,  $SF_t$  and  $CB_t$  shall be selected against the appropriate value of  $IBC_t$  (which shall be determined in accordance with paragraph 9 of special condition AA5A):

  - a) in respect of the relevant year  $t$  commencing on 1 April 2010, from the following table:

<b>IBC<sub>t</sub> (£)</b>	<b>MT<sub>t</sub> (£)</b>	<b>SF<sub>t</sub></b>	<b>CB<sub>t</sub> (£)</b>
IBC <sub>t</sub> < 450,000,000	0	0	15,000,000
450,000,000 ≤ IBC <sub>t</sub> < 550,000,000	550,000,000	0.15	0
550,000,000 ≤ IBC <sub>t</sub> < 605,000,000	IBC <sub>t</sub>	0	0
605,000,000 ≤ IBC <sub>t</sub> < 705,000,000	605,000,000	0.15	0
IBC <sub>t</sub> ≥ 705,000,000	0	0	-15,000,000

- b) in the relevant year t commencing on 1 April 2010 MT<sub>t</sub> and the parameters shown in the IBC<sub>t</sub> column shall take the value specified in the table above unless the Authority directs that lower values shall apply. Such lower values shall be directed by the Authority following receipt by it from the licensee of such information as the Authority may require as to the occurrence of a material change in the volume of the specified key variables from that assumed by the licensee when developing its forecast for IBC costs for the relevant year t commencing on 1 April 2010. For the purposes of any direction to be given by the Authority under this paragraph, any relevant material change in the volume of the specified key variables and the associated costs of such material change shall be agreed between the Authority and the licensee prior to the commencement of the relevant year t commencing on 1 April 2010;
- c) in respect of the relevant year t commencing on 1 April 2011 and each relevant year thereafter, the terms MT<sub>t</sub>, SF<sub>t</sub> and CB<sub>t</sub> shall be set to zero.”

5. In paragraph B3:

for

“TLRP<sub>j</sub> which is the transmission losses reference price, shall in respect of each settlement period during relevant year t have the value £55 per megawatt hour;”

Substitute

“TLRP<sub>j</sub> which is the transmission losses reference price, shall in respect of each settlement period during relevant year t have the value £39 per megawatt hour;”

6. In paragraph B7, for the tables which set out the way in which IUSF<sub>t</sub> and IDSF<sub>t</sub> are derived, substitute:

	Relevant year				
Variable	2007/08	2008/09	2009/10	2010/11	2011/12
IUSF <sub>t</sub>	0.2	0.25	0.25	0.15	

	Relevant year				
Variable	2007/08	2008/09	2009/10	2010/11	2011/12
IDSF <sub>t</sub>	0.2	0.25	0.15	0.15	

7. Insert the following new special licence condition:

**“Special Condition AA5I: Review of methodology and requirement to develop a balancing services activity revenue restriction on external costs covering two or more relevant years**

1. The licensee shall cooperate with and assist the Authority and any Consultants appointed to undertake Phase 1 of the Review for the purpose of producing preliminary conclusions by the Authority on or around 31 May 2010.
2. Unless the Authority directs otherwise, the licensee shall undertake Phase 2 of the Review based on the preliminary conclusions of the Authority produced in Phase 1 of the Review, within 15 calendar weeks of the receipt of the preliminary conclusions or such timescale as the Authority may reasonably direct.
3. Unless the Authority directs otherwise, the licensee shall cooperate with and assist the Authority and any Consultants appointed to undertake Phase 3 of the Review in or around eight calendar weeks of the completion of Phase 2 of the Review.
4. The licensee shall cooperate with and assist the Authority in selecting and appointing Consultants for the purpose of conducting the Review. The scope and content of any contract in respect of work to be undertaken during the Review by any Consultants shall be:
  - a) proposed by the Authority;
  - b) reviewed by the licensee;

- c) approved by the Authority, subject to any modification (if any) as it may reasonably require, having taken into account any representations by the licensee.
- 5. Any contract between the Authority, the licensee and any Consultants shall make provision for payment by the licensee in respect of any work undertaken by the Consultants during the Review.
- 6. The licensee shall comply with all the requirements of this condition in a timely fashion and in good faith.
- 7. For the purposes of this condition:

“Consultants” means any persons appointed jointly by the Authority and the licensee for the purpose of conducting the Review in accordance with this condition.

“The Review” means any work undertaken in respect of Phase 1 of the Review, Phase 2 of the Review and Phase 3 of the Review.

“Phase 1 of the Review” means the examination of the licensee’s current methodology, including its models and modelling approach, to determine its appropriateness for the development of a balancing services activity revenue restriction on external costs covering two or more relevant years.

“Phase 2 of the Review” means the preparation and submission to the Authority by the licensee of the licensee’s proposed methodology, including its models and modelling approach, for the development and implementation of a balancing services activity revenue restriction on external costs covering two or more relevant years.

“Phase 3 of the Review” means the examination of the licensee’s proposed methodology, including its models and modelling approach, to determine its appropriateness for the development of a balancing services activity revenue restriction on external costs covering two or more relevant years.”