CMP231 (Fast Track) 'Electricity Market Reform Preparation Costs'

What stage is this document at?

| 01 | Draft CUSC Modification Fast Track Report |
| 02 | **Approved CUSC Modification Fast Track Report** |

Submission Date: 13 June 2014

Details of proposer: Tom Selby, National Grid Electricity Transmission

Details of proposer's alternate: Katharine Clench, National Grid Electricity Transmission

Published on: 30 June 2014
Objections to be received by: 21 July 2014

The CUSC Panel determination : 27 June 2014

Contents

About this document

This CUSC Modification Fast Track Proposal was presented to the CUSC Panel on 27 June 2014.

Document Control

Version	Date	Author	Change Reference
0.1	19 June 2014	Code Administrator	Draft CUSC Modification Fast Track Proposal Report
0.2	30 June 2014	Code Administrator	Approved CUSC Modification Fast Track Proposal Report

Any Questions?

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1   Why Change

1.1   The Proposer believes that CMP231 meets the Fast Track Criteria. This proposal seeks to address a factual change within the Transmission Licence.

1.2   The statement of the Balancing Services Use of System (BSUoS) Charging Methodology (CUSC Section 14) contains references to the National Grid Electricity Transmission (NGET) Transmission Licence which explain how BSUoS charges are calculated.

1.3   On 9 May 2014 the Gas and Electricity Markets Authority (GEMA) authorised changes to Special Condition 4A (Restriction of System Operator Internal Revenue) of NGET's Transmission licence to allow recovery of the costs incurred by NGET in preparation for performing its functions required under Electricity Market Reform (EMR).[1] These changes will take effect and apply from 5 July 2014.

1.4   The changes required to bring the CUSC up to date with the Transmission Licence have no material impact on any existing or new customers as BSUoS charges must be calculated in compliance with the amended terms of NGET's Transmission Licence.

1.5   The EMR Preparation Costs for the year 2014/15 as determined by the Authority are £14.7m in 2009/10 prices. For more information see Appendix 2 of Annex 2 of this document.

2   Solution

2.1   It is proposed that that a number of changes are made to CUSC Section 14. The proposed changes can be seen in the draft legal text in the Annex of this document.

2.2   The following changes have been made to address the inconsistencies between CUSC and NGET's Transmission Licence.

2.3   Two new terms have been added to the formula in the draft legal text for calculating the internal BSUoS charge and are defined within CUSC Section 14.31.8

   i)   SOEMR (defined in Special Condition 4A.4 of the Transmission Licence).

   ii)   SOEMRCO (defined in Special Condition 4A.4 the Transmission Licence)

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[1] https://www.ofgem.gov.uk/publications-and-updates/decision-funding-national-grid-electricity-plcs-preparatory-costs-electricity-market-reform

2.4 These two new terms have been added to the following paragraphs and equations within the draft legal text.

i) 14.30.14 Internal BSUoS Charge for Each Settlement Period: Equation updated in accordance with Special Condition 4A.3 of the NGET Transmission Licence.

ii) 14.32 Examples of Balancing Services Use of System (BSUoS) Daily Charge Calculations: Equations and explanations updated in accordance with Special Condition 4A.3 of the NGET Transmission Licence.

3 Proposed Legal Text

3.1 The draft legal text for CMP231 is contained within Annex 1 of this document.

4 CUSC Panel Determination

4.1 On 27 June 2014 the CUSC Modifications Panel considered CMP231 and confirmed unanimously that CMP231 meets the Fast Track Criteria and unanimously determined that the CUSC Modification should be implemented.

4.2 The CUSC Modification Fast Track Proposal meets the Self Governance Criteria and the Fast Track Criteria as detailed below:

Self Governance Criteria

(a) is unlikely to have a material effect on:

(i) existing or future electricity consumers; and

(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution or supply of electricity; and

(iii) the operation of the **National Electricity Transmission System**; and

(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

(v) the **CUSC**'s governance procedures or the **CUSC**'s modification procedures, and

(b) is unlikely to discriminate between different classes of **CUSC Parties**.

Fast Track criteria

(c) is properly a housekeeping modification required as a result of some error or factual change; including but not limited to:

i) updating names or addresses listed in the **CUSC**;

ii) correcting minor typographical errors;

iii) correcting formatting and consistency errors, such as paragraph numbering or

iv) updating out of date references to other documents or paragraphs.

5   Proposed Implementation

5.1   It is proposed that CMP231 CUSC Modification Fast Track Proposal is implemented no sooner than the 16th business day after publication of the approved CUSC Modification Fast Track Report providing no objections have been raised see Section 6.

5.2   The proposed implementation date is **22 July 2014**.

6   Objections

6.1   If you wish to raise an objection please email the CUSC Panel Secretary at CUSC.Team@nationalgrid.com, with an explanation as to why you believe the CUSC Modification Fast Track Proposal does not meet the Fast Track Criteria by **5:00pm** on **21 July 2014**.

6.2   The Approved CUSC Modification Fast Track Proposal will not be implemented if an objection is received.

6.3   The CUSC Panel Secretary will notify the CUSC Panel, the Authority and CUSC Parties if an objection is received.

6.4   The CUSC Panel Secretary shall notify the proposer that additional information is required if the proposer wishes the CUSC Fast Track Modification to continue as a CUSC Modification Proposal.

CUSC v1.7
5 June 2014

CUSC Section 14
Charging Methodologies

**Section 2 – The Statement of the Balancing Services
Use of System Charging Methodology**

14.29 Principles

14.29.1   The Transmission Licence allows The Company to derive revenue in respect of the Balancing Services Activity through the Balancing Services Use of System (BSUoS) charges.   This statement explains the methodology used in order to calculate the BSUoS charges.

14.29.2   The Balancing Services Activity is defined in the Transmission Licence as the activity undertaken by The Company as part of the Transmission Business including the operation of the transmission system and the procuring and using of Balancing Services for the purpose of balancing the transmission system.

14.29.3   The Company in its role as System Operator keeps the electricity system in balance (energy balancing) and maintains the quality and security of supply (system balancing). The Company is incentivised on the procurement and utilisation of services to maintain the energy and system balance and other costs associated with operating the system. Users pay for the cost of these services and any incentivised payment/receipts through the BSUoS charge.

14.29.4   All CUSC Parties acting as Generators and Suppliers (for the avoidance of doubt excluding all BMUs and Trading Units associated with Interconnectors) are liable for Balancing Services Use of System charges based on their energy taken from or supplied to the National Grid system in each half-hour Settlement Period.

14.29.5   BSUoS charges comprise the following costs:

(i)   The Total Costs of the Balancing Mechanism
(ii)   Total Balancing Services Contract costs
(iii)   Payments/Receipts from National Grid incentive schemes
(iv)   Internal costs of operating the System
(v)   Costs associated with contracting for and developing Balancing Services
(vi)   Adjustments
(vii)   Costs invoiced to The Company associated with Manifest Errors and Special Provisions.
(viii)   BETTA implementation costs

14.30 Calculation of the Daily Balancing Services Use of System charge

Calculation of the Daily Balancing Services Use of System charge

14.30.1 The BSUoS charge payable by customer c, on Settlement Day d, will be calculated in accordance with the following formula:

$$BSUoSTOT_{cd} = \sum_{i \in c} \sum_{j \in d} BSUoSTOT_{ij}$$

Where:

i	-	refers to the individual BM Unit
j	-	refers to an individual Settlement Period
$\sum_{i \in c} \sum_{j \in d}$	-	refers to the sum over all BM units 'i', for which customer 'c' is the Lead Party∗ summed over all Settlement Periods 'j' on a Settlement Day 'd'

14.30.2 A customer's charge is based on their proportion of BM Unit Metered Volume for each Settlement Period relative to the total BM Unit Metered Volume for each Settlement Period, adjusted for transmission losses by the application of the relevant Transmission Losses Multiplier.

For all liable importing and exporting BM Units in delivering Trading Units in a Settlement Period:

$$BSUoSTOT_{ij} = \left\{ \frac{BSUoSTOT_j * QMBSUoS_{ij} * TLM_{ij}}{\left| \sum{}^{+}(QMBSUoS_{ij} * TLM_{ij}) \right| + \left| \sum{}^{-}(QMBSUoS_{ij} * TLM_{ij}) \right|} \right\}$$

For all liable importing and exporting BM Units in offtaking Trading Units in a Settlement Period:

$$BSUoSTOT_{ij} = \left\{ \frac{-1 * BSUoSTOT_j * QMBSUoS_{ij} * TLM_{ij}}{\left| \sum{}^{+}(QMBSUoS_{ij} * TLM_{ij}) \right| + \left| \sum{}^{-}(QMBSUoS_{ij} * TLM_{ij}) \right|} \right\}$$

Where:

$BSUoSTOT_j$ Total BSUoS Charge applicable for Settlement Period j

$QMBSUoS_{ij}$ BM Unit Metered Volume (QM_{ij})** for BSUoS Liable BM Units

TLM_{ij} Transmission Loss Multiplier **

$\sum{}^{+}$ -   refers to the sum over all BM Units that are in delivering Trading Units in Settlement Period 'j'

∗ or CUSC party associated with the BMUnits (listed in Appendix C of the BEGA) who is exempt from also being a BSC Party

** Detailed definition in Balancing and Settlement Code Annex X2 – Technical Glossary

$\sum^-$ - refers to the sum over all BM Units that are in offtaking Trading Units in Settlement Period 'j'

'delivering' and 'offtaking' in relation to Trading Units have the meaning set out in the Balancing and Settlement Code (excluding all Interconnector BMUs and Trading Units)

14.30.3 For the avoidance of doubt, BM Units that are registered in Trading Units will be charged on a net Trading Unit basis i.e. if a BM Unit is exporting to the system and is within a Trading Unit that is offtaking from the system then the BM Unit in essence would be paid the BSUoS charge. Conversely, if a BM Unit is importing from the system in a delivering Trading Unit then the BM Unit in essence would pay the BSUoS charge.

Interconnector BM Units

14.30.4 BM Unit and Trading Units associated with Interconnectors, including those associated with the Interconnector Error Administrator, are not liable for BSUoS charges.

Total BSUoS Charge (Internal + External) for each Settlement Period (BSUoSTOT$_{jd}$)

14.30.5 The Total BSUoS charges for each Settlement Period (BSUoSTOT$_{jd}$) for a particular day are calculated by summing the external BSUoS charge (BSUoSEXT$_{jd}$) and internal BSUoS charge (BSUoSINT$_{jd}$) for each Settlement Period.

$$BSUoSTOT_{jd} = BSUoSEXT_{jd} + BSUoSINT_{jd}$$

External BSUoS Charge for each Settlement Period (BSUoSEXT$_{jd}$)

14.30.6 The External BSUoS Charges for each Settlement Period (BSUoSEXT$_{jd}$) are calculated by taking each Settlement Period System Operator BM Cash Flow (CSOBM$_j$) and Balancing Service Variable Contract Cost (BSCCV$_j$) and allocating the daily elements on a MWh basis across each Settlement Period in a day.

$$BSUoSEXT_{jd} = CSOBM_{jd} + BSCCV_{jd} + \left[\left(IncpayEXT_d + BSCCA_d + ET_d - OM_d + RFIIR_d + ROV_d + BSFS_d + NC_d + IONT_d \right) \right.$$

$$* \left\{ \left| \sum^+ (QMBSUoS_{ijd} * TLM_{ijd}) \right| + \left| \sum^- (QMBSUoS_{ijd} * TLM_{ijd}) \right| \right\} /$$

$$\sum_{j \in d} \left\{ \left| \sum^+ (QMBSUoS_{ij} * TLM_{ij}) \right| + \left| \sum^- (QMBSUoS_{ij} * TLM_{ij}) \right| \right\} \right]$$

Calculation of the daily External Incentive Payment (IncpayEXT$_d$)

14.30.7 In respect of each Settlement Day d, IncpayEXTd is calculated as the difference between the new total incentive payment (FKIncpayEXTd) and the incentive payment that has been made to date for the previous days from the commencement of the scheme (ξk=1≡d-1IncpayEXTk):

$$IncpayEXT_d = FKIncpayEXT_d - \sum_{k=0}^{d-1} IncpayEXT_k$$

14.30.8 The forecast incentive payment made to date (from the commencement of the scheme) ($FKIncpayEXT_d$) is calculated as the ratio of total forecast external incentive payment across the duration of the scheme: the number of days in the scheme, multiplied by the sum of the profiling factors to date.

$$FKIncpayEXT_d = \frac{FYIncpayEXT_d}{NDS} * \sum_{k=1}^{d} PFT_k$$

Inclusion of Profiling Factors

14.30.9 Profiling factors have been included to give an effective mechanism for calculating a representative level of the incentive payments to/from The Company according to the time of year. All PFT_d are assumed to be one for the duration of the current external incentive scheme.

14.30.10 The forecast External incentive payment for the duration of the External incentive scheme ($FYIncpayEXT_d$) is calculated as the difference between the External Scheme target (M_t) and the forecast Balancing cost (FBC) subject to sharing factors (SF_t) and a cap/collar (CB_t).

$$FYIncpayEXT_d = SF_t * (M_t - FBC_d) + CB_t$$

14.30.11 The relevant value of the External incentive payment (BSUoSEXT) can then be calculated by reference to Table 9.1 and the selection and application of the appropriate sharing factors and offset dependent upon the value of the forecast Balancing Services cost (FBC).

Table 9.1

Forecast Balancing Cost (FBC)	M_t £m	SF_t	CB_t £m
FBC < (Incentive Target Cost – 100)	0	0	25
(Incentive Target Cost -100) <= FBC < (Incentive Target Cost)	Incentive Target Cost	25%	0
Incentive Target Cost = FBC	FBC	0	0
(Incentive Target Cost) < FBC <= (Incentive Target Cost + 100)	Incentive Target Cost	25%	0
(Incentive Target Cost + 100)	0	0	-25
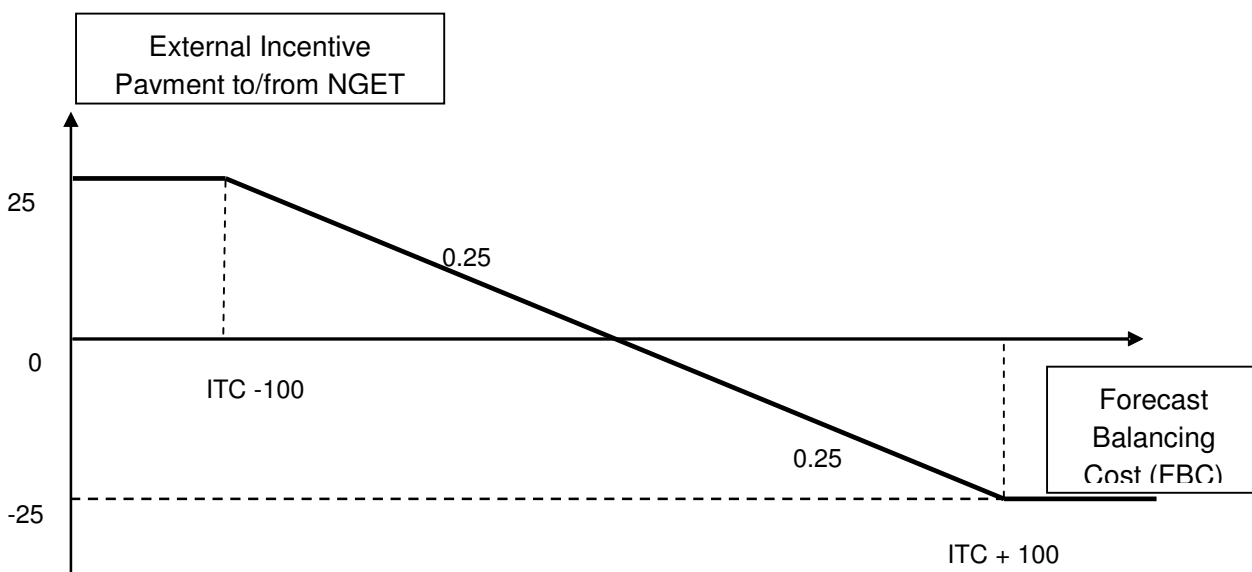
14.30.12 In respect of each Settlement Day d, the forecast incentivised Balancing Cost (FBC$_d$) will be calculated as follows:

$$FBC_d = \frac{\sum_{k=1}^{d} IBC_k}{\sum_{k=1}^{d} PFT_k} * NDS$$

Where:

NDS = Number of days in Scheme.

14.30.13 Daily Incentivised Balancing Cost (IBC$_d$) is calculated as follows:

$$IBC_d = \sum_{j \in d}(CSOBM_{jd} + BSCCV_{jd}) + BSCCA_d - OM_d - RT_d - BSFS_d$$

Internal BSUoS Charge for each Settlement Period (BSUoSINT$_{jd}$)

10

14.30.14 The Internal BSUoS Charges (BSUoSINT$_{jd}$) for each Settlement Period j for a particular day are calculated by taking the incentivised and non-incentivised SO Internal Costs for each Settlement Day allocated on a MWh basis across each Settlement Period in a day.

$$BSUoSINT_{jd} = \left[(SOPU_d + SOMOD_d + SOEMR_d + SOEMRCO_d + SOTRU_d)*RPIF_t\right]$$

$$*\left\{ \left| \sum^{+}(QMBSUoS_{ijd} * TLM_{ijd}) \right| + \left| \sum^{-}(QMBSUoS_{ijd} * TLM_{ijd}) \right| \right\}$$

$$/ \sum_{j\in d} \left\{ \left| \sum^{+}(QMBSUoS_{ij} * TLM_{ij}) \right| + \left| \sum^{-}(QMBSUoS_{ij} * TLM_{ij}) \right| \right\}$$

> **Comment [TS1]:** Changes:
> 1.SOEMR$_d$ added to the top line of the formula following SOMOD$_d$
> 2.SOEMRCO$_d$ added to the formula following SOEMR$_d$

Inclusion of Profiling Factors

14.30.15 Profiling factors have been included to give an effective mechanism for calculating a representative level of the incentive payments to/from The Company according to the time of year. All PFT$_k$ are assumed to be one for the duration of the current external incentive scheme

14.31 Settlement of BSUoS

Settlement and Reconciliation of BSUoS charges

14.31.1 There are two stages of the reconciliation of BSUoS charges described below:

- Initial Settlement (SF)
- Final Reconciliation (RF)

Initial Settlement of BSUoS

14.31.2 The Company will calculate initial settlement (SF) BSUoS charges in accordance with the methodology set out in section 14.30 above, using the latest available data, including data from the Initial Settlement Run and the Initial Volume Allocation Run.

Reconciliation of BSUoS Charges

14.31.3 Final Reconciliation will result in the calculation of a reconciled charge for each settlement day in the scheme year. The Company will calculate Final Reconciliation (RF) BSUoS charges (with the inclusion of interest as defined in the CUSC) in accordance with the methodology set out in section 14.30 above, using the latest available data, including data from the Final Reconciliation Settlement Run and the Final Reconciliation Volume Allocation Run.

Unavailability of Data

14.31.4 If any of the elements required to calculate the BSUoS charges in respect of any Settlement Day have not been notified to The Company in time for it to do the calculations then The Company will use data for the corresponding Settlement Day in the previous

week. If no such values for the previous week are available to The Company then The Company will substitute such variables as it shall, at its reasonable discretion, think fit and calculate Balancing Services Use of System charges on the basis of these values. When the actual data becomes available a reconciliation run will be undertaken.

Disputes

14.31.5   If The Company or any customer identifies any error which would affect the total Balancing Services Use of System charge on a Settlement Day then The Company will recalculate the charges following resolution of the error. Revised invoices and/or credit notes will be issued for the change in charges, plus interest as set out in the CUSC. The charge recalculation and issuing of revised invoices and/or credit notes will not take place for any day where the total change in the Balancing Services charge is less than £2000.

Relationship between the Statement of the Use of System Charging Methodology and the Transmission Licence

14.31.6 BSUoS charges are made on a daily basis and as such of this Statement sets out the details of the calculation of such charges on a daily basis. Customers may, when verifying charges for Balancing Services Use of System refer to the Transmission Licence which sets out the maximum allowed revenue that The Company may recover in respect of the Balancing Services Activity.

14.31.7 The Company has, where possible and appropriate, attempted to ensure that acronyms allocated to variables within the Balancing Services charging software, and associated reporting, match with the acronyms given to those variables used within this statement.

14.31.8 Balancing Services Use of System Acronym Definitions

For the avoidance of doubt "as defined in the BSC" relates to the Balancing and Settlement Code as published from time to time.

EXPRESSION	ACRONYM	Unit	Definition
BETTA Preparation Costs	BI	£	As defined in the Transmission Licence
Balancing Mechanism Unit	BM Unit or BMU		As defined in the BSC
Balancing service contract costs – non-Settlement Period specific	$BSCCA_d$	£	Non Settlement Period specific Balancing Contract Costs for settlement day d
Balancing Service Contract Cost	$BSCC_j$	£	Balancing Service Contract Cost from purchasing Ancillary services applicable to a Settlement Period j
Balancing service contract costs – Settlement Period specific	$BSCCV_{jd}$	£	Settlement Period j specific Balancing Contract Costs for settlement day d
Black Start Feasibility Costs	BSFS	£	As defined in the Transmission Licence
External Balancing Services Use of System charge	$BSUoSEXT_{jd}$	£	External System Operator (SO) Balancing Services Use of System charge applicable to Settlement Period j for settlement day d
Internal Balancing Services Use of System charge	$BSUoSINT_{jd}$	£	Internal System Operator (SO) Balancing Services Use of System charge applicable to Settlement Period j for settlement day d
Total Balancing Services Use of System charge	$BSUoSTOT_{cd}$	£	The sum determined for each customer, c, in accordance with this Statement and payable by that customer in respect of each Settlement Day d, in accordance with the terms of the Supplemental Agreement
Total Balancing Services Use of System charge	$BSUoSTOT_j$	£	Total Balancing Services Use of System Charge applicable for Settlement Period j
System Operator BM Cash Flow	$CSOBM_j$	£	As defined in the Balancing and Settlement Code in force immediately prior to 1 April 2001
Daily balancing services adjustment	ET_d	£	Is the contribution on Settlement Day, d, to the value of ET_t where ET_t is determined pursuant to part 2 of Condition AA5A of the Transmission Licence
Forecast incentivised Balancing Cost	FBC_d	£	Forecast incentivised Balancing Cost for duration of the Incentive Scheme as at settlement day d

EXPRESSION	ACRONYM	Unit	Definition
External Incentive payment to date	$FKIncpayEXT_d$	£	Total External Incentive Payment to date up to and including settlement day d
Total Forecast External incentive payment	$FYIncpayEXT_d$	£	Total forecast External incentive payment for the entire duration of the incentive scheme as at settlement day d
Allowed Income Adjustment relating to the SO-TO Code	IAT	£	As defined in the Transmission Licence
Daily Incentivised Balancing Cost	IBC_d	£	Is equal to that value calculated in accordance with paragraph 14.30.13 of Part 2 of this Statement
Daily External incentive payment	$IncpayEXT_d$	£	External Incentive payment for Settlement Day d
Outage Cost Adjustment	IONT	£	As defined in the Transmission Licence
Non-Incentivised Costs	NC	£	As defined in the Transmission Licence
Cost associated with the Provision of Balancing Services to others	OM_d	£	Is the contribution on Settlement Day, d, to the value of OM_t where OM_t is determined pursuant to part 2 of Condition AA5A of the Transmission Licence
Outage change allowance amount	ON	£	As defined in the Transmission Licence
Incentivised Balancing Cost daily profiling factor	PFT_d		The daily profiling factor used in the determination of forecast Incentivised Balancing Cost for settlement day d
BM Unit Metered Volume	QM_{ij}	MWh	As defined in the BSC
BSUoS Liable BM Unit Metered Volume	$QMBSUoS_{ij}$	MWh	QM_{ij} for all BM Units liable for BSUoS
Wind Forecast Incentive Cost	RFIIR		As defined in the Transmission Licence
System Operator Innovation Roll-Out Value	ROV		As defined in the Transmission Licence
Retail Price Index Adjustment Factor	RPIF		As defined in the Transmission Licence
Balancing services deemed costs	RT_d	£	Is the contribution on Settlement Day, d, to the value of RT_t where RT_t is determined pursuant to part 2 of Condition AA5A of the Transmission Licence

EXPRESSION	ACRONYM	Unit	Definition
SOEMR Preparation Costs	SOEMR	£	As defined in the Transmission Licence
SOEMR Preparation Costs Adjustment	SOEMRCO	£	As defined in the Transmission Licence
Incremental change from SO Opening Base Revenue Allowance	SOMOD		As defined in the Transmission Licence
SO Opening Base Revenue Allowance	SOPU		As defined in the Transmission Licence
Revenue Adjustment with respect to actual and assumed RPI values	SOTRU		As defined in the Transmission Licence
Tax Allowance	T	£	As defined in the Transmission Licence
Transmission Loss Multiplier	TLM_{ij}		As defined in the BSC
Total System Energy Imbalance Volume	$TQEI_j$	MWh	As defined in the Balancing and Settlement Code in force immediately prior to 1 April 2001
Final Reconciliation Settlement Run			As defined in the BSC
Final Reconciliation Volume Allocation Run			As defined in the BSC
Initial Settlement Run			As defined in the BSC
Initial Volume Allocation Run			As defined in the BSC
Lead Party			As defined in the BSC

14.32 Examples of Balancing Services Use of System (BSUoS) Daily Charge Calculations

This example illustrates the operation of the Balancing Services Use of System Daily charge formula. The parameters used are for illustrative purposes only and have been chosen for ease of calculation. They do not relate to the agreed scheme for any particular year. The actual scheme parameters are shown in the main text.

The example is divided into the calculation of the External System Operator cost and Internal System Operator cost elements. All daily profiling factors (PFT_d) have been assumed to be one for this example.

Day 1

Calculation of the Daily External SO Incentive Scheme Payment

The first step is to calculate the Daily Incentivised Balancing Cost (IBC_1 for day one) for that day using the following formula. These are the daily incentivised cost elements used to calculate the external SO incentive payment.

$$IBC_1 = CSOBM_1 + BSCCA_1 + BSCCV_1 - OM_1 - RT_1 - BSFS_1$$

$$= £800,000 + £500,000 + £250,000 - £0 - £0 - £0$$

$$= £1,550,000$$

Assuming that			
	$CSOBM_1$	=	£800,000
	$BSCCA_1$	=	£500,000
	$BSCCV_1$	=	£250,000
	OM_1	=	£0
	RT_1	=	£0
	$BSFS_1$	=	£0

Now that we know IBC_1, it is possible to calculate Forecast Balancing Services Cost (FBC_1) from that day's outturn as follows:

$$FBC_1 = \frac{\sum\limits_{k=1}^{d=1} IBC_k}{\sum\limits_{k=1}^{d=1} PFT_k} * NDS$$

$$= \frac{£1,550,000}{1} * 365$$

$$= £565,750,000$$

The values of SF_t and CB_t can now be read off table BS1 below. (**These values are used purely for illustrative purposes based on an incentive target of £500,000,000**). As FBC_1 is £565,750,000, SF_t is 0.25, CB_t is £0 and M_t is £500,000,000.

Table BS1

Forecast Balancing Cost (FBC_d)	M_t	SF_t	CB_t
£400,000,000 < FBC	£0	0	£25,000,000
£400,000,000 <= FBC < £500,000,000	£500,000,000	0.25	£0
FBC = £500,000,000	£500,000,000	0	£0
£500,000,000 < FBC <= £600,000,000	£500,000,000	0.25	£0
FBC > £600,000,000	£0	0	- £25,000,000

The table describes the external incentive scheme, which can also be illustrated by the graph below.
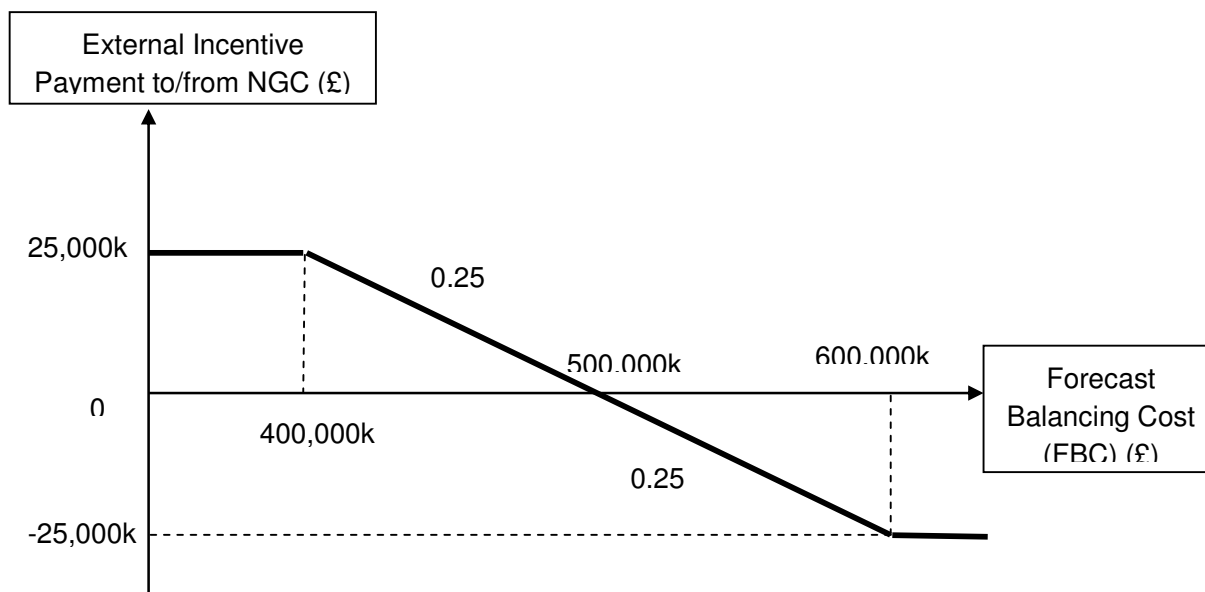
Using the values set out in the table above, the external SO incentive payment for the duration of the scheme (FYIncpayEXT) can be calculated as follows:

$$FYIncpayEXT_1 = SF_t * (M_t - FBC_1) + CB_t$$
$$= 0.25 * (\pounds500{,}000{,}000 - \pounds565{,}750{,}000) + \pounds0$$
$$= -\pounds16{,}437{,}500$$

In this case the incentive payment is negative (-£16,437,500) i.e. a payment from The Company.

The external SO incentive payment for the entire duration of the incentive scheme (FYincpayEXT) is then used to calculate the total incentive payment to date (FKIncpayEXT), shown as follows:

$$FKIncpayEXT_1 = \frac{FYIncpayEXT_1}{NDS} * \sum_{k=1}^{d=1} PFT_k$$
$$= \frac{-\pounds16{,}437{,}500}{365} * 1$$
$$= -\pounds45{,}034$$

Where:

NDS = Number of days in the external incentive scheme

The final step is to calculate today's external incentive payment (IncpayEXT$_1$ for day one), shown as follows:

$$IncpayEXT_1 = FKIncpayEXT_1 - \sum_{k=0}^{d-1=0} IncpayEXT_k$$
$$= -\pounds45{,}034 - \pounds0$$
$$= -\pounds45{,}034$$

Calculating the External Balancing Services Use of System (BSUoS) charge for a Settlement Period j

The External Balancing Services Use of System (BSUoS) charge for Settlement Period 1 on this Settlement Day 1 can now be calculated using the following formula:

$$BSUoSEXT_{11} = CSOBM_{11} + BSCCV_{11} + \left[(IncpayEXT_1 + BSCCA_1 + ET_1 - OM_1 + RFIIR_1 + ROV_1 + BSFS_1 + NC_1 + IONT_1) \right.$$
$$\left. * \left\{ \left| \sum^+ (QM_{i1,1} * TLM_{i1,1}) \right| + \left| \sum^- (QM_{i1,1} * TLM_{i1,1}) \right| \right\} / \sum_{j \in 1} \left\{ \left| \sum^+ (QM_{ij} * TLM_{ij}) \right| + \left| \sum^- (QM_{ij} * TLM_{ij}) \right| \right\} \right]$$

For simplicity, the BSUoS applicable BM Unit Metered Volume (QMBSUoS$_{ij}$ * TLM$_{ij}$) is assumed to be the same in all half hour Settlement Periods in a Settlement Day. Therefore the daily BSUoS charge will be evenly allocated to each Settlement Period (1/48) i.e. the multiplier at the end of the equation.

The illustration below shows the external BSUoS charge (BSUoSEXT$_{11}$) for Settlement Period one of Settlement Day 1.

The costs of the external SO Settlement Period variables are as follows (these are the daily values included in the IBC$_1$ equation divided by 48 Settlement Periods).

CSOBM = £16,667
BSCCV = £5,208
$RFIIR_1$, ROV_1, $BSFS_1$, NC_1 and $IONT_1$ are all zero.

The costs of the external SO Settlement Day variables are as follows:

IncpayEXT = £-45,034
BSCCA = £500,000
ET = £0
OM = £0

$$BSUoSEXT_{11} = £16,667 + £5,208 + [(-£45,034 + £500,000 + £0 - £0 + £0 + £0 + £0 + £0 + £0)/48]$$
$$= £16,667 + £5,208 + £9,478$$
$$= £31,353$$

Calculating the Internal Balancing Services Use of System (BSUoS) charge for a Settlement Period j

Table BS2 below shows the annual Internal SO costs assumed for this example:

Table BS2

Internal SO Cost Variable	Annual Cost (£m)
$SOPU_t$	75,873,280
$SOMOD_t$	18,250,000
$SOEMR_t$	0
$SOEMRCO_t$	0
$SOTRU_t$	18,250,000

$RPIF_t = 1$

The Internal Balancing Services Use of System (BSUoS) charge for a Settlement Period 1 of Settlement Day 1 can be calculated using the following formula:

$$BSUoSINT_{11} = [\{(SOPU_1 + SOMOD_1 + SOEMR_1 + SOEMRCO_1 + SOTRU_1)/NDS\} * RPIF_1]$$
$$* \left\{ \left| \sum^+ (QM_{i1,1} * TLM_{i1,1}) \right| + \left| \sum^- (QM_{i1,1} * TLM_{i1,1}) \right| \right\} / \sum_{j \in 1} \left\{ \left| \sum^+ (QM_{ij} * TLM_{ij}) \right| + \left| \sum^- (QM_{ij} \right. \right.$$

Comment [TS2]: Changes:
1. $SOEMR_1$ inserted into the top line of the formula following $SOMOD_1$.
2. $SOEMRCO_1$ inserted into the top line of the formula following $SOEMR_1$.

As with the external BSUoS charge, for simplicity, the BSUoS applicable BM Unit Metered Volume ($QMBSUoS_{ij}$ * TLM_{ij}) is assumed to be the same in all half hour Settlement Periods in a Settlement Day. Therefore the daily BSUoS charge will be evenly allocated to each Settlement Period (1/48).

$$BSUoSINT_{11} = \left[(75{,}873{,}280 + 18{,}250{,}000 + 0 + 0 + 18{,}250{,}000)/365\right] * 1/48$$
$$= £6414$$

<u>Calculating the Total Balancing Services Use of System (BSUoS) charge for a Settlement Period 1</u>

The final step is to calculate the Total Balancing Services Use of System (BSUoSTOT$_{11}$) for a Settlement Period 1 on Settlement Day 1.

$$BSUoSTOT_{11} = BSUoSEXT_{11} + BSUoSINT_{11}$$
$$= £31{,}353 + £6{,}414$$
$$= £37{,}767$$

Day 2

Calculation of the Daily External SO Incentive Scheme Payment

Again, the first step is to calculate the Daily Incentivised Balancing Cost for day 2 (IBC_2) using the following formula:

$$IBC_2 = CSOBM_2 + BSCCA_2 + BSCCV_2 - OM_2 - RT_2 - BSFS_2$$

$$= £600,000 + £150,000 + £100,000 - £0 - £0 - £0$$

$$= £850,000$$

Assuming that

$CSOBM_2$	=	£600,000
$BSCCA_2$	=	£150,000
$BSCCV_2$	=	£100,000
OM_2	=	£0
RT_2	=	£0
$BSFS_2$	=	£0

With IBC_d known for day one, it is possible to calculate Forecast Balancing Services Cost (FBC_2) from the outturn to date as follows:

$$FBC_2 = \frac{\sum_{k=1}^{d=2} IBC_k}{\sum_{k=1}^{d=2} PFT_k} * NDS$$

$$= \frac{(£1,550,000 + £850,000)}{2} * 365$$

$$= £438,000,000$$

The values of SF_t, M_t and CB_t can now be read off table BS1 given previously. As FBC_2 is £438,000,000, SF_t is now 0.25, M_t is £500,000,000 and CB_t is 0, calculated as follows:

$$FYIncpayEXT_2 = SF_t * (M_t - FBC_2) + CB_t$$

$$= 0.25 * (£500,000,000 - £438,000,000) + £0$$

$$= £15,500,000$$

The external SO incentive payment for the entire duration of the incentive scheme ($FYincpayEXT_2$) is then used to calculate the total incentive payment to date ($FKIncpayEXT_2$), shown as follows:

$$FKIncpayEXT_2 = \frac{FYIncpayEXT_2}{NDS} * \sum_{k=1}^{d=2} PFT_k$$

$$= \frac{£15,500,000}{365} * 2$$

$$= £84,932$$

Where:

NDS = Number of days in the incentive scheme

In this case the incentive payment forecast for the year is £84,932.

Again, the final step is to calculate today's external incentive payment ($IncpayEXT_2$ for day two), shown as follows:

$$IncpayEXT_2 = FKIncpayEXT_2 - \sum_{k=0}^{d-1=1} IncpayEXT_k$$
$$= £84,932 - -£45,034$$
$$= £129,966$$

The costs of the external SO Settlement Period variables are as follows:

CSOBM = £12,500
BSCCV = £2,083

$RFIIR_2$, ROV_2, $BSFS_2$, NC_2 and $IONT_2$ are all zero.

The costs of the external SO Settlement Day variables are as follows:

IncpayEXT = £129,966
BSCCA = £150,000
ET = £0
OM = £0

$$BSUoSEXT_{12} = £12,500 + £2,083 + \left[(£129,966 + £150,000 + £0 - £0k + £0 + £0 + £0 + £0 + £0)/48 \right]$$
$$= £12,500 + £2,083 + £5,833$$
$$= £20,416$$

Annual internal SO costs assumed for this example have been listed in table BS2 above.

$RPIF_t = 1$

$$BSUoSINT_{12} = \left[(75,873,280 + 18,250,000 + 0 + 0 + 18,250,000)/365 \right] * 1/48$$
$$= £6,414$$

> **Comment [TS4]:** Changes: '+0 +0' added to the top line of the formula (after the first + 18,250,000) to take into account SOEMR and SOEMRCO costs.

Calculating the Total Balancing Services Use of System (BSUoS) charge for a Settlement Period j

The final step is to calculate the Total Balancing Services Use of System ($BSUoSTOT_{12}$) for Settlement Period 1 on Settlement Day 2.

$$BSUoSTOT_{12} = BSUoSEXT_{12} + BSUoSINT_{12}$$
$$= £20,416 + £6414$$
$$= £26,830$$

Day 365

If we now move to the end of the year, then once again the first step is to calculate the Daily Incentivised Balancing Cost for the final day (IBC_{365}) using the formula below:

Calculation of the Daily External SO Incentive Scheme Payment

$$IBC_{365} = CSOBM_{365} + BSCCA_{365} + BSCCV_{365} - OM_{365} - RT_{365} - BSFS_{365}$$

$$= £700,000 + £200,000 + £150,000 + £200,000 - £0 - £0 - £0$$

$$= £1,050,000$$

Assuming that

$CSOBM_{365}$	=	£700,000
$BSCCA_{365}$	=	£200,000
$BSCCV_{365}$	=	£150,000
OM_{365}	=	£0
RT_{365}	=	£0
$BSFS_{365}$	=	£0

With $\sum_{364}IBC_d$ assumed to be £432,000,000 for the previous 364 days, it is possible to calculate Forecast Balancing Services Cost (FBC_{365}) from the outturn to date as follows:

$$FBC_{365} = \frac{\sum_{k=1}^{d=365} IBC_k}{\sum_{k=1}^{d=365} PFT_k} * NDS$$

$$= \frac{£432,000,000 + £1,050,000}{365} * 365$$

$$= £433,050,000$$

The values of SF_t, M_t and CB_t can now be read off table BS1. As FBC_{365} is £433,050,000, SF_t is now 0.25, M_t is £500,000,000 and CB_t is 0. Therefore $FYIncpayEXT_{365}$ is calculated as follows:

$$FYIncpayEXT_{365} = SF_t * (M_t - FBC_{365}) + CB_t$$
$$= 0.25 * (£500,000,000 - £433,050,000) + £0$$
$$= £16,737,500$$

The external SO incentive payment for the entire duration of the incentive scheme (FYincpayEXT) is then used to calculate the total incentive payment to date (FKIncpayEXT), shown as follows:

$$FKIncpayEXT_{365} = \frac{FYIncpayEXT_{365}}{NDS} * \sum_{k=1}^{d=365} PFT_k$$

$$= \frac{£16,737,500}{365} * 365$$

$$= £16,737,500$$

Where:

NDS = Number of days in the incentive scheme

In this case the incentive payment is positive (£16,737,500) i.e. a payment to The Company. As this is the last day of the scheme this represents the overall incentive payment due to The Company i.e. with reference to the graph with Table BS1 25% of the difference between £500,000,000 and £433,050,000.

Again, the final step is to calculate today's external incentive payment ($IncpayEXT_{365}$ for day 365), shown as follows:

It has been assumed that the total incentive payments for the previous 364 days ($\sum_{k=0}^{d-1=364} IncpayEXT_k$) is £16,461,800.

$$IncpayEXT_{365} = FKIncpayEXT_{365} - \sum_{k=0}^{d-1=364} IncpayEXT_k$$
$$= £16,737,500 - £16,461,800$$
$$= £275,700$$

The costs of the external SO Settlement Period variables are as follows:

CSOBM = £14,583
BSCCV = £3,125

$RFIIR_{365}$, ROV_{365}, $BSFS_{365}$, NC_{365} and $IONT_{365}$ are all zero.

The costs of the external SO Settlement Day variables are as follows:

IncpayEXT = £275,700
BSCCA = £200,000
ET = £0
OM = £0

$$BSUoSEXT_{365} = £14,583 + £3,125 + (£275,700 + £200,000 + £0k - £0k + £0k + £0k + £0k + £0k + £0k)/48$$
$$= £14,583 + £3,125 + £9,910$$
$$= £27,618$$

Annual internal SO costs assumed for this example have been listed in Table BS2 above.

$RPIF_t = 1$

$$BSUoSINT_{1,365} = [(£75,873,280 + £18,250,000 + £0 + £0 + £18,250,000)/365]*1/48$$
$$= £6,414$$

Calculating the Total Balancing Services Use of System (BSUoS) charge for a Settlement Period j

The final step is to calculate the Total Balancing Services Use of System (BSUoSTOT$_{1365}$) for Settlement Period 1 on Settlement Day 365

$$BSUoSTOT_{1,365} = BSUoSEXT_{1,365} + BSUoSINT_{1,365}$$
$$= £27,618 + £6,414$$
$$= £34,032$$

Special Condition 4A – Restriction of System Operator Internal Revenue

Introduction

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

(a) 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

(b) 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"):

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

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).

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
SOEMRCO$_t$	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. SOEMRCO$_t$ 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 SOEMRCO$_t$ 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 SOEMRCO$_t$ 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:

$$SOREV_{t-2} = SOPU_{t-2} + SOMOD_{t-2} + SOEMR_{t-2} + SOEMRCO_{t-2} + SOTRU_{t-2}$$

where:

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.

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.

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.
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.
SOEMRCO$_{t-2}$	means the adjustment to allowed revenue determined by the Authority as a result of a calculation which compares 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:

$$SOREV_{t-2} = \frac{CSOC_{t-2} + NC_{t-2}}{RPIF_{t-2}}$$

where:

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 SOEMRCO$_t$ 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)

Licensee	SOPU(£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	113.976	113.533	114.357	116.705	122.833	117.524	124.731	126.191

Appendix 2
Value of the SOEMRt term (2009/10 prices)
(see paragraph 4A.4 of this condition)

Licensee	SOEMR$_t$ (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	0.0	14.7	0.0	0.0	0.0	0.0	0.0	0.0