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Dear Mr Burt

Determination under Special Condition AA5A Part 2(iv), Paragraph 24 of National Grid Electricity Transmission plc's Transmission Licence – Outage Cost Adjusting Event

Background

National Grid Electricity Transmission plc's ("NGET") Transmission Licence ("Licence") provides an annual allowance of £1,300,914.77 (in 2012/13 prices) for payments in respect of outage changes¹. These payments are made to the other transmission owners, Scottish Hydro Electric Transmission Ltd and Scottish Power Transmission Ltd. These payments enable NGET, as the System Operator (SO), to reschedule outages in Scotland to reduce the costs of balancing the system.

The Licence makes provision for this annual allowance to be adjusted where actual costs incurred by NGET in making outage changes are, or there is a reasonable expectation they will be, either less than or in excess of the allowance by more than £300,000 (the "outage threshold amount") in a single year². In such circumstances, the Licence provides that NGET shall submit an outage cost adjusting event notice to the Authority no later than three months after the end of the relevant financial year³. The Authority then has three months to determine whether the allowance should be adjusted.

On 12 June 2013, NGET submitted a notice under Special Condition AA5A Part 2(iv), paragraph 23 of NGET's Licence of an outage cost adjusting event for 2012/13, setting out that it had incurred, or reasonably expects to incur, outage change costs totalling £247,511.73 (in 2012/13 prices). As this amount is £1,053,403.04 lower than the allowance under the Licence and exceeds the £300,000 outage threshold amount, NGET proposes that its 2012/13 allowed income for Internal System Operator costs be reduced by the balance.

Following receipt of NGET's 2012/2013 notice, we wrote to NGET to seek clarification as to why NGET had not spent the full annual allowance. A response to our request has not yet been received but in any event we consider that the response is not material to being able

¹ Special Condition AA5A, Part 2(ii), paragraph 15C of Licence as in force during the relevant period of 2012-2013)

² Special Condition AA5A, Part 2(iv), paragraph 22(a)

³ Special Condition AA5A, Part 2(iv), paragraph 23(d)

to make the Determination under paragraph 24(a) of Special Condition AA5A on grounds that the request sought clarification of the reason for the underspend and did not query the calculation itself.

Licence provisions

Special Condition AA5A, Part 2(iv), paragraphs 22, 23 and 24 of NGET's Licence set out the legal framework under which notices of outage cost adjusting events are submitted to the Authority and the subsequent process in respect of determining the value of the costs and / or expenses under paragraph 24(a). (See Appendix 1 of this Determination).

In accordance with Special Condition AA5A, Part 2(iv), paragraph 23, NGET gave the following particulars to the Authority:

- I. The total estimated outage change cost for the relevant year 2012/13, at £247,511.73, is £1,053,403.04 less than the allowance of £1,300,914.77 (in 2012/13 prices). The difference between the actual cost and the allowance is greater than the outage threshold amount of £300,000 and therefore NGET proposes that this constitutes an outage cost adjusting event under Special Condition AA5A, Part 2(iv), paragraph 22(a)(i).
- II. For the relevant year 2012/13, NGET has incurred, or reasonably expects to incur, outage change costs totalling £247,511.73.
- III. NGET therefore proposes that the allowed income adjustment (IONT_t) should be -£1,053,403.14.
- IV. Details on the individual outage change costs are provided in Appendix 2 of this Determination.

The Authority's Determination

Under Special Condition AA5A, part 2(iv), paragraph 24 of NGET's Licence, the Authority is required to determine whether:

- i. any or all of the costs and/or expenses given in the notice pursuant to paragraph 23(a) were caused or saved by an outage cost adjusting event;
- ii. the event or circumstances has increased or decreased the licensee's relevant costs in making outage changes such that they will be either less than or in excess of ON_t in each case by more than the outage threshold amount; and
- iii. if so, that the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that outage cost adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.

In accordance with the provisions of the Licence, the Authority considers that all the relevant criteria set out in the Licence have been met, the costs have been saved in relation to an outage cost adjusting event and the savings exceed the outage threshold amount. For the reasons set out in this document, and in accordance with paragraph 24 of Special Condition AA5A, the Authority determines that the allowed income adjustment (IONT_t) for relevant year t (2012/13) should be -£1,053,403.04.

Reason for the Authority's decision:

The Authority considers that it is appropriate to make this Determination because it is satisfied that:

- (a) NGET's outage cost adjusting event notice meets all the requirements of the Licence; and
- (b) costs have been saved and this saving exceeds the threshold amount.

This document also constitutes notice for the purposes of section 49A of the Electricity Act 1989 in relation to the Determination.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Bethany Hanna on 0203 263 2771 or via email at bethany.hanna@ofgem.gov.uk.

Kersti Berge
Partner, Transmission

Appendix 1 - Special Condition AA5A, Part 2(iv), paragraphs 22, 23 and 24 of the Licence as in force during the relevant period of 2012-2013

22. (a) An outage cost adjusting event in relevant year t may arise from either of the following:

(i) 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 ON_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 ON_t has the value ascribed to it in paragraph 15C above; and

(ii) an event or circumstance other than listed above which is, in the opinion of the Authority, an outage cost adjusting event and is approved by it as such in accordance with paragraph 24 of this licence condition.

23. Notice of proposed outage cost adjusting event

(a) 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.

(b) A notice provided to the Authority under paragraph 23(a) shall give particulars of:

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

(ii) 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;

(iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and (iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 24(a) to fully assess the event to which the notice relates.

(c) If the Authority considers that the analysis or information provided in subparagraphs 23(b)(i) to 23(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 24(a) to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.

(d) A notice of an outage cost adjusting event 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.

(e) The Authority will make public, excluding any confidential information, any notice of an outage cost adjusting event following its receipt.

(f) Any notice submitted to the Authority under either paragraph 23(a) above should clearly identify whether any of the information contained in the notice is of a

confidential nature. The Authority shall make the final determination as to confidentiality having regard to:

- (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
- (ii) the extent to which the disclosure of the information mentioned in subparagraph 23(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

24. The Authority's determination

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

- (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 23(a) were caused or saved by an outage cost adjusting event;
- (ii) whether the event or circumstance has increased or decreased the licensee's relevant costs in making outage changes such that they will be either less than or in excess of ON_t in each case by more than the outage threshold amount; and
- (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that outage cost adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.

(b) In relation to the relevant year t , the allowed income adjustment ($IONT_t$) shall be:

- (i) the value determined by the Authority under paragraph 24(a) above; or
- (ii) if the Authority has not made a determination under paragraph 24(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 income adjustment proposed as a consequence of the event in the notice given to the Authority under subparagraph 23(b)(iii); or
- (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 24(a) 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 23(b) and/or 23(c) is insufficient to enable the Authority to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed income adjustment.

(c) The Authority's decision in relation to any notice given under paragraph 23(a) shall be in writing, shall be copied to the licensee and shall be in the public domain.

(d) The Authority may revoke an approval of an outage cost adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any outage cost adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

**Appendix 2 –Notice of proposed outage cost adjusting event under
Special Condition AA5A Part 2(iv), paragraph 23 of National Grid Electricity
Transmission plc’s Transmission Licence, dated 12 June 2013**