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16 April 2015

Dear Leonardo,

**Notice under section 11A(2) of the Electricity Act 1989 proposing to modify the electricity transmission licence held by National Grid Electricity Transmission plc by amending Special Conditions 4C, 4D, 4E, 4F, 4G, 4H and 4J for the System Operator incentive schemes from April 2015.**

I refer to the notice (the "Notice") given by the Gas and Electricity Markets Authority on 20<sup>th</sup> March 2015 pursuant to section 11A(2) of the Electricity Act 1989 (the "Act") that proposes to modify National Grid Electricity Transmission plc's ("National Grid") electricity transmission licence (the "Licence") in the manner set out in the Schedules to the Notice.

National Grid has reviewed the drafting of the text in the Schedules to the Notice and considers that some amendments to the proposed drafting should be made. The first relates to dates for proposing revised SO Methodologies. The second relates to the mechanism that provides for an adjustment to the Black Start Target, subject to approval by the Authority. The third proposed amendment is in respect to the calculation of the forecast error under the wind generation forecasting incentive. We believe the inclusion of BMU specific trades on wind generation, in addition to the proposed changes already made by OFGEM will better reflect the intent of the incentive. These changes are described in more detail in the Appendix to this letter.

We would appreciate the consideration and subsequent adoption of these comments to ensure that the appropriate changes be made to the Licence.

NGET has outlined its views in respect to the system operator incentive frameworks in our responses to OFGEM's earlier consultations<sup>1</sup>. We believe the existing frameworks that support the suite of System Operator Incentives have ensured a strong focus is maintained on minimising the costs of system operation to our customers, through continuous improvement and innovation in balancing services. We also note the sharper incentives that the proposals bring in respect to the sharing factors and the changes in the proposed cap and collar for BSIS in addition to the significantly tighter forecast error targets for the wind generation forecasting incentive.

If you would like to discuss this response further, in the first instance please contact Iain McIntosh ([iain.mcintosh@nationalgrid.com](mailto:iain.mcintosh@nationalgrid.com) or 01189 363798).

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<sup>1</sup> Electricity System Operator Incentives: Incentives from 2015 [17 June 2014] & Electricity System Operator 2015/17: Initial Proposals [28 October 2014]

National Grid Electricity Transmission  
Appendix 1: Section 11 A (2) Statutory Licence Consultation Comments Table

Yours sincerely

A handwritten signature in black ink, appearing to read 'Duncan Burt', written in a cursive style.

Duncan Burt  
Head of Commercial Operations

National Grid Electricity Transmission Special Conditions – Comments		
Comment Number	Para Ref	Comment
<b>Special Condition 4C: Balancing Services Activity Revenue Restriction on External Costs</b>		
1	4C.36	<p>We seek to clarify the dates for submission and approval of proposals for the Relevant Year 2016/17. Where 2016/17 is the Relevant Year t, submission and approval of proposals should be made in Relevant Year t-1, being 2015/16. We therefore propose the following amendments:</p> <p>Reference to “31 December in Relevant Year t” should be replaced with “31 December 2015”; and  Reference to “31 March in the Relevant Year t” should be replaced with “31 March 2016”.</p>
<b>Special Condition 4G: Black Start Cost Incentive</b>		
2	4G.3	We seek clarity in respect to whether this condition would allow for recovery of additional costs incurred in 2015/16, in the Relevant Year t described as 2016/17.
<b>Special Condition 4H: Wind Generation Forecasting Incentive</b>		
3	4H.2	<p>We propose that BMU specific trades on wind generation, that are entered into ahead of balancing mechanism timescales for the purposes of managing transmission system constraints are excluded in the forecast error calculation. The exclusion of bids and offers in the Balancing Mechanism recognises that the wind generation forecast should reflect the expected output from wind generation unaffected by transmission system constraints. As BMU specific trades are undertaken for the same reason as bid and offer acceptances, namely for operational security and also for economic reasons, however they are executed in a necessarily advanced time horizon. We therefore propose the following amendments;</p> <p>RFIT<sub>n</sub> means the total Day Ahead Forecast (excluding that relating to Wind Generators accepted as bids and offers in the Balancing Mechanism <i>and/or BMU specific, system related trades</i>) produced by the licensee in respect of hour n for the relevant month m.</p> <p>RFIP<sub>n</sub> means the total actual Wind Generation Output (excluding that relating to Wind Generators accepted as bids and offers in the Balancing Mechanism <i>and/or BMU specific, system related trades</i>) in hour n in the relevant month m.</p> <p>RFIC<sub>n</sub> means the total Wind Generation Capacity (excluding that relating to Wind Generators accepted as bids and offers in the Balancing Mechanism <i>and/or BMU specific, system related trades</i>) in hour n in the relevant month m.</p>