

System operators, transmission  
system owners, generators,  
suppliers, traders, consumers,  
aggregators and other interested  
parties

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Date: 25 August 2015

Dear colleagues

## **Receipt of Notice under Special Condition (SpC) 4C Part F of National Grid Electricity Transmission plc's Transmission Licence (the Licence) – Outage Cost Adjusting Event**

The Gas and Electricity Markets Authority (the Authority) has received a notice of a proposed income adjusting event submitted by National Grid Electricity Transmission Plc (NGET) under SpC 4C Part F on 30 June 2015. Under SpC 4C.29, we are required to publish this notice (excluding any confidential information). This document, with the notice included in the appendix, fulfils the requirements of the above special licence condition to publish the notice. We will respond to the notice with our determination under SpC 4C.31 within the 3 month timeline provided for within the licence condition.

### **Background**

National Grid Electricity Transmission plc's ("NGET") Transmission Licence ("Licence") provides an annual allowance of £1,146,800 in 2009/10 prices (noted as £1,381,984 in 2014/15 prices in the notice) for payments in respect of outage changes. These payments are made to the other transmission owners, Scottish Hydro Electric Transmission Ltd and SP Transmission Plc. 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 year. 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 year. The Authority then has three months to determine whether the allowance should be adjusted.

On 30 June 2015, NGET submitted such a notice for 2014/15, setting out that it had incurred, or reasonably expects to incur, outage change costs totalling £570,155.68 (in 2014/15 prices). They submit that as this amount is £811,738.82 lower than the allowance under the Licence and exceeds the £300,000 outage threshold amount, NGET proposes that its 2014/15 allowed income for Internal System Operator costs be reduced by the balance.

While the proposed reduction was based on costs notified as being incurred by the Transmission Owners, the notice did indicate there is a difference in view between NGET and SHETL in respect to the allowable costs that should be recovered against one outage change cost (Ref SSE-14-0002). Although discussions between parties are ongoing, in

meeting the licence requirements to submit a notice within 3 months of the end of the year to which the notice relates, NGET submitted the notice and have asked the Authority to adjudicate on these costs.

Furthermore, NGET indicated SPT have works associated with an outage change at Harker-Moffat, which they are proposing will be delivered in 2015-16 but charged against the 2014-15 allowance. NGET have suggested the actual costs will be confirmed before the deadline for the Authority to determine the amount of the adjustment to the annual allowance for outage changes.

In both instances, the costs incurred are subject to revision prior to the final decision being made. In line with provisions to withhold confidential information, NGET have requested some of the notice is redacted at this stage.

### **Publication of the notice**

Under SpC 4C.30, the Authority makes the determination as to confidentiality. In making that determination it must have regard to:

- a) The need to exclude from disclosure, so far as reasonably practicable, information whose disclosure it considers would or might seriously prejudicially affect the interests of a person to which it relates; and
- b) The extent to which the disclosure of that information is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

We have earlier noted that the figures are subject to revision once further discussions between the SO and SHETL are concluded, and once the Harker-Moffat works are complete. The notice requests that until the dispute is resolved and the Harker-Moffat costs confirmed, the data remains confidential. Furthermore, consultations with one other party indicates that they believe revealing some of the data will be prejudicial to their interests. Having examined the submissions, and balanced these concerns against the considerations in (b) above, we agree that it is appropriate to redact parts of the notice. Appendix 1 includes the notice with the appropriate sections redacted. In publishing this letter and the appendix, we have completed the requirements SpC 4C.29.

### **Next Steps**

SpC 4C.32 give the authority 3 months to consider the notice. We are currently considering the details outlined in the notice in consultation with NGET and other persons as is considered appropriate. We will respond in line with the provisions of all relevant licences by the 30<sup>th</sup> September 2015.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Leonardo Costa on 0203 263 2764 or via email at [Leonardo.costa@ofgem.gov.uk](mailto:Leonardo.costa@ofgem.gov.uk).

Yours sincerely,

Mark Copley  
**Associate Partner, Markets**

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30 June 2015

Dear Mark,

## **Transmission Owner Incentives: Notice of Proposed Outage Cost adjusting Event 2014/15**

This notice is issued in accordance with Special Condition 4C Part F of the Electricity Transmission Licence, **Balancing Services Activity Revenue Restriction on External Costs** 2014/15. As defined in Special Condition 4C Part F, NGET had an allowance for costs incurred for payments to Scottish Transmission Owners<sup>1</sup> (Scottish TOs) for the movement of outages, 'outage change costs' during the relevant year 2014/15 of £1,381,894<sup>2</sup>.

Where actual costs vary from this figure by more than the materiality threshold of £300,000 (the outage threshold amount) then the licensee should submit an outage cost adjusting event notice to the Authority within three months of scheme end, which for the 2014/15 year is end-June 2015<sup>3</sup>.

For the relevant year 2014/15, NGET has incurred, or reasonably expects to incur, outage change costs totalling £570,155.68. However this reflects the higher costs against an SSE-T outage change for which we are disputing the costs. Further explanation on this is detailed in this letter. If the Authority determine in favour of NGET's view, which is derived from the cost submissions made by SPT

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<sup>1</sup> The Scottish Transmission Owners are Scottish Power Transmission Limited and Scottish Hydro Electric Transmission Limited

<sup>2</sup> NGET's Transmission Licence, Special Condition 4C, Part F, paragraph 4C.22 put in place an allowance for outage changes (ON<sub>t</sub>) of £1,146,800 in 2009/10 prices. The formula in paragraph 22 allows an adjustment to the term ON<sub>t</sub> using the ONTRU<sub>t</sub> term which is defined in 4C.23. Consequently, the term ON<sub>t</sub>, adjusted to reflect 2014/15 prices for the relevant year commencing 1 April 2014,, is equal to £1,381,894

<sup>3</sup> Provisions of Special Condition 4C, Part F1 4C.25 to 4C.28 (as at 3<sup>rd</sup> June 2015) set out the process to adjust the costs recovered through an outage cost adjusting event. As described within 4C.28 notice of an outage cost adjusting event should be submitted to the Authority not later than three months after the end of the relevant year.

who were affected by the same cancellation, then the outage change costs would total £383,593.80.

In accordance with Special Condition 4C.25 Part F, the particulars of this notice are as follows:

- (i) The total estimated outage change cost for the relevant year 2014/15, at £570,155.68, is £811,738.32 less than the allowance of £1,381,894. 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 4C Part F, paragraph 24(a).
- (ii) These outage change costs reflect an estimate of costs against the Harker-Moffatt circuit recall. The reason that the costs contain a forecast SPT-14-0003 for which additional explanation is provided below.
- (iii) For the relevant year 2014/15 NGET has incurred, or reasonably expects to incur, outage change costs totalling £570,155.68. However we draw your attention to a dispute between NGET and SSE T in respect to monies due against outage reference SSE-14-0002 (see Annex 1). Further details on this dispute are detailed below. The figure quoted herein reflects NGET's view of outage costs.
- (iv) We therefore propose that the allowed income adjustment (ION<sub>t</sub>) should be -£811,738.32. For the avoidance of doubt, we are proposing that our allowed income for Internal SO costs for the relevant year should be reduced by £811,738.32<sup>4</sup> to reflect the lower level of outage change costs incurred in the relevant year.
- (v) Details of the individual outage change costs are contained in Annex 1 of this notice.

### **SPT-14-0003 – Harker – Moffatt recall**

This circuit was planned to commence on outage on 9<sup>th</sup> March 2015. The outage was moved from the original plan as it was not possible to secure the system against the underlying generation and demand fundamentals at the time.

This outage was aligned with a significant plan of work that required extensive re-planning into a future time this summer and this work has been aligned with other already scheduled works in July. Therefore, some of the additional costs that will be incurred as a result of this outage will not be fully realised until the works commence. It is expected that additional costs will arise due to the necessity to carry out works simultaneously across two sites and these works will not commence until July with the Eccles 2 and Moffatt outages starting 8<sup>th</sup> and 11<sup>th</sup> July respectively.

SPT have therefore provided NGET with an estimate of costs for these works of [REDACTED]. Although the rescheduled works will now fall into 2015-16 plan year, we

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<sup>4</sup> If the Authority determine that NGET

believe that these outage change costs should be aligned with the year in which the outage cancellation occurred, which was 2014-15. The Authority has 3 months to make a determination as to whether the outage cost adjusting event has occurred<sup>5</sup>. In the time that the determination is being made, a final view of costs should become available, at which point NGET would propose that any deviation between these costs and the estimate provided in this letter should be accounted for in the final cost adjustment (IONT<sub>t</sub>), should the Authority determine that an outage cost event has taken place.

## **SSE-14-0002 - Request for dispute adjudication**

There is a difference in view between NGET and SSE in respect to allowable costs that should be recovered against the change to outage SSE-14-0002. This circuit (Blackhillock-Berryburn) was recalled at the same time NGET recalled the SPT circuit.

Since the two circuits were released back to the TO at similar times, NGET expected that the costs recoverable would be similar for both TO's. However on receipt of the invoices, SPT claimed £18,622.40 against an SSE-T claim of £205,224.80. This cost difference caused NGET concern and therefore we requested additional information from SSE-T in respect to costs associated with the circuit recall

The original TOGA booking system shows that the outage was only extended by 3 days. From the detailed invoice that was submitted, though not approved, SSE-T's interpretation of which costs should be paid appear to include additional outage costs that in the opinion of NGET, do not align to the recall of the circuit.

NGET accepts that the circuit was recalled by the SO and therefore SO/TO costs should be claimed. However due to the significant disparity between the costs submitted in addition to the other costs claimed for by SSE-T, NGET is of the opinion that we should not pay for these additional costs, whereas it is the view of SSE-T that the costs submitted are justified. We therefore request that Ofgem adjudicate on this claim

In Annex 1 we have provided a breakdown of these costs by individual outage change request. We would request that until resolution of this dispute and the receipt of final costs associated with the Harker-Moffatt circuit recall that the data contained therein remains confidential

Please do not hesitate to contact me or Iain McIntosh on 0118 936 3798 if you would like to discuss or request further information in regard to any of the matters raised in this notice.

Yours sincerely,



Duncan Burt

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<sup>5</sup> Part F2 4C.32

**Annex 1 - Breakdown of outage change costs for 2014/15 – SSE-T**

<b>Section A 2014/15 Outages already invoiced</b>					
NG Ref No:	TOGA	Outage Description	TO Ref No:	Cost	
SSE-14-0001	SH58651	Beauly -Alness T 132kV (BSW)	SSE/14/AA	£240,000.00	
				<b>Subtotal:</b>	<b>£240,000.00</b>
<b>Section B 2014/15 Outages already invoiced but cost disputed</b>					
NG Ref No:	TOGA	Outage Description	TO Ref No:	SSE-T Cost View	
SSE-14-0002*	SH67203	Blackhillock- Berryburn	SSE/14/BB	£205,224.28	
				<b>Subtotal:</b>	<b>£205,224.28</b>
				<b>Total</b>	<b>£445,224.28</b>

**Breakdown of outage change costs for 2014/15 – SPT-T**

<b>Section A 2014/15 Outages already invoiced</b>					
NG Ref No:	TOGA	Outage Description	TO Ref No:	Cost	
SPT-14-0001	SP110649 SP12157	Longannet 275kV Reserve Busbar 2		£0.00	
SPT-14-0002	SP141137/SP15007	Strathaven - Torness 400kV cct	SPCR0001-13	£18,662.40	
SPT-14-0003	SP111301	Harker - Moffat 400KV circuit ( Initial March Cancellation)		£6,269.00	
				<b>Subtotal:</b>	<b>£24,931.40</b>
<b>Section B 2014/15 Outages to be invoiced</b>					
NG Ref No:	TOGA	Outage Description	TO Ref No:	Cost	
SPT-14-0003**	SP111301	Harker - Moffat 400KV circuit (delayed work costs)			
				<b>Subtotal:</b>	
				<b>Total</b>	