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Date: 30 September 2015

Dear Mr Burt

Determination under Part F2 of Special Condition 4C (SpC) of National Grid Electricity Transmission plc's Transmission Licence (Licence) – Outage Cost Adjusting Event for 2014/15

The Gas and Electricity Markets Authority (the Authority) has considered the Notice¹ submitted by National Grid Electricity Transmission Plc (NGET) under Part F1 of SpC 4C on 30 June 2015 which set out the allowed income adjustment for 2014/15, proposed as a result of outage cost adjusting events.

This letter sets out our determination of the allowed outage cost adjustment ($IONT_t$) value for 2014/15 of -£951,933.01. This is the reduction in NGET allowed revenue due to the outage cost adjusting event.

Background

NGET's Licence provides an annual allowance of £1,381,984 (in 2014/15 prices) for payments in respect of outage changes. These payments are made to Scottish Hydro Electric Transmission Ltd (SHE-T) and Scottish Power Transmission Ltd (SPT) (the relevant Transmission Owners). These payments enable NGET, as the System Operator (SO), to reschedule outages to reduce the cost of operating 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 a notice under Part F1 of SpC 4C of an outage cost adjusting event 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). As this amount is £811,738.32 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 of the outage allowance was based on costs notified as being incurred by the relevant Transmission Owners, the Notice did indicate there was a dispute between NGET and SHE-T in respect to the allowable costs that should be recovered against one outage change cost (Ref SSE-14-0002).

¹ The Notice can be found on <https://www.ofgem.gov.uk/publications-and-updates/publication-notice-proposed-outage-cost-adjusting-event-201415>

Following the Notice, NGET and SHE-T have agreed the outage change cost for SSE-14-002 and NGET has submitted updated costs to the Authority.

Furthermore, NGET indicated SPT have works associated with an outage change at Harker-Moffat (Ref SPT-14-0003), which will be delivered in 2015/16 but charged against the 2014/15 allowance since it forms part of an outage change in 2014/15. NGET proposed to update the estimate submitted to the Authority within the three months of the Notice being submitted for our analysis to allow us to make our determination. NGET, however, was unable to submit to the Authority the actual costs for SPT-14-0003 within this period. As such, the Authority has decided to approve the outage change cost based on NGET's updated estimate.

In addition, following our request, NGET submitted updated cost information excluding Value Added Tax. The outcome of these changes has led to a change in the proposed value of IONTt to -£951,933.01

Our Determination

Under Part F2 of Special Condition 4C.31 of NGET's Licence, the Authority is required to determine:

- a) whether any or all of the costs and/or expenses given in a notice pursuant to 4C.25 were caused or saved by an outage cost adjusting event;
- b) 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 ONt in each case by more than the outage threshold amount; and
- c) if so, whether the amount of the proposed outage cost 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 outage cost adjustment would secure that effect.

We have reviewed the initial notice and supplementary evidence provided by NGET and SHET-T. In line with Part F2 of Special Condition 4C.31 we agree that:

- a) The difference between the actual cost and the allowance is greater than the outage threshold amount of £300,000 there is a case to amend the allowed outage cost adjustment (IONTt);
- b) This event resulted in savings of £951,933.01 against the allowance for payments in respect of Outage changes (ONt); and
- c) Based on the information available to the Authority, the outage cost adjusting event does not materially impact the financial position and performance of the licensee.

In accordance with the provisions of the Licence, the Authority considers that 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 Part F2 Special Condition 4C, the Authority determines that the allowed income adjustment (IONTt) for relevant year t (2014/15) should be -£951,933.01

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 Leonardo Costa on 0203 263 2764 or via email at Leonardo.Costa@ofgem.gov.uk.

Yours sincerely,

Mark Copley

**Associate Partner, Markets - Duly authorised on behalf of the Gas and Electricity
Market Authority** **30 September 2015**