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for energy consumers

Company Secretary
National Grid Electricity Transmission plc
1-3 Strand
London
WC2N 5EH

Direct Dial: 020 7901 1873
Email: philippa.pickford@ofgem.gov.uk

Date: 10 March 2016

Dear Company Secretary,

Determination under Parts B and D of Special Condition (SpC) 4A of National Grid Electricity Transmission plc's Transmission Licence – reconciliation of allowed and efficiently incurred costs for Electricity Market Reform (EMR) preparatory activities

This letter sets out our determination of the adjustment to allowed revenues, as a result of comparing the initial amount of allowed revenue for the licensee's internal costs associated with preparing for the performance of EMR functions with the actual efficiently incurred incremental internal costs for performing this work.

Pursuant to SpC 4A paragraphs 4 and 9-10, this adjustment value, which is represented by the term $SOEMRCO_t$, is to be determined by the Authority by 31 March 2016 in respect of 2016/17 and will have the value of zero for all other years of the price control. We have determined the value of $SOEMRCO_t$ for 2016/17 to be -£7.4m.

Background

In September 2015, we issued our decision on revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market Reform.¹ As part of that decision (paragraphs 1.5 to 1.7), we decided that NGET should be allowed £8.7m (in 2014/15 prices) for EMR preparatory costs. This Determination gives effect to our decision.

Parts B and D of SpC 4A requires the Authority to determine the adjustment to the licensee's allowed revenues by comparing the actual efficient incremental costs it has incurred in preparing for the performance of EMR Functions with the initial revenue allowed for this work.

Our Determination

NGET has previously been allowed £14.7m (in 2009/10 prices) in preparing for the performance of EMR Functions, as set out in Appendix 2 of SpC 4A. Our decision to allow £8.7m of costs in 2014/15 prices equates to an allowance of £7.3m² in 2009/10 prices. Therefore, the Authority hereby determines that the adjustment term $SOEMRCO_t$ has the value -£7.4m (i.e. £7.3m minus £14.7m).

¹

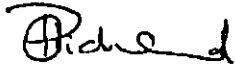
https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/decision_on_revenue_outputs_and_incentives_for_nget_plcs_roles_in_electricity_market_reform_0.pdf

² Using a conversion factor of 0.841

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 Phillip Heyden on 002 7901 0516 or via email at Phillip.Heyden@ofgem.gov.uk.

Yours sincerely,



Philippa Pickford
Associate Partner, Energy Systems
Duly authorised on behalf of the Gas and Electricity Markets Authority

10 March 2016

cc Cathy McClay, Head of Commercial Operations, NGET Warwick