

To:

1. National Grid Electricity Transmission plc

(Company Number: 02366977)

2. SP Transmission plc

(Company Number: SC189126)

3. Scottish Hydro Electric Transmission plc

(Company Number: SC213461)

(collectively, the 'licensees')

Notice under Part B of Special Condition 3C (Reliability Incentive Adjustment in Respect of Energy Not Supplied) of the Electricity Transmission Licence to approve the Reliability Incentive Methodology Statement

1. The licensees, who are electricity transmission companies, are financially incentivised under the RIIO T1 price control to operate a reliable network. They receive a reward or penalty based on the total annual volume of energy not supplied to customers resulting from Incentivised Loss of Supply Events¹ on their Transmission System.
2. Each licensee is required by Part B of Special Condition (SpC) 3C of its Electricity Transmission Licence (the 'licence') to have in place a Reliability Incentive Methodology Statement (the 'methodology'), approved by the Gas and Electricity Markets Authority (the 'Authority'). The methodology must set out how the licensee will calculate the volume of energy not supplied during an Incentivised Loss of Supply Event.
3. These are new requirements for Scottish Hydro Electric Transmission plc (SHE-T) and SP Transmission plc (SPT) under RIIO-T1. National Grid Electricity Transmission plc (NGET) has an existing methodology that was previously approved by the Authority, under SpC D5.4 in the previous price control (TPCR4).
4. On 23 January 2014, the three licensees jointly submitted a proposed methodology, which was a revised version of NGET's existing approved methodology, for the Authority's approval. We wrote separately to each TO on 16 June 2014 indicating a need for further development. In particular, the Authority stated that when further developed the methodology for calculating volumes of energy not supplied should:
 - (i) be unambiguous
 - (ii) where possible specify exact formulae for calculating volumes as well as any input parameters
 - (iii) contain as much detail as possible to give a clear understanding of the actual steps taken by the companies and therefore should reflect the companies' own internal documented methodologies and policies
 - (iv) enable the licensee to calculate volumes of energy not supplied by referring to it without the need to refer to significant amounts of additional information, or where additional information is required then the Methodology Statement should reference the relevant documents
 - (v) cover all credible loss of supply event and restoration scenarios in sufficient detail

¹ Under Special Condition 1A of the Electricity Transmission Licence, an Incentivised Loss of Supply Event means, subject to some exclusions, any event on the licensee's Transmission System that causes electricity not to be supplied to a customer.

Your title will appear here

5. The licensees submitted a revised methodology for the Authority's approval on 15 September 2015.
6. The Authority is satisfied that the methodology submitted now accurately reflects the steps that licensees have been taking since the start of RIIO-T1 and will continue to take in future years in calculating volumes of energy not supplied, allows for accurate calculation of the volumes of energy not supplied, and sufficiently meets all the development aims set out in paragraph 3 above.
7. The Authority hereby approves the Reliability Incentive Methodology Statement submitted by the licensees on the 15 September 2015. For SHE-T and SPT this Notice constitutes an approval of the methodology under SpC 3C.5. In respect of NGET, which has an existing methodology approved by the Authority in place, this Notice confirms approval of the methodology revision submitted.
8. A copy of the joint Methodology Statement approved by the Authority has been published on Ofgem's website (www.ofgem.gov.uk) alongside this Notice.



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Min Zhu
Associate Partner, Costs, Outputs and Technical
Duly Authorised on behalf of the Authority

24 May 2016