



Making a positive difference
for energy consumers

Direct Dial: 020 3263 2718
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Date: 19 July 2016

Dear Colleague,

Modification pursuant to Section 11A(1)(a) of the Electricity Act 1989 on modifications to Special Condition 4L of National Grid Electricity Transmission plc's Electricity Transmission Licence to reflect the introduction of an Early Capacity Auction for delivery year 2017/18 by the Department of Energy and Climate Change

Please find enclosed a Modification pursuant to Section 11A(1)(a) of the Electricity Act 1989 that modifies Special Condition 4L (Financial incentives on EMR) (SpC 4L) of the Electricity Transmission Licence held by National Grid Electricity Transmission plc (NGET). These licence modifications place incentives on NGET in delivering its roles under Electricity Market Reform (EMR) for the Early Capacity Auction (ECA) for delivery year 2017/18. In particular, they will implement incentives in respect of NGET's roles in demand forecasting and dispute resolution.

We issued a statutory consultation notice¹ on 31 May 2016 on two incentives to be applied to NGET's delivery of the ECA. The dispute resolution incentive is intended to ensure NGET devotes the appropriate quality and quantity of resources to its EMR decisions. The demand forecasting incentive aims to ensure that NGET's demand forecast is accurate. This in turn lowers costs to consumers by enabling an efficient level of capacity to be procured. The incentives work by adjusting NGET's allowed revenue either upwards or downwards depending on how well it performs against the incentives.

We received two responses which supported both proposed incentives. One also suggested that we should consider removing the Demand Side Response (DSR) incentive altogether. We will consider this when we next review NGET's EMR incentives.

Modification to SpC 4L

Following consideration of the responses received, we have decided to apply the dispute resolution incentive and demand forecasting accuracy incentive to the ECA. The licence modifications will take effect from **1 June 2016** in order to ensure the incentives apply to the demand forecasts NGET have made in their Electricity Capacity Report, which was

¹ <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposal-extend-nget-s-emr-delivery-incentives-special-condition-4l-early-capacity-auction>

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delivered to the Secretary of State for Energy and Climate Change on 1 June and which took into account these proposed incentives.

If you have any queries regarding the information contained within this letter please contact Johannes Pelkonen on 020 3263 2718 or by email johannes.pelkonen@ofgem.gov.uk.

Yours faithfully,

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Philippa Pickford, Associate Partner

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