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Date: 8 July 2016

Dear colleagues,

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

The Gas and Electricity Markets Authority (the "Authority") has received a notice of a proposed outage cost adjusting event submitted by National Grid Electricity Transmission Plc ("NGET") under SpC 4C Part F on 30 June 2016. Under SpC 4C.36, we are required to publish this notice (excluding any confidential information). This letter, with the notice included in the appendix, fulfils the requirements of that condition. We will also respond to NGET's notice with our determination under SpC 4C.38 within the 3 month timeline provided for within the licence condition.

**Background**

NGET's Electricity Transmission Licence (the "Licence") provides an annual allowance of £1,146,800 in 2009/10 prices (noted as £1,411,540.17 in 2015/16 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 2016, NGET submitted such a notice for 2014/15, setting out that it had incurred, or reasonably expects to incur, outage change costs totalling £0 (in 2015/16 prices). They submit that as this amount is £1,411,540.17 lower than the allowance under the Licence and exceeds the £300,000 outage threshold amount, NGET proposes that its 2015/16 allowed income for internal SO costs be reduced by the balance.

**Publication of the notice**

Under SpC 4C.37, the Authority is required to determine whether the information in NGET's notice is of a confidential nature. 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.

In their notice NGET state that they have not incurred any outage charge costs over the year 2015/2016. As a result, there is no information in the notice that we consider confidential and we have published the notice without redaction.

### **Next Steps**

SpC 4C.39 gives the Authority 3 months to consider NGET's notice. We are currently considering the details outlined in the notice in consultation with NGET and other persons we consider appropriate. We will respond with our determination by 30 September 2016.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Jonathan Whiting on 0203 263 9621 or via email at [jonathan.whiting@ofgem.gov.uk](mailto:jonathan.whiting@ofgem.gov.uk).

Yours sincerely,



Mark Copley  
**Associate Partner, Markets**  
**On behalf of the Gas and Electricity Markets Authority**

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30 June 2016

Dear Mark,

**Transmission Owner Incentives: Notice of Proposed Outage Cost adjusting Event 2015/16**

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** 2015/16. 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 2015/16 of £1,411,540.17<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 2015/16 year is 30<sup>th</sup> June 2016<sup>3</sup>.

For the relevant year 2015/16, NGET has not incurred any outage change costs and therefore propose to implement an outage cost adjusting event.

In accordance with Special Condition 4C.33 Part F, the particulars of this notice are as follows:

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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.29 put in place an allowance for outage changes (ON<sub>t</sub>) of £1,146,800 in 2009/10 prices. The formula in paragraph 29 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 2015/16 prices for the relevant year commencing 1 April 2015, is equal to £1,411,540.17

<sup>3</sup> Provisions of Special Condition 4C, Part F1 4C.26 to 4C.29 (as at 26<sup>th</sup> May 2016) set out the process to adjust the costs recovered through an outage cost adjusting event. As described within 4C.35 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.

- (i) The total estimated outage change cost for the relevant year 2015/16, at £0, is £1,411,540.17 less than the allowance of £1,411,540.17. 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 31(a).
- (ii) We therefore propose that the allowed income adjustment ( $ION_t$ ) should be -£1,411,540.17. For the avoidance of doubt, we are proposing that our allowed income for Internal SO costs for the relevant year should be reduced by £1,411,540.17<sup>4</sup> to reflect the lower level of outage change costs incurred in the relevant year.

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,



Cathy McClay

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

