

Ofgem  
9 Millbank  
London  
SW1P 3GE

14 July 2016

Attn: Johannes Pelkonen

**Energy UK response to Proposed Income Adjusting Event submitted by National Grid Electricity Transmission plc in relation to the 2015-17 Electricity System Operator Incentives Scheme**

Dear Johannes,

**About Energy UK**

Energy UK is the trade association for the GB energy industry with a membership of over 80 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry from established FTSE 100 companies' right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

**Introduction**

On 8 June, Ofgem requested industry views on the application for an Income Adjusting Event (IAE) submitted by National Grid Electricity Transmission (NGET) as the electricity System Operator (SO). The application refers to the target year 2016-17, which is part of the 2015-17 incentive scheme. Energy UK will not be responding on the merits of the IAE, however, we can provide Ofgem with our view on how the IAE, if awarded, should be implemented and how any future such instances like this one are handled.

**Energy UK position on the proposed Income Adjusting Event**

Should Ofgem agree to support this IAE request then Energy UK members would expect to be involved in discussions around how the award would be implemented with respect to the least intrusive approach to cost recovery during what is now a relatively short period of time to the financial year end.

The process for cost recovery must be transparent and well planned so as to limit its distortive impact on the market. Given these costs were not known until 8 June, our members have not therefore had the opportunity to factor them into any cost forecasts, whether that be power sales or customer contracts.

Given the increased costs, and unpredictability of balancing the system, we would support actions taken in future that will help to provide stability and consistency of costs to generators and suppliers.

The current process for establishing the volume and location for contracting black start capability and other ancillary services is not as transparent as it could be. Energy UK will be undertaking a review of the process for ancillary service procurement in order to identify options to prevent further such distortive instances. We would be interested to hear Ofgem's views in this respect.

We expect the number of traditional providers of black start contracts, namely coal powered plant, to reduce significantly in the next medium term as environmental legislation, government policy and overall economics force these plant to close. National Grid must, therefore, ensure that replacement services

are procured in a timely manner to avoid a repeat of this IAE. Members are always keen to open dialogue around the suitability of current or new ancillary service products.

If you have any questions please contact me at [kate.dooley@energy-uk.org.uk](mailto:kate.dooley@energy-uk.org.uk) or 0207 747 2942.

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