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

Direct Dial: 020 3263 9662
Email: Mark.Copley@ofgem.gov.uk

Date: 29 September 2016

Dear Company Secretary,

Determination under Part F of Special Condition 4C (SpC 4C) of National Grid Electricity Transmission plc's Transmission Licence – Outage Cost Adjusting Event for 2015/16

The Gas and Electricity Markets Authority (the Authority) has considered the Notice¹ submitted by National Grid Electricity Transmission Plc (NGET) under Part F1 of SpC 4C on 30 June 2016. The Notice set out the proposed income adjustment for 2015/16, resulting from no outage change costs being incurred.

This letter sets out our determination of the allowed outage cost adjustment (IONT_t) value for 2015/16 of -£1,411,540.17 as proposed by NGET. This is the reduction in NGET allowed revenue as the outage cost adjusting event.

Background

NGET's Licence provides an annual allowance of £1,411,540.17 (in 2015/16 prices) for payments in respect of outage changes. If made, these payments are made to Scottish Hydro Electric Transmission Ltd (SHE-T) and Scottish Power Transmission Ltd (SPT) (the TOs). These payments enable NGET, as the System Operator (SO), to reschedule outages to reduce the cost of operating the system.

SpC 4C 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, SpC 4C 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 a notice under Part F1 of SpC 4C of an outage cost adjusting event for 2015/16, setting out that it had incurred, or reasonably expects to incur, outage change costs totalling £0 (in 2015/16 prices). As this amount is £1,411,540.17 lower than the allowance under SpC 4C and exceeds the £300,000 outage threshold amount, NGET proposes that its 2016/16 allowed income for Internal System Operator costs be reduced by £1,411,540.17.

We have spoken with NGET and the TOs and understand that, despite NGET having not incurred any outage change costs, they did in fact submit outage change requests to the TOs. In each instance, the TOs returned a zero cost for these outage change requests

¹ The Notice can be found on <https://www.ofgem.gov.uk/publications-and-updates/publication-notice-proposed-outage-cost-adjusting-event-201516>

which meant that NGET did not need to trigger any spending via the £1,411,540.17 annual allowance. The TOs were able to accommodate NGETs outage change requests without incurring any additional costs.

The £1,411,540.17 annual allowance will be redistributed to BSUoS customers following the process set out under the BSUoS charging methodology in Section 14 of the CUSC, with the costs spread equally across all settlement periods in the following year.

Our Determination

Under Part F2 of Special Condition 4C.38 of NGET's Licence, the Authority is required to determine:

- a) whether any or all of the costs and/or expenses given in a notice pursuant to 4C.32 were caused or saved by an outage cost adjusting event;
- b) whether the event or circumstance has increased or decreased the licensee's relevant costs in making outage changes such that they will be either less than or in excess of ONt in each case by more than the outage threshold amount; and
- c) if so, whether the amount of the proposed outage cost adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that outage cost adjusting event had not taken place, and if not, what allowed outage cost adjustment would secure that effect.

We have reviewed the initial notice and supplementary evidence provided by NGET and the relevant TOs. In line with Part F2 of Special Condition 4C.38 we agree that:

- a) the difference between the actual cost and the allowance is greater than the outage threshold amount of £300,000 there is a case to amend the allowed outage cost adjustment (IONTt);
- b) this event resulted in savings of £1,411,540.17 against the allowance for payments in respect of Outage Changes (ONt); and
- c) based on the information available to the Authority, the outage cost adjusting event does not materially impact the financial position and performance of the licensee.

In accordance with the provisions of SpC 4C, the Authority considers that the costs have been saved in relation to an outage cost adjusting event and the savings exceed the outage threshold amount. For the reasons set out in this document, and in accordance with Part F2 SpC 4C, the Authority determines that the allowed income adjustment (IONTt) for relevant year t (2015/16) should be -£1,411,540.17.

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 Jonathan Whiting on 0203 263 9621 or via email at jonathan.whiting@ofgem.gov.uk.

Yours sincerely,

Mark Copley
**Associate Partner, Markets – Duly authorised on behalf of the Gas and Electricity
Market Authority** **29 September 2016**