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system owners, generators,
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parties

Email: soincentive@ofgem.gov.uk

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Dear Colleagues

Decision to modify Standard transmission licence condition C16 and Special Conditions 1A, 4C, 4D, 4E, 4F, 4G, 4H and 4J of National Grid Electricity Transmission plc's electricity transmission licence to clarify NGET's obligations under standard condition C16 and introduce the System Operator (SO) incentive scheme for the period 2017-18.

This letter sets out the Authority's decision to modify the standard condition of the transmission licence and special conditions shown above of National Grid Electricity Transmission plc's (NGET) electricity transmission licence. These changes are to clarify NGET's obligations when balancing the system, introduce the SO incentive scheme for 2017-18 and establish a new regulatory framework for Black Start.

Background to the licence modification

National Grid Electricity Transmission plc (NGET) is the System Operator (SO) for the electricity transmission network in Great Britain. As such it is responsible for the day-to-day operation of the system. Ofgem regulates the actions of NGET to ensure its operation of the system delivers value for money to the consumer. Building on statutory obligations which require NGET to act in an economic, efficient, and co-ordinated manner, we have historically driven the performance of NGET and shaped aspects of its behaviour through targeted financial incentives on NGET's external balancing costs.

The role of the SO has grown over the years and it now has a more active role in transmission network development and the Capacity Market. Its role is continuing to evolve. The changing nature of generation, particularly the increase in small generation connected at the distribution level, is highlighting the need for a more holistic and co-ordinated approach to planning and operating the transmission and distribution systems. The increase in new sources of flexibility also means there is a need for the SO to review how it procures these services.

We have initiated reviews on both the SO's future role and structure, and on the supporting regulatory and incentives framework with the aim of introducing changes to the SO regulatory framework from 1 April 2018. In the interim period, we are setting incentives and amending NGET's licence for 2017/18.

Summary of responses and our views

We received four responses to our final proposals. Those who responded were NGET, Scottish Power, Scottish Power Energy Networks, and British Gas. All responses were non confidential and are published alongside the final proposals consultation on our website.

Respondents commented on the following areas of the licence modification proposal:

- Suggested changes to clarify terms and definitions in the licence;
- Removal of references to elements of the scheme post-2018; and
- Dates for Authority approval of different elements.

Clarifications requested to terms and definitions in the licence conditions

We have reviewed the terms and definitions proposed by NGET and Scottish Power and have decided to accept the majority of them. This is because we believed they provided greater clarity and/or aligned the text with other industry codes. However, in a few instances, we decided to not make the amend or to only partially amend the text as we believed the alternative wording would change the intent of the policy. The approved amends are highlighted in the attached text.

Removal of references to elements of the scheme post-2018

We have removed the reference to the BSIS incentive post 2017 given this is a year-only incentive scheme.

As is evident from the drafting, our Black Start policy was designed as an enduring arrangement. However, we do intent to build upon the principles introduced in the modified licence condition through our wider policy review of Black Start in the near future. Any future work may result in further adjustment to licence conditions. Therefore, we have not accepted the suggested changes which would have resulted in a one-year scheme. On our wider policy review we will contact a wide range of stakeholders to ensure that the regulatory framework continues to be robust and works in the interest of consumers.

Dates for Authority approval of different elements

NGET asked that the licence provide a deadline for the Authority to approve the methodologies NGET is required to submit to provide greater regulatory certainty. We have considered the change and have decided to not make the change. This is because the timetable for the Authority to approve these documents is a function of the complexity of the information provided and the clarity of the draft. As such, we do not believe it would be appropriate to limit under the licence the time that the Authority can provide a decision and avoid the risk that the Authority is forced to make a decision to avoid one happening by default.

Other issues

Through our review of the document, we also noticed the need of a few amendments to the draft licence conditions to correctly effect our Final Proposals decision. These changes are summarised below:

- Correct a misplaced decimal point on Special Condition 4C.31 that meant the backstop mechanism was not reverting NGET's performance to the incentive floor as intended.
- Remove a mathematical symbol (Σ) from Special Condition 4H.5 as it was replicating the definition of UIT_m in the same condition.
- Correct the algebra within the definition of UIT_m in Special Conditions 4H.5 so as to also include references to the terms $WFIT_n$ and $WFIP_n$ associated with the wind generation forecast incentive.

- Clarified under Part E of Special Condition 4G the process for submission of the annual report.

We have corrected it accordingly.

Our decision

Having carefully considered the responses to our statutory consultation, we have decided to proceed with the modifications to the Standard Condition C16 of the transmission licence and Special Conditions 1A, 4C, 4D, 4E, 4F, 4G, 4H and 4J of NGET's licence that are set out in the statutory decision notice referred to below. These modifications to the licence will take effect on 1 June 2017. and will apply to the period from 1 April 2017.

A statutory decision notice modifying NGET's licence has today been issued to NGET. The statutory decision notice has also been published on our website.¹

Next steps

The licence modification will take effect on 1 June 2017.

If you have any questions regarding the content of this letter, please contact David Freed by email on soincidentive@ofgem.gov.uk.

Yours faithfully

Emma Kelso

Partner, Wholesale Markets

¹ The direction letter can be found at <https://www.ofgem.gov.uk/publications-and-updates/decision-electricity-system-operator-incentives-april-2017-modification-standard-and-special-licence-conditions-transmission-licence>