

Company Secretary  
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Date: 7 July 2017

Dear Company Secretary

**Direction to remove the correction to the error in the Operating Reserve Cash Price model, pursuant to Special Condition 4C.45 of the Electricity Transmission Licence**

Under Special Condition (SpC) 4C.45 of the Electricity Transmission Licence, National Grid Electricity Transmission (NGET) is required to notify the Authority<sup>1</sup> and seek to correct an error that prevents the SO Models from appropriately reflecting the SO Methodologies referred to in SpC 4C.42, or if an input error has arisen as a result of information provided by any third party.

On 12 April 2017, National Grid Electricity Transmission (NGET) wrote to notify us of an issue they identified in the Operating Reserve Cash Price model in the BSIS, and proposed an amendment to the model to correct for this. NGET notified us that the Operating Reserve Cash Price model did not predict price spikes towards the end of 2016, and argued that the model was not able appropriately to reflect the methodologies. NGET proposed that, for the limited time period concerned, the ex-post price is used when available, instead of the modelled price set out in the Statement of the Energy Balancing Cost Target Modelling Methodology 2015 ('Statement').

On the basis of the information provided, in accordance with SpC 4C.45, we do not agree with the change to the Operating Reserve Cash Price model. We believe the correction to the error does not conform to the requirements of SpC 4C.45. We are also not convinced that other parts of the Statement of the Energy Balancing Cost Target Modelling Methodology ("Statement") require this change. We therefore attach to this letter a formal direction that directs NGET to remove the correction to the error in the Operating Reserve Cash Price model.

**Direction and Notice**

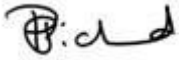
Attached as an Annex to this letter is a formal Direction for NGET to remove the correction to the error in the Operating Reserve Cash Price model.

This letter constitutes a notice of the reasons for our decision pursuant to section 11A of the Electricity Act 1989.

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<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document to refer to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

Yours sincerely,



**Philippa Pickford – Associate Partner**  
**For and on behalf of the Gas and Electricity Markets Authority**