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for energy consumers

Company Secretary
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cc: Cathy McClay

Date: 31 October 2017

Dear Company Secretary,

Decision to reject the proposed solution to the Operating Reserve Cash Price model, pursuant to 5.17 of the Statement of the Energy Balancing Cost Target Modelling Methodology 2015

Background

Under 5.17 of the Statement of the Energy Balancing Cost Target Modelling Methodology (the "Statement"), National Grid Electricity Transmission Plc (NGET) is required to monitor and submit a solution when the Operating Reserve Cash Price model deviates from actual outturn trend, which was seen with back testing of the refreshed model (June 2014 – August 2014).

On 17 June 2016, NGET submitted a solution to the issue set out in 5.17. This solution was subsequently accepted by Ofgem as it resolved the issue outlined in 5.17. This acceptance was later confirmed on 31 March 2017. The current model is therefore the one that incorporates the solution proposed on 17 June 2016.

On 25 August 2017, NGET outlined a second proposal to resolve the issues outlined in 5.17 of the Statement.

Our Decision

On the basis of the information provided, in accordance with 5.17 of the Statement, we do not agree with NGET's 25 August 2017 proposal for changing the Operating Reserve Cash Price model.

We believe the correction to the model does not improve the resolution of the issue outlined in 5.17 of the Statement when compared to the current version of the model. There is indeed evidence that it worsens performance for the period in question. As a result, we have therefore decided to reject the 25 August 2017 proposed solution to the Operating Reserve Cash Price model.

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Philippa Pickford – Associate Partner

For and on behalf of the Gas and Electricity Markets Authority

Date: 31 October 2017