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Date: 9 October 2016

Dear Company Secretary,

**Determination under Part D of Special Condition 4J (SO-TO Mechanism) ("SpC 4J") of National Grid Electricity Transmission plc's Transmission Licence – Outage Cost Adjusting Event for 2016/17**

The Gas and Electricity Markets Authority (the "Authority") has considered the Notice<sup>1</sup> submitted by National Grid Electricity Transmission Plc (NGET) under Part B of SpC 4F<sup>2</sup> on 30 June 2017. The Notice set out the proposed income adjustment for 2016/17, resulting from no outage change costs being incurred.

This letter sets out our determination of the allowed outage cost adjustment (IONT<sub>t</sub>) value for 2016/17 of -£1,394,653.36 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 £1,394,653.36 (in 2016/17 prices) for payments in respect of outage changes. If made, these payments are made to Scottish Hydro Electric Transmission Plc (SHE-T) and Scottish Power Transmission Plc (SPT) (the "TOs"). These payments enable NGET, as the System Operator ("SO"), to reschedule outages to reduce the cost of operating the system.

On 30 June 2017, NGET submitted a notice under Part B of SpC 4F of an outage cost adjusting event for 2016/17, setting out that it had incurred, or reasonably expects to incur, outage change costs totalling £0 (in 2016/17 prices). As this amount is £1,394,653.36 lower than the allowance under SpC 4F and exceeds the £300,000 outage threshold amount, NGET proposes that its 2016/17 allowed revenue be reduced by £1,394,653.36.

For the relevant year 2016/17, 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 which meant that NGET did not need to trigger any spending via the £1,394,653.36 annual allowance. The TOs were able to accommodate NGET's outage change requests without incurring any additional costs.

<sup>1</sup> The Notice can be found on our website.

<sup>2</sup> NGET submitted the Notice under Part F of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs). This condition was modified and renamed SpC 4J on 1 June 2017, but essentially remains the same for Outage Cost Adjusting Events. This Determination is therefore being made under Part D (Approval from the Authority) of SpC 4J.

## **Our Determination**

Under Part D of Special Condition 4J.20 of NGET's Licence, the Authority is required to determine whether to approve or reject any notice including the value submitted by the licensee under Part B.

We have reviewed the initial notice provided by NGET. In line with Part B of Special Condition 4F we agree that the difference between the actual cost and the allowance is greater than the outage threshold amount of £300,000 and there is a case to amend the allowed outage cost adjustment (IONTt).

For the reasons set out in this document, and in accordance with Part D SpC 4F, the Authority determines that the allowed income adjustment (IONTt) for relevant year t (2016/17) should be -£1,394,653.36.

This Determination constitutes notice for the purposes of section 49A of the Electricity Act 1989.

If you have any queries in relation to the issues raised in this letter, please feel free to contact David Freed on 0207 901 1827 or via email at [david.freed@ofgem.gov.uk](mailto:david.freed@ofgem.gov.uk).

Yours sincerely,



**Philippa Pickford - Associate Partner**  
**Duly authorised on behalf of the Gas and Electricity Market Authority**  
**9 October 2017**