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30 June 2017

Dear Philippa,

**Transmission Owner Incentives: Notice of Proposed Outage Cost adjusting Event 2016/17**

This notice is issued in accordance with Part F of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) of the Electricity Transmission Licence that was in force and applied in respect of Relevant Year 2016-17. As defined in Special Condition 4C Part F, NGET had an allowance for costs incurred for payments to Scottish Transmission Owners<sup>1</sup> (Scottish TOs) for the movement of outages, 'outage change costs' during the relevant year 2016/17 of £1,394,653.36<sup>2</sup>.

Where actual costs vary from this figure by more than the materiality threshold of £300,000 (the outage threshold amount) then the licensee should submit an outage cost adjusting event notice to the Authority within three months of scheme end, which for the 2016/17 year is 30<sup>th</sup> June 2017<sup>3</sup>.

For the relevant year 2016/17, NGET has requested and made change to eight outages through this process. This has provided significant optimisation to the outage plan. The Scottish TO's have indicated no charge for undertaking these changes and therefore NGET proposes to implement an outage cost adjusting event.

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<sup>1</sup> The Scottish Transmission Owners are Scottish Power Transmission Limited and Scottish Hydro Electric Transmission Limited

<sup>2</sup> NGET's Transmission Licence, Special Condition 4C, Part F, paragraph 4C.29 put in place an allowance for outage changes (ON<sub>t</sub>) of £1,146,800 in 2009/10 prices. The formula in paragraph 29 allows an adjustment to the term ON<sub>t</sub> using the ONTRU<sub>t</sub> term which is defined in 4C.23. Consequently, the term ON<sub>t</sub>, adjusted to reflect 2016/17 prices for the relevant year commencing 1 April 2016, is equal to £1,394,653.36

<sup>3</sup> Provisions of Special Condition 4C, Part F 4C.26 to 4C.29 (as at 26th May 2016) set out the process to adjust the costs recovered through an outage cost adjusting event. As described within 4C.35 notice of an outage cost adjusting event should be submitted to the Authority not later than three months after the end of the relevant year.

In accordance with Special Condition 4C.33 Part F, the particulars of this notice are as follows:

- (i) The total estimated outage change cost for the relevant year 2016/17, at £0, is £1,394,653.36 less than the allowance of £1,394,653.36. The difference between the actual cost and the allowance is greater than the outage threshold amount of £300,000 and therefore NGET proposes that this constitutes an outage cost adjusting event under Special Condition 4C Part F, paragraph 31(a).
- (ii) We therefore propose that the allowed income adjustment (ION<sub>t</sub>) should be -£1,394,653.36. For the avoidance of doubt, we are proposing that our allowed income for Internal SO costs for the relevant year should be reduced by £1,394,653.36<sup>4</sup> to reflect the lower level of outage change costs incurred in the relevant year.

Please do not hesitate to contact me or Carol Carlin on 0118 936 3923 if you would like to discuss or request further information in regard to any of the matters raised in this notice.

Yours sincerely,



Cathy McClay

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<sup>4</sup> If the Authority determine that NGET