



Making a positive difference  
for energy consumers

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Date: 28 November 2017

cc: Cathy McClay

**Approval issued to National Grid Electricity Transmission Plc (NGET) by the Gas and Electricity Markets Authority pursuant to paragraph 4C.26 of Special Condition 4C of NGET's Electricity Transmission Licence.**

NGET has submitted Balancing Services Incentive Scheme (BSIS) modelling methodology statements (the "SO Methodologies")<sup>1</sup> to the Gas and Electricity Markets Authority (the "Authority") under paragraph 4C.26 of Special Condition (SpC) 4C of NGET's Electricity Transmission Licence (the "Licence") for the 2017-18 incentive period.

This letter sets out our approval of the SO Methodologies to be applied from 1 April 2017 to 31 March 2018.

**Background**

NGET is responsible for balancing the electricity system on a continuous basis. The costs that NGET incurs in carrying out this role are passed through to users of the system via Balancing Services Use of System (BSUoS) charges.<sup>2</sup> We regulate the actions of NGET, in its capacity as the System Operator (SO), to ensure its operational costs are optimised, delivering value for money to the consumer. Building on statutory obligations which require the SO to act in an economic, efficient and co-ordinated manner, we have historically driven the performance of the SO and shaped aspects of its behaviour through incentives.

The main incentive on the SO is the BSIS. We use two models<sup>3</sup> to calculate a single BSIS financial target. If actual costs are below target then the SO is permitted to receive an incentive payment and if actual costs exceed the target then it faces an incentive penalty. These models are set out by the SO Methodologies which define how the models should be created.

For the 2017-18 incentive period NGET is obliged to submit to the Authority, for approval, revised SO Methodologies.

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<sup>1</sup> NGET website where the published SO Methodologies can be found: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-system-operator-incentives/>.

<sup>2</sup> Mechanism through which NGET recovers the cost of day to day operation of the transmission system from generators and suppliers.

<sup>3</sup> The constraints model and the energy model, these models use both ex-ante (calculated ahead of the event) and ex-post (outturn data) data to calculate a target.

## **NGET submission**

On 2 June 2017, NGET submitted three new SO Methodologies to the Authority for approval:

- Modelling of energy costs
- Modelling the costs of managing Transmission Constraints
- Ex-ante or ex-post treatment of modelling inputs

NGET also submitted an independent report by a third party. Following this report, further revisions were made to improve the Methodologies. These final updated Methodologies were resubmitted to Ofgem on 28 November 2017.

## **Our decision**

Pursuant to Special Condition 4C.26, having had regard to the principal objective and statutory duties we consider that the SO Methodologies as they stand on 28 November 2017 are beneficial to consumers.

We believe it is in the interest of consumers to approve the SO Methodologies as they provide a balanced framework for incentivisation. We have taken into consideration the independent report by a third party published by NGET pursuant to paragraph 4C.28, which is also published with this letter. We agree that while there are some limitations, improvements have been made on previous incentive schemes for the 2017-18 incentive period.

As such, we approve the SO methodologies to be applied between 1 April 2017 and 31 March 2018, in line with the 2017-18 incentive period.

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

Yours faithfully



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