

To: National Grid Electricity System Operator Limited

**Electricity Act 1989
Section 11A(2)**

Notice of statutory consultation on a proposal to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the special conditions of the electricity transmission licence held by **National Grid Electricity System Operator Limited (NGESO)** granted or treated as granted under 6b of the Electricity Act 1989 by amending Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).
2. We are proposing this modification in order to increase certainty around the Balancing Services Use of System (BSUoS) charges market participants face as a result of incentive payments incurred by NGESO. Under NGESO's incentive scheme, the final decision on an incentive payment is made on an ex-post basis in summer Relevant Year t+1. We propose enabling any material differences between the incentive payments NGESO recovers during Relevant Year t (based on its reasonable expectations of its performance) and the actual value the Authority directs, to be reconciled through adjustments to BSUoS charges in Relevant Year t+1. This would minimise the need for retrospective corrections to BSUoS charges.²
3. The effect of the proposed modification is enable differences between NGESO's forecast and actual incentive payments for Relevant Year t to be reconciled in Relevant Year t+1. For instance, if NGESO forecasts and recovers BSUoS payments of £Xm during Relevant Year t, but the Authority determines (during summer Year t+1) the actual incentive for Relevant Year t should be £Ym, then this licence change would allow the Authority to consent to an adjustment of allowed revenue of £Y-Xm during Relevant Year t+1. This would remove the need for NGESO to make retrospective adjustments to BSUoS charges via settlement runs for Relevant Year t. If NGESO does not seek to reconcile differences using the proposed new licence term (and/or the Authority does not consent to this) then NGESO would have to ensure differences between what it has recovered and the actual incentive payment are reconciled via settlements runs for Relevant Year t.
4. A copy of the proposed modification/modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from foi@ofgem.gov.uk.
5. Any representations with respect to the proposed licence modification/modifications must be made on or before 24 July to: Alice Siri, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to ESOperformance@ofgem.gov.uk.
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² For more information please see: https://www.ofgem.gov.uk/system/files/docs/2019/03/decision_letter_-_regulatory_and_incentives_framework_for_2019-20.pdf

prefer to receive responses in an electronic form so they can be placed easily on our website.

7. If we decide to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Eleanor Warburton
Duly authorised on behalf of the
Gas and Electricity Markets Authority

26 June 2019

Special Condition 4C: Balancing Services Activity Revenue Restriction on External Costs

Part A: Balancing services activity revenue restriction on external costs

4C.1 The licensee shall use its best endeavours to ensure that in respect of Relevant Year t the revenue derived from and associated with procuring and using balancing services (being the external costs of the Balancing Services Activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + IncPayExt_t + BSC_t + SOTOC_t$$

As part of the proposal to modify the licence, a new term $IncPayRec_t$ will be included in the formula above following the term $IncPayExt_t$. The new formula would read:

$$\underline{BXext_t = CSOBM_t + BSCC_t + TotAdj_t - OM_t + IncPayExt_t + IncPayRec_t + BSC_t + SOTOC_t}$$

where:

$BXext_t$ represents the maximum allowed revenue derived in Relevant Year t from and associated with procuring and using balancing services;

$CSOBM_t$ which represents the cost to the licensee of bids and offers in the Balancing Mechanism accepted by the licensee in Relevant Year t less the total non-delivery charge for that Relevant Year, is the sum across Relevant Year t of the values of $CSOBM_j$ (being the daily System Operator BM cashflow for each settlement period j as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);

$BSCC_t$ means the costs to the licensee of contracts for the availability or use of balancing services during the Relevant Year t, excluding costs within $CSOBM_t$ and BSC_t but including charges made by the licensee for the provision of balancing services to itself in the Relevant Year t;

$TotAdj_t$ means the amount of any adjustment to be made during the Relevant Year t as provided in paragraph 4C.2;

OM_t means an amount representing the revenue from the provision of balancing services to others during the Relevant Year t, calculated in accordance with paragraph 4C.10;

- $IncPayExt_t$ means an incentive payment for Relevant Year t calculated in accordance with Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements);
- $IncPayRec_t$ means an amount treated as a cost or payment by the licensee for Relevant Year t , with the prior written consent of the Authority, equalling the difference between the value of $IncPayExt_{t-1}$ directed by the Authority in accordance with paragraph 4M.19 of Special Condition 4M (Electricity System Operator Reporting and Incentive Arrangements) and the amount the licensee has recovered in Relevant Year $t-1$ based on its reasonable expectations of revenue associated with $IncPayExt_{t-1}$;
- $SOTOC_t$ means the SO-TO cost allowance term in each Relevant Year t calculated in accordance with Special Condition 4J (SO-TO Mechanism);
- BSC_t means the allowed revenue derived in Relevant Year t from and associated with Black Start services in accordance with Special Condition 4G (Black Start Allowed Revenue); and
- j shall mean a settlement period (being half an hour) as defined in the BSC.