

Alice Siri
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

24 July 2019

Dear Alice,

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

Thank you for the opportunity to respond to this statutory consultation on a proposed modification to special condition 4C of the NGESO licence, which aims to increase certainty around the Balancing Services Use of System (BSUoS) charges market participants face as a result of incentive payments incurred by NGESO.

Our views remain consistent with our response to Ofgem's earlier call for input on the 2019-20 ESO regulatory and incentives framework¹. We welcome the proposal for 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.

We support Ofgem's view that this would benefit consumers by reducing the risk of unexpected BSUoS deviations (by minimising the need for retrospective corrections to BSUoS charges) and therefore market participants' risk premiums. We also take the view that this change is unlikely to have a significant detrimental impact on the cost reflectivity of charges.

Ofgem's decision² on the ESO regulatory and incentives framework for 2019-20 notes that most stakeholders support this change so we consider the proposed modification to be in line with feedback provided to Ofgem.

There is ambiguity in whether Ofgem intends to use this reconciliation mechanism for 'any material difference', or simply 'any difference', between the incentive payments NGESO recovers during Relevant Year t and the actual value the Authority directs.

¹ Call for input on 2019-20 ESO regulatory and incentives framework (October 2018)
<https://www.ofgem.gov.uk/publications-and-updates/call-input-2019-20-eso-regulatory-and-incentives-framework>

² Decision on the Electricity System Operator regulatory and incentives framework for 2019-20 (March 2019)
<https://www.ofgem.gov.uk/publications-and-updates/decision-electricity-system-operator-regulatory-and-incentives-framework-2019-20>

Paragraph 2 of this statutory consultation notice³ suggests the former but the definition of the term 'IncPayRec_t' in the draft licence condition implies the latter. We encourage Ofgem to clarify its position if it decides to direct the implement of this licence change.

Our preference would be for the reconciliation to apply to material differences and for there to be a defined threshold above which the difference is considered to be 'material'.

Please do not hesitate to contact me or James Soundraraju (tel 0141 614 2421, jsoundraraju@scottishpower.com) if you have any questions arising from this response.

Yours sincerely,



Richard Sweet
Head of Regulatory Policy

³ 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 (June 2019)
<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposal-modify-special-conditions-electricity-transmission-licence-held-national-grid-electricity-system-operator-limited>