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**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**

Dear Alice,

We welcome the opportunity to respond to the above consultation.

National Grid Electricity System Operator (NGESO) became a legally separate entity on 1 April 2019. As the Electricity System Operator (ESO) we use our unique perspective and independent position to facilitate market based solutions which deliver value for consumers. We also play a key role in managing the National Electricity Transmission System on a minute by minute basis as well as thinking about future challenges. To ensure we continue to deliver benefit to consumers in our role as ESO, we are incentivised through our Licence.

In April 2018, Ofgem introduced a new incentive scheme which changed arrangements from a mechanistic scheme to a broader evaluative scheme. The recovery of any incentive amount in a year (which can be a reward or penalty) from this scheme will be through Balancing Services Use of System (BSUoS) charges. As per Licence Condition 4M.19, the Authority will direct the payment for the previous financial year incentive performance by 31 July or such later date it considers appropriate. Therefore, this will have an impact on the settlement of BSUoS charges via the Final Reconciliation (RF).

We as NGESO conducted extensive customer feedback on BSUoS, with suppliers in particular. From this we understood that if we billed the customers for the incentive outcome in the RF (14 months after the relevant Settlement Day) in accordance with the current methodology defined in the licence, suppliers are likely to factor this risk into end consumer prices as they will not otherwise be able to pass on the benefits or recover the cost introduced by the RF.

Therefore, as your consultation stated, the main driver for this licence change is to mitigate the risk of volatility of the BSUoS charge associated with the ESO incentive outcome directed by the Authority after the end of the relevant year to which the incentive outcome relates. We feel that this change achieves that goal in a clear and simple way. Through working together with yourselves and industry successfully, we believe that the proposed option is the most pragmatic solution to achieve the overall best outcome for consumers under the current BSUoS arrangements.

We support the changes to the licence you are proposing and are delighted that you have taken these changes forward. We look forward to the outcome of the consultation.

Should you require any further information or would like clarity on any of the points outlined in this paper then please contact Urmi Mistry in the first instance at [urmi.mistry@nationalgrideso.com](mailto:urmi.mistry@nationalgrideso.com).

Yours sincerely

**Louise Schmitz**

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