

Louise Schmitz
ESO Regulation Senior Manager
National Grid ESO
Faraday House, Gallows Hill
Warwick,
CV34 6DA

Email: ESOperformance@ofgem.gov.uk

Date: 14 October 2019

Consent granted to NGESO under Special Condition 4C of the Electricity Transmission Licence

This letter sets out our consent for National Grid Electricity System Operator Limited (NGESO) to use IncPayRec_t, as specified in Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs) of the Electricity Transmission Licence, to reconcile the difference between the amount NGESO has recovered in Balancing Services Use of System (BSUoS) charges over 2018-19 and the final incentive amount for 2018-19.

Background

Under NGESO's incentive scheme, the final decision on NGESO's incentive payment for Relevant Year t is made on an ex-post basis in summer in Relevant Year $t+1$. Any 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 has to be reconciled as specified under Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs). NGESO can use IncPayRec_t to reconcile this difference. Under Special Condition 4C, IncPayRec_t is defined as "the difference between the value of IncPayExt_t in respect of Relevant Year $t-1$ (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 in respect of Relevant Year $t-1$."

For the Relevant Year 2018-19, NGESO recovered £15m based on their forecast of incentive revenue. On the 9 August 2019, the Authority directed that the ESO will receive a financial incentive of £0.86m for 2018-19.¹ NGESO have proposed to use IncPayRec_t and set its value to -£14.14m and thereby reconcile this difference over 2019-20 by issuing a payment of £14.14m to BSUoS customers via the Initial Settlement Run for 2019-20 BSUoS charge.

¹ ESO incentives decision: <https://www.ofgem.gov.uk/publications-and-updates/authority-direction-electricity-system-operator-s-financial-incentive-2018-19>

Our decision

We have reviewed NGENSO's notice, sent to us on 4 October 2019. In accordance with Special Condition 4C of the Electricity Transmission Licence, we hereby consent NGENSO to use IncPayRec_t to reconcile the difference in BSUoS charges by setting the value of IncPayRec_t to -£14.14m.

Consent and Notice

The Schedule to this letter contains the Authority's consent pursuant to paragraph (4C.1) of Special Condition 4C to use IncPayRec_t to reconcile the difference in BSUoS charges.

This letter and the Consent (attached as the Schedule to this letter) constitutes notice pursuant to section 49A of the Electricity Act 1989.

Yours sincerely,

Maryam Khan
Senior Manager

Schedule – Consent on the ESO’s financial incentive for 2018-19

For and on behalf of the Gas and Electricity Markets Authority

CONSENT PURSUANT TO PARAGRAPH 4C.1 OF SPECIAL CONDITION 4C OF NATIONAL GRID ELECTRICITY SYSTEM OPERATOR LIMITED’S ELECTRICITY TRANSMISSION LICENSE IN RELATION TO THE ELECTRICITY SYSTEM OPERATOR INCENTIVE ARRANGEMENTS

Whereas:

1. National Grid Electricity System Operator Limited (“NGESO”) is the holder of an electricity transmission licence (the “Licence”) granted or treated as granted under section 6(b) of the Electricity Act 1989 (the “Act”).
2. On 4 October 2019 NGESO formally requested that the Gas and Electricity Markets Authority (“the Authority”) grant consent to NGESO to use IncPayRec_t to reconcile the difference in BSUoS charges, pursuant to special condition 4C Balancing Services Activity Revenue Restriction on External Costs) of the Licence.
3. Special condition 4C, Part F (Incentive payments) of the Licence, allows the Authority to Direct the value of IncPayExt_t, in respect of Relevant Year t-1 as determined under this condition and the ESORI Arrangements Guidance Document.

Therefore:

We hereby consent NGESO to use IncPayRec_t to reconcile the difference in BSUoS charges by setting the value of IncPayRec_t to -£14.14m.

This Consent and the letter to which it is attached constitutes notice of the reasons for the decision pursuant to section 49A of the Act.

Dated: 14 October 2019



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Maryam Khan – Senior Manager
For and on behalf of the Gas and Electricity Markets Authority