

To the Company Secretary

National Grid Electricity Transmission Plc
(Company Number: 02366977)

Direction issued to National Grid Electricity Transmission plc by the Gas and Electricity Markets Authority pursuant to paragraph 4K.3 of Special Condition 4K of NGET's Electricity Transmission Licence

WHEREAS

1. National Grid Electricity Transmission Plc ('the licensee') is the holder of an electricity transmission licence ('the licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act') that includes Special Conditions.
2. The objective of Special Condition 4K ('SpC 4K') of the licence is to establish arrangements to determine the allowed revenue derived from procuring and using Demand Side Balancing Reserve and Supplemental Balancing Reserve for the purposes of the Balancing Services Activity that the licensee may recover in each Relevant Year. These services were introduced to bridge the gap between tightening generation margins in the mid-decade period and the introduction of the Capacity Market.
3. By virtue of paragraph 4K.2 of SpC 4K the Relevant Years, for the purposes of cost recovery are 2014/15 and 2015/16.
4. Paragraph 4K.3 of SpC 4K provides that the Gas and Electricity Markets Authority ('the Authority') may direct any changes to the Relevant Years to which the provisions of SpC 4K apply. Any such direction is deemed to be reflected in paragraphs 4K.2 and 4.K4-8 of SpC 4K.
5. Paragraphs 4K.4, 4K.5, 4K.6, 4K.7 and 4K.8 of Special Condition 4K respectively require that the licensee submit to the Authority for approval, in relation to the Relevant Years, a:
 - a. Volume Requirement Methodology;
 - b. DSBR Procurement Methodology;
 - c. DSBR Operational Methodology;
 - d. SBR Procurement Methodology; and
 - e. SBR Operational Methodology.
6. By direction issued on 23 November 2015 to NGET, the Authority extended the Relevant Years to include 2016/17 and 2017/18. This was in response to the uncertain winter outlook for those years. We considered it prudent to allow the licensee the ability to recover any economic and efficient costs incurred with the procurement and use of Demand Side Balancing Reserve and Supplemental Balancing Reserve if needed in 2016/17 and 2017/18.
7. The Government subsequently brought forward the Capacity Market by a year for delivery in 2017/18. Consequently, it is no longer necessary to allow the licensee to recover any economic and efficient costs associated with the procurement and use of Demand Side Balancing Reserve or Supplemental Balancing Reserve incurred in 2017/18. Therefore, the Authority's direction of 23 November 2015 is hereby revoked.

8. **NOW** the Authority pursuant to the provisions of SpC 4K.3 **HEREBY DIRECTS** that:

the Relevant Years to which the provisions of SpC 4K apply shall include the Relevant Year 2016/17

This Direction shall have immediate effect and expire on the date upon which the Authority exercises its right to revoke it.

This document constitutes notice of the reasons for the decision to issue the direction pursuant SpC 4K.3 as required by section 49A(2) of the Act.



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Mark Copley

Associate Partner, Wholesale Markets

Duly authorised on behalf of the Gas and Electricity Markets Authority

Dated: 7 March 2017