

Leonardo Costa
Electricity System Operator Incentives
Wholesale Markets
Ofgem,
9 Millbank,
SW1P 3GE

Cathy McClay
Head of Commercial, Electricity

Cathy.McClay@nationalgrid.com

Direct tel +44(0) 7870 159677

21 March 2017

Dear Leonardo,

Notice under section 11A(2) of the Electricity Act 1989 proposing to modify the electricity transmission licence held by National Grid Electricity Transmission plc by amending Special Conditions 1A, 4C, 4D, 4E, 4F, 4G, 4H and additionally removing existing 4J and inserting new 4J for the System Operator incentive schemes from April 2017.

Notice under section 11A(2) of the Electricity Act 1989 proposing to modify the electricity transmission licence held by National Grid Electricity Transmission plc by amending Standard Condition C16.

I refer to the notice (the "Notice") given by the Gas and Electricity Markets Authority on 1st March 2017 pursuant to section 11A(2) of the Electricity Act 1989 (the "Act") that proposes to modify National Grid Electricity Transmission plc's ("National Grid") electricity transmission licence (the "Licence") in the manner set out in the Schedules to the Notice.

National Grid has reviewed the drafting of the text in the both Schedules to the Notice and considers that some amendments to the proposed drafting should be made. The first relates to Standard Condition C16 where proposed minor changes to wording are suggested to provide required clarity. All subsequent proposed amendments relate to Special Conditions 4C, 4G, 4H and 4J. The second proposed amendments are minor wording changes to bring definitions into alignment with existing standard definitions or to enhance clarity. The third proposed amendments are in respect to the removal of reference to the continuation of the current incentives to future years. It is clearly stated that the incentives arrangements for 2017-2018 are set out as a one year interim scheme and as such no provision to roll the arrangements into future years in the Licence is required. The final proposed change is the addition of dates by which OFGEM should provide a decision on submissions. This addition enhances regulatory certainty. All of these changes are described in more detail in the Appendix to this letter.

We would appreciate the consideration and subsequent adoption of these comments to ensure that the appropriate changes be made to the Licence.

NGET has outlined its views in respect to the system operator incentive frameworks in our responses to OFGEM's earlier consultations¹. Stakeholders have welcomed the inclusion of further definition into Standard Condition C16. We appreciate that clarity is beneficial but we are keen to ensure there is no extension of obligations introduced, via the C16 Guidance

¹ Electricity System Operator Incentives from 2017 [4 August 2016] & Initial Proposals for Electricity System Operator incentives form April 2017 [21 December 2016]

National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

T+44 (0)1926 653000
F +44 (0)1926 654378
www.nationalgrid.com

Document, beyond our existing role as System Operator ahead of concluding FRSO consultations. We believe the existing frameworks that support the suite of System Operator Incentives will see a continued strong focus on minimising the costs of system operation to our customers, through continuous improvement and innovation in balancing services. The new suite of Forecasting Incentives will bring an added dimension of benefit to stakeholders and consumers alike.

If you would like to discuss this response further, in the first instance please contact Audrey Ramsay (audrey.ramsay@nationalgrid.com or 01189 363633).

Yours sincerely

Cathy McClay
National Grid

APPENDIX 1: PROPOSED LICENSE AMENDMENTS

Key To Proposed Changes	
Blue type	Changed wording proposed
Black type	Suggested deletion
<i>Italic grey</i>	Explanatory text for proposed amendment

Standard Condition C16

*Addition of verb into 1. (c) is required for clarity and aligns with 1. (b) (ii)
Further changes proposed to bring clarity.*

1. (c) **considering** the **likely** impact any action would have on the total system;
1. (h) ensuring that the technical requirements of balancing services do not **unduly** restrict new and existing balancing service providers from competing in **the provision of such** ~~these~~ services; and
1. (i) anticipating future national electricity transmission system requirements by using and developing competitive approaches to procuring balancing services wherever this is in the best interests of current and future **electricity** consumers **in Great Britain**.

Special Condition 4C

4C.1 SOTOC_t means the SO-TO **cost allowance term** ~~Mechanism~~

4C.26 (c) a methodology for the modelling of energy costs. ~~This methodology should also include those ex-ante inputs which may be updated on 1st April 2016 for the Relevant Year 2016/17.~~

The last sentence has no relevance in 2017-18 and has been removed in 4C.26 (a) and (b)

4C.27 The licensee shall, unless the Authority otherwise directs:

- (a) submit by the next working day following this modified condition coming into effect, the SO Methodologies, the SO Models and the Ex-Ante Data to the Authority for approval by xx/xx/xxxx; and

The condition should specify the date by which such documents should be approved by the Authority in order that modelled target costs can be determined.

4C.35 (c) a summary of relevant events ~~in~~ **on** the National Electricity Transmission System resulting in the costs referred to in 4C.35(a); and

4C.37 (a) the calculations of the ~~Incentivised~~ **Incentive** Target Cost are in accordance with the SO Methodologies and SO Models

4C Part M: Definition

Ex-Ante Data		means the set of modelling inputs for the SO Model defined under the SO Methodologies in accordance with paragraph 4C.26(a) as which are to be fixed for the duration of Relevant Year t (except under a Model Inaccuracy modification).
--------------	--	---

Special Condition 4G

4G.2 where:

BSC_t means the allowed revenue derived in Relevant Year t from the Total Costs ~~associated with Black Start~~;

4G.3 & 4G.4

~~and thereafter at 12 monthly intervals (unless otherwise directed by the Authority~~
This is a one year scheme so need for renewal of the document should not be presumed.

4G.5 The Authority shall determine, **within 2 months** following receipt of any of the methodologies referred to in Parts A and B above (“the Methodologies”) whether to approve or reject those Methodologies.

The timeframe within which the Authority is required to approve the methodologies must be provided to provide regulatory certainty given that compliance with the methodologies is linked to the potential disallowance.

4G.13 Within one month after the **end of the Relevant Year to date** ~~on~~ which each Approved Methodology ~~(other than the first one)~~ produced pursuant to Part A and B **relate** ~~is due to be published~~, the licensee shall prepare a report in a form approved by the Authority in respect of the Total Costs the licensee has incurred in Relevant Year t-1.

4G.20 The Authority shall determine, following receipt of an annual **notice report** in accordance with Part E, whether the Total Costs in Relevant Year t-1 ~~associated with Black Start~~ were incurred in accordance with the relevant Approved Methodologies.

4G.22

Restoration Approach		means the method by which the licensee would comply with the Grid Code obligation that the Black Start, the National Electricity Transmission System must incorporate a Black Start Capability.
----------------------	--	--

Propose to reflect words from CC6.3.5 of Grid Code

Special Condition 4H

4H.8 Suggest this should be limited to 2017/18 as it is a 1 year scheme only.

4H.11

Day Ahead National Demand Forecast		means the forecast of National Demand in MW published by the licensee no later than 9:00 hours on the day before the day to which the forecast relates in MW .
---	--	--

Suggest amend each definition in the same manner as outlined above for clarity: National Demand, National Demand Forecasting Error, Two Day Ahead National Demand Forecast, Week Ahead National Demand Forecast.

Special Condition 4J

4J.14 (b) not be funded or not be capable of being funded elsewhere **under this licence**,

4J.20 Lettering needs to be changed to (a) and (b)

4J.24 In relation to the Relevant Year t, the Joint Works Project **allowance** (JWt) for the purposes of paragraph 4J.2 shall be:

- (a) the value determined by the Authority under paragraph 4J.20 (b) above minus any unspent costs notified to the Authority under paragraph 4J.21; or
- (b) ~~in~~ all other cases zero.

4J.27 The SO-TO report shall include at least:

- (a) the details on every project evaluated (above a de minimis threshold of £25,000), **either as Commercial Operational Services or as a Joint Works Project** including the costs and associated savings of those projects

4J.34 The Authority **shall consider the information provided to it under this Part** and will then determine the level of savings or losses incurred **as a consequence of the projects identified in the annual report submitted under this Part** and assign the value of OIPayt for the purposes of paragraph 4J.2 as 10% of the deemed savings or **losses arising from such projects subject** to a cap and floor or ±£1million.

4J.35 The definitions in this condition will have the following meaning:

Commercial Operational		means a service provided to the licensee by SP Transmission Ltd, Scottish Hydro Electric Transmission Plc or any successor company to
-------------------------------	--	---

Services		each with the purpose of lowering the overall costs associated with the procurement and use of balancing services by the licensee system operation costs above these parties obligations under the licence or the STC
Joint Works Projects		means where the licensee and the Transmission Owner agree to a Commercial Operational Services so as to minimise the transmission constraints costs on the national electricity transmission system when the costs are higher than £1,146,800 (in 2009/10 prices);
Outage Change		means a change notified to SP Transmission Ltd or Scottish Hydro Electric Transmission Plc or any successor company to each a Transmission Owner by the licensee to the Outage Plan on or after Week 49, as updated from time to time in accordance with the STC, other than: <ul style="list-style-type: none"> (a) a change to the Outage Plan requested by SP Transmission Ltd or Scottish Hydro Electric Transmission Plc or any successor company to each a Transmission Owner(the “original change”); and (b) such changes notified to the SP Transmission Ltd or Scottish Hydro Electric Transmission Plc or any successor company to each Transmission Owner by the licensee which: <ul style="list-style-type: none"> (i) the licensee and SP Transmission Ltd or Scottish Hydro Electric Transmission Plc or any successor company to each Transmission Owner agree are necessary in order to give effect to the original change; or (ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change, and (c) without prejudice to sub-paragraphs (a) and (b) above, any change to the Outage Plan notified to SP Transmission Ltd or Scottish Hydro Electric Transmission Plc or any successor company to each the Transmission Owner by the licensee which the licensee and SP Transmission Ltd or Scottish Hydro Electric Transmission Plc or any successor company to each the Transmission Owner agree is not an Outage Change under this licence condition (a “non-chargeable outage change”)
Outage Plan		has the meaning used or given in the STC;
Week 49		has the meaning used or given in the STC;

System operation costs are not defined. Reworded to use defined terms.

The SO-TO mechanism will be reflected in an STCP and hence form an “obligation” under the STC to the extent that the ST-TO mechanism is invoked- hence remove term.

Remove limit to transmission constraint costs only.