

To: Ruby Pelling / Company Secretary
National Grid Electricity System Operator Limited
Faraday House, Gallows Hill
Warwick
CV34 6DA

CC: Transmission Owners, Generators, Suppliers,
Traders, Consumers and Other Interested Parties

Email: ESOperformance@Ofgem.gov.uk

Date: 14 September 2022

Dear Colleagues,

Decision to provide Direction to National Grid Electricity System Operator Limited to allow consultation for shorter period than stated in the C16 licence condition

Background

In accordance with Standard Licence Condition ("SLC") C16 of its Electricity Transmission Licence, the Electricity System Operator ("ESO") is required to conduct an annual review of all licence statements, proposing changes as necessary. The licence documents are:

- Procurement Guidelines Statement ("PGS");
- Balancing Principles Statement ("BPS");
- Balancing Services Adjustment Data ("BSAD") Methodology Statement;
- System Management Action Flagging ("SMAF") Methodology Statement;
- Applicable Balancing Services Volume Data ("ABSVD") Methodology Statement.

Additionally, the ESO should promptly seek to revise these documents where there are changes to the methodologies or principles, or if new products or services are to be procured, as approved by the Authority¹.

The ESO is aiming to procure two new products, Demand Flexibility Service ("DFS")² and Winter Contingency Service ("WCS"), to provide additional options for system security over winter 2022/2023. We understand that the ESO views the introduction of these products as prudent steps in ensuring operational security for the coming winter. To provide transparency around how these products would be procured and used, the ESO consulted on changes to the PGS, BPS, SMAF, and ABSVD documents. The consultation ran from 8 August 2022 to 5 September 2022,³ in line with the requirements of SLC C16.

SLC C16 also sets out that the ESO must send us a report on the proposed update of the statements within 7 days of the consultation closing. We received the ESO's report, wherein they outlined that following consultation, they were not in a position to propose changes at this time, with further consultation required on specific additional aspects of the services.

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Note that the use of DFS is subject to regulatory product approval.

³ Details of this consultation are available at: <https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations>

In accordance with sub-paragraph 9(a)(ii) of SLC C16, the ESO should consult Balancing and Settlement Code ("BSC") parties on the proposed revisions and allow them a period of not less than 28 days in which to make representation. SLC C16 sub-paragraph 9(a)(iv) grants the Authority the power to direct the ESO to comply with a different requirement.

Rationale for our decision

We consider that the ESO has consulted with relevant BSC parties for a period not less than 28 days, in line with its obligations under SLC C16 for the major portion of its proposed changes. As there was uncertainty as to the best approach, and as the ESO wished to raise further modifications to the documents (and additionally to the BSAD methodology statement), the ESO has not put forward proposed changes at this time, instead proposing to make further changes.

We recognise that the development of additional products has been necessary, and has occurred at pace. As these further changes are a continuation of previously consulted on proposals, plus the ongoing ESO consultation for updates to the terms and conditions relating to balancing⁴ for the DFS product⁵, it is prudent to allow a shorter period for this consultation.

Further, we consider that there is a balance between consultation and clarity. Given the closeness of winter, the need for the ESO to have statements which accurately reflect the procurement and use of these services is vital. This information needs to be confirmed and made available transparently to industry sooner rather than later, but we also recognise the continued need for the ESO to engage industry through consultation on important aspects of these services.

The Authority's decision

Under the power of direction granted by SLC C16 9(a)(iv), we direct that the ESO can reduce the period required for this follow up consultation. The ESO may instead, for changes related to the two products being introduced for winter 2022/2023 (DFS and WCS), consult with relevant parties for a period not less than 14 days. All other requirements remain extant.

Going forward, we expect the ESO to continue reviewing and updating the SLC C16 documents as required under its SLC C16 obligations to ensure clarity and transparency for market participants and to take into account stakeholder feedback.

Yours sincerely,

James Hill
Senior Policy Manager – Energy Systems Management and Security

⁴ The terms and conditions relating to balancing are required under Article 18 of the Electricity Balancing Guideline, Commission Regulation 2017/2195 (available at: <https://www.legislation.gov.uk/eur/2017/2195>), as amended by UK Statutory Instrument 2019 No. 532 (available at: <https://www.legislation.gov.uk/ukSI/2019/532/contents/made>). Updates to the terms and conditions relating to balancing require a one month consultation.

⁵ The ESO's consultation on the updates to the terms and conditions relating to balancing to introduce the terms for the DFS service runs from 1 September 2022 to 3 October 2022 and is available at: <https://www.nationalgrideso.com/calendar/ebc-article-18-demand-flexibility-terms-and-conditions>

Annex – Direction on Condition C16 in relation to the ESO’s C16 statements

For and on behalf of the Gas and Electricity Markets Authority

DIRECTION PURSUANT TO SUB-PARAGRAPH 9(a)(iv) OF CONDITION C16 OF NATIONAL GRID ELECTRICITY SYSTEM OPERATOR LIMITED’S ELECTRICITY TRANSMISSION LICENCE IN RELATION TO THE PROCUREMENT AND USE OF BALANCING SERVICES

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(1)(b) of the Electricity Act 1989 (“the Act”).
2. Standard Licence Condition (“SLC”) C16 (Procurement and use of balancing services), sub-paragraph 9(a)(iv) allows the Authority to direct NGESO to comply with requirements other than those listed in SLC C16 sub-paragraphs (i), (ii) and/or (iii).
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct the ESO to consult on further proposed changes reflecting updates to their new winter balancing services with relevant Balancing and Settlement Code (“BSC”) parties for a period of not less than 14 days, rather than the 28 days stated in SLC 16 sub-paragraph 9(a)(ii).

Therefore:

In accordance with sub-paragraph 9(a)(iv) of SLC C16, the Authority hereby directs NGESO to consult with relevant BSC parties on proposed changes relating to winter balancing services for a period of not less than 14 days.

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

James Hill

James Hill – Senior Policy Manager
For and on behalf of the Gas and Electricity Markets Authority
14 September 2022