



Making a positive difference  
for energy consumers

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

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Date: 21 October 2022

Dear colleagues,

**Decision to use our power of Direction to require National Grid Electricity System Operator to make revisions to its C16 Statements in relation to updates for the winter contingency service sooner than 28 days and to veto one revision**

**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 revisions as necessary. The C16 statements are:

- Procurement Guidelines Statement ("PGS");
- Balancing Principles Statement ("BPS");
- Balancing Services Adjustment Data ("BSAD") Methodology Statement;
- System Management Action Flagging ("SMAF") Methodology Statement; and
- 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 Authority.<sup>1</sup>

The ESO has introduced a new service, Winter Contingency Service ("WCS"), to provide an additional option for providing system security over winter 2022/2023. We understand that the ESO views the introduction of this service as a prudent step in ensuring operational security for the coming winter.

To provide transparency around how this product would be procured and used, the ESO consulted on provisional updates to the SLC C16 documents earlier this year, in line with the requirements of SLC C16.<sup>2</sup> Following industry feedback, the ESO determined not to progress with those changes. The ESO submitted a report to the Authority in accordance with the SLC C16 requirements, proposing no revisions at that time.

<sup>1</sup> 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.

<sup>2</sup> The first consultation ran from 8 August 2022 to 5 September 2022 and covered proposed revisions to the PGS, BPS, and SMAF and ABSVD methodology statements. Details of this consultation are available at: <https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations>

Due to the pressing need for changes to the BPS, BSAD, SMAF, and ABSVD,<sup>3</sup> the ESO requested that Ofgem provide a direction to the ESO which would allow them to hold a shorter consultation on a modified solution requiring revisions to the statements. The Authority provided a direction for the ESO to hold a consultation of not less than 7 days.<sup>4</sup>

The ESO held this shortened consultation,<sup>5</sup> and then submitted a report to the Authority in line with SLC C16 and our direction. We received this report on 13 October 2022.

The revisions proposed to the statements relate to the following:

- i. Revisions to the BPS to include reference to the WCS, and to remove reference to TERRE.<sup>6</sup>
- ii. Revisions to BSAD Methodology Statement to explain how volumes related to the WCS will be actioned.
- iii. Revisions to the ABSVD Methodology Statement to explain that WCS volumes will be treated under ABSVD.
- iv. Revisions to include details on flagging of WCS actions into the SMAF Methodology Statement.
- v. General housekeeping amendments to keep all four<sup>7</sup> of those statements current and relevant.

### **The Authority's decision**

Our decision is to use our power of direction under C16(9)(b)(ii) to veto one specific revision proposed by the ESO relating to addition of the WCS to the C16 statements. We have also decided to use our power of direction provided under C16(9)(b)(i), the ESO should make these revisions 1 working day after the date of this decision letter, instead of after 28 days of their submission to the Authority.

In assessing proposed revisions submitted by the ESO, we considered responses to both consultations ran by the ESO in relation to these revisions. We have summarised our conclusions below:

- i. Revisions to the BPS to include reference to the WCS, and to remove reference to TERRE.

We recognised that the ESO no longer intends to procure or use replacement reserve through TERRE as they no longer have access to it as a European balancing service. Therefore, removing references to TERRE from these documents as obsolete from current statements is a sensible approach.

Including the WCS into the BPS is a positive step, providing some transparency around the use of that balancing service. We believe that the wording is sufficient to explain how the WCS is to be used in accordance with other balancing services included in the BPS.

We do note however, that several industry respondents requested further clarifications in their responses to the ESO's first consultation on this matter. We encourage the ESO to

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<sup>3</sup> The 'pressing need' to make revisions to these statements arises from the WCS, which went live on 1 October 2022, and presents a risk to calculation of cash-out prices. This set of revisions presented by the ESO are targeted at correcting this anomaly as well as providing clarity and transparency on the procurement and use of the WCS.

<sup>4</sup> Our decision to provide a direction to the ESO to hold a consultation of not less than 7 days for changes relating to this service can be accessed at: <https://www.ofgem.gov.uk/publications/direction-national-grid-electricity-system-operator-limited-pursuant-standard-licence-conditions-c169a-ii-and-iii>

<sup>5</sup> This consultation ran from 5 October 2022 to 12 October 2022. Details of this consultation are available at: <https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations>

<sup>6</sup> TERRE is the Trans-European Replacement Reserve project. More details on this project can be accessed here: [https://www.entsoe.eu/network\\_codes/eb/terre/](https://www.entsoe.eu/network_codes/eb/terre/)

<sup>7</sup> Note that the ESO did not propose any changes to the PGS resulting from this service. The ESO explain that the way that this service has been procured is covered by existing wording in that statement.

consider how information is provided in this (and other documents) in future revisions to ensure that they are providing industry with the best and most transparent possible information.

- ii. Revisions to the BSAD Methodology Statement to explain how volumes related to the WCS will be actioned.

We understand that it is necessary under the terms of the WCS for the ESO to include the volumes delivered under this service in BSAD to avoid a potential issue whereby the £0/MWh acceptance price could otherwise set the cash-out price to £0/MWh (where this is inappropriate). We therefore agree with the ESO's suggestion to include details on how this will occur into the BSAD methodology statement, including acknowledgement that an administrative repricing at £99,999/MWh is suitable as the maximum value allowable in the system, and hence a price that will always allow the system flagged action to be repriced.

After submitting to us, the ESO noted a typographical error within the proposed revised text of the BSAD methodology statement. The suggested text originally provided (and consulted on) was '...priced at £99,999 MWh.' The ESO now suggests that this text should have been '...repriced at £99,999/MWh.'. We understand that the intent of this section was to include the forward slash symbol, and confirmed this through discussion with the ESO following their submission.

While no responses to the SLC C16 consultation drew out this point,<sup>8</sup> we believe that there is sufficient evidence<sup>9</sup> that the forward slash is expected within this statement by the wider industry. We therefore expect the ESO to publish and use the documents going forward with this typographical error corrected.

- iii. Revisions to the ABSVD Methodology Statement to explain that WCS volumes will be treated under ABSVD.

We agree that it was appropriate for the ESO to include WCS volumes into ABSVD and thus including this within the statement was required.

- iv. Revisions to include details on flagging of WCS actions into the SMAF Methodology Statement.

We note that the ESO's proposal to submit the volumes delivered by the WCS through BSAD at an administratively high price is supported by those actions being system flagged. We therefore agree with the ESO's suggestion to include reference to this flagging for the WCS within the SMAF methodology statement.

However, we note that the ESO proposed the following wording:

*All dispatch action of units under the 2022/23 winter contingency service will be tagged as system actions through BSAD.*

We find that the term 'tagged' in this context could be confusing. Through engagement with the ESO following their submission, we understand that their intention is not to 'tag'<sup>10</sup> these actions, but to assign a system flag. We therefore propose to veto the words 'tagged as' as this will avoid any confusion between assigning these system actions through flagging and use of tagging.

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<sup>8</sup> Note that the BSAD methodology statement was only consulted on in the second (shortened) consultation.

<sup>9</sup> For example, responses to BSC modification P447 which seeks to correct an issue with cash-out price calculation following the introduction of the WCS was consulted on, and referred to £99,999/MWh. Responses did not draw this out as an issue. Responses to the consultation on P447 can be found here: <https://www.elexon.co.uk/mod-proposal/p447/>

<sup>10</sup> 'Tagging' actions completely removes both the price and volume of balancing actions so that no part is used in the final calculation, per the BSC Imbalance Pricing Guidance, accessible here: <https://bscdocs.elexon.co.uk/guidance-notes/imbalance-pricing-guidance>

*v. General housekeeping amendments to BPS, BSAD, SMAF and ABSVD statements.*

While the ESO's purpose for this ad-hoc set of proposed revisions to the four statements considered within its submission was to introduce the WCS, the ESO took the opportunity to make some minor housekeeping amendments to the statements as well. The Authority considers that the proposed changes keep the statements current and relevant. They also support the economic and efficient operation of the system, and therefore serve the interests of the consumer. We are pleased that the ESO took this opportunity to update some outdated sections of text, and we encourage continuous review and, where appropriate, revision of the text by the ESO.

*vi. The need for earlier implementation of revisions than usual.*

We recognise that some of the proposals put forward by the ESO to cover the WCS are aimed at avoiding a situation that could produce cash-out prices that do not reflect the real time value of energy. As this issue is live, the ESO should have processes to avoid the risk, and should ensure that these are available transparently to industry through publication of the C16 statements.

We believe that industry has been briefed on this change, and that there is no effort required by market parties to ready themselves following these amendments.

We have therefore determined that making these changes within the 28 day period stated in SLC C16 is appropriate and require the ESO to do so.

Going forward, we expect the ESO to continue reviewing and updating the C16 statements in a timely manner, as required under its SLC C16 obligations to ensure clarity and transparency for all market participants, taking into account stakeholder feedback.

Yours sincerely,

**Adam Gilham**  
**System Operation Principal Policy Advisor**

## **Annex 1 – 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(b)(i) 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(b)(i) allows the Authority to direct NGESO to make revisions on a date earlier than 28 days of submission of its report to the Authority (prepared in accordance with sub-paragraph 9(a)(iii)).
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct that NGESO should make its revisions 1 working day after the date of this Direction.

#### **Therefore:**

In accordance with sub-paragraph 9(b)(i) of SLC C16, the Authority hereby directs NGESO to make revisions to its SLC C16 statements earlier than 28 days from the submission of their report, instead making them 1 working day after the date of this Direction.

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.

Adam Gilham

**Adam Gilham –Principal Policy Advisor**  
**For and on behalf of the Gas and Electricity Markets Authority**  
**21 October 2022**

## **Annex 2 – 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(b)(ii) 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(b)(ii) allows the Authority to direct NGESO to not make a revision in its report to the Authority (prepared in accordance with sub-paragraph 9(a)(iii)).
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct that NGESO should not include the words ‘tagged as’ within its revised statement required under SLC C16(6A).

#### **Therefore:**

In accordance with sub-paragraph 9(b)(ii) of SLC C16, the Authority hereby directs NGESO to not include the words ‘tagged as’ in their proposed revision to the statement required under SLC C16(6A).

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.

Adam Gilham

**Adam Gilham –Principal Policy Advisor**  
**For and on behalf of the Gas and Electricity Markets Authority**  
**21 October 2022**