

To: Jamie Webb / 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: 4 October 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 for updates for its Winter Contingency Service

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 documents, 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 Authority.¹

The ESO has introduced a new service, Winter Contingency Service ("WCS"), to provide an additional option for system security over winter 2022/2023. We understand that the ESO views the introduction of this product 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 C16.²

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, it was not in a position to propose changes.

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 That consultation ran from 8 August 2022 to 5 September 2022. 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.

The ESO has now prepared a revised set of updates to the SLC C16 documents in relation to the WCS following feedback received during their consultation earlier this year. The ESO has submitted a request to us, asking that we provide direction such that no consultation need be conducted on this occasion.

Rationale for our decision

We recognise that the development of this product has been necessary, and has occurred at pace. We consider that the ESO has consulted with relevant BSC parties on an initial set of proposed changes for a period not less than 28 days, in line with its obligations under SLC C16. We also recognise that there is an urgent need to update processes in order to ensure issues for imbalance and cash-out prices do not materialise. As the revised changes are a continuation of previously consulted on proposals, 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 this service 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 services.

We acknowledge that by consulting, the risk identified for cash-out calculation is present should the WCS be called on by the ESO in this period. We understand that the likelihood of calling this plant in the early period of October is low,³ and so the risk of issues calculating cash-out do not outweigh the benefits of consulting industry parties. Our preference would have been for these proposals to be consulted on by the ESO ahead of the WCS entering service.

In line with the urgency of establishing an updated process in order to prevent negative impacts on calculation of cash-out prices, we find that the ESO should support the shorter timeframe by also submitting its report to the Authority in a shorter period than allowed by C16. As a result, we are shortening the maximum period allowed for the preparation of this report, but encourage the ESO to submit within this allowed timeframe if possible.

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 WCS introduced for winter 2022/2023, consult with relevant parties for a period not less than 7 days.

Additionally, under the power of direction granted by SLC C16 9(a)(iv), we direct that the ESO must produce a report to the Authority within 4 days following the consultation.

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.

³ We still expect that should the ESO identify a need for the WCS to be activated in this period that they would do so to ensure system security.

Yours sincerely,

James Hill

Senior Policy Manager – Energy Systems Management and Security

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 a new winter balancing service (winter contingency service) with relevant Balancing and Settlement Code (“BSC”) parties for a period of not less than 7 days, rather than the 28 days stated in SLC C16 sub-paragraph 9(a)(ii).
4. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct the ESO to provide a report on proposed changes not less than 4 days following a consultation conducted in accordance with point 3 herein, rather than the 7 days stated in SLC C16 sub-paragraph 9(a)(iii).

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 the winter contingency service for a period of not less than 7 days and to submit the associated report to the Authority no more than 4 days following completion of the consultation.

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

4 October 2022