



Making a positive difference  
for energy consumers

To: Jonathan Wisdom / Company Secretary  
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Cc: All interested stakeholders

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Date: 20 March 2023

Dear colleagues,

**Decision to use our power of direction in relation to annual revision of National Grid Electricity System Operator's C16 Statements for 2023-24 for Balancing Reserve and the Local Constraint Market**

**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 statements set out under that condition, proposing changes as necessary. The C16 licence condition statements are:

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

Additionally, the ESO should promptly seek to revise these documents where there are changes to their methodologies or principles, or if new products or services are to be procured, as approved by the Authority.<sup>1</sup>

The ESO held an industry forum on 7 November 2022, to engage with stakeholders on potential changes to the C16 Statements and allow industry to offer early challenge. The ESO held an "early consultation" (an informal consultation that does not form part of the C16 Licence consultation but allows the ESO to conduct a more efficient and thorough review) between 18 November and 6 December 2022. The formal consultation (required under the C16 Licence Condition) was held between 16 January and 13 February 2023,<sup>2</sup> and the ESO submitted its annual Report to us on 20 February 2023.

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<sup>1</sup> The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem", "the Authority", "we" and "us" are used interchangeably in this letter.

<sup>2</sup> The C16 early and official consultations are accessible at: <https://www.nationalgrideso.com/industry-information/codes/balancing-settlement-code-bsc/c16-statements-and-consultations>

The main changes proposed by the ESO include:

- i. Changes to the PGS and BPS for Balancing Reserve (“BR”);<sup>3</sup>
- ii. Changes to the ABSVD and BSAD;
- iii. Removal of Winter Contingency Service (“WCS”);
- iv. Changes to the PGS for other services;
- v. Changes to the BPS for other services;
- vi. General housekeeping amendments to keep all statements current and relevant.

## **The Authority’s decision**

Our decision is to use our power under sub-paragraph C16(9)(b)(vi) to direct the ESO to not make changes to the C16 Statements in relation to Balancing Reserve and one other change in relation to the Local Constraint Market (“LCM”),<sup>4</sup> but not to veto any other proposed changes.

In assessing the ESO’s proposal, we have considered the arguments put forward by stakeholders during the industry forum event, and the early and official consultations. We have summarised our conclusions below:

### *i. Changes to the PGS and BPS for Balancing Reserve*

On 8 March 2023, we published our decision<sup>5</sup> to reject the ESO’s proposal to include BR in the terms and conditions related to balancing (“T&C”) required by Article 18 of the EBGL Regulation.<sup>6</sup> In light of this decision, and in accordance with sub-paragraph C16(9)(b)(vi) of its Electricity Transmission Licence, we therefore direct the ESO to not include any references to BR in the C16 Statements.

### *ii. Changes to ABSVD and BSAD*

In addition to the removal the WCS from both of these statements, the ESO has added LCM and MW Dispatch<sup>7</sup> to the list of services. The ESO has also proposed to update ABSVD to reference the treatment of MPANs participating in the LCM for the purpose of submitting ABSVD data.

We note that during the consultation period which included the proposed changes to ABSVD, the ESO did not propose any text for inclusion on data submission for MPANs

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<sup>3</sup> Balancing Reserve is a service proposed by the ESO to fulfil the requirements for synchronised reserve to deliver an increase or decrease in generation within 2 minutes following an instruction. More information is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/reserve-services/balancing-reserve>

<sup>4</sup> Local Constraint Market is a new market designed to access new sources of flexibility to help manage constraints at the Scottish B6 boundary. More information is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/local-constraint-market>

<sup>5</sup> Our 8 March 2023 decision is accessible at: <https://www.ofgem.gov.uk/publications/decision-reject-amendment-terms-and-conditions-related-balancing-relation-proposed-balancing-reserve-service>

<sup>6</sup> Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing. The EBGL Regulation came into force on 18 December 2017. Accessible at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2195>

<sup>7</sup> MW Dispatch a new service designed to compensate distributed energy resources (“DERs”) and battery storage for reducing their output at times of system need. More information on MW Dispatch is accessible at: <https://www.nationalgrideso.com/industry-information/balancing-services/system-security-services/megawatt-dispatch-overview>

participating in the LCM, and thus did not receive industry feedback on the amendments submitted to the Authority. In accordance with sub-paragraph C16(9)(b)(vi) of its Electricity Transmission Licence, we therefore direct the ESO to not include the specification on LCM in ASBVD. For clarity, we still expect the ESO to include LCM in the list of Applicable Balancing Services contracts for the calculation of ABSVD, as proposed during the official consultation.

If appropriate, the ESO should seek to review ABSVD at the next possible opportunity to provide clarity for industry in relation to LCM and ensure that any proposed changes are consulted on in line with its licence obligations.

*iii. Removal of WCS*

The WCS was introduced by the ESO to provide an additional option for providing system security over winter 2022-23. We understand that the ESO's procurement of this service has ceased, and the current contracts expire on 31 March 2023. The ESO has therefore proposed to remove WCS from the C16 statements to provide transparency around balancing actions from 1 April 2023 onward. For clarity, should the ESO need to procure the WCS again in future, this would need to be added back into these statements following a consultation period.

*iv. Changes to the PGS for other services*

In addition to the proposed changes made to accommodate BR, the ESO has proposed to update the PGS for: Net Transfer Capacity ("NTC")<sup>8</sup> to include reference to the GB Commercial Compensation Methodology ("GB CCM");<sup>9</sup> Quick and Slow Reserve; the separation of Dynamic and Static Firm Frequency Response ("FFR") services to provide current information on their procurement mechanisms; Dynamic Moderation ("DM") and Dynamic Regulation ("DR"); new transmission constraint management services, MW Dispatch, Generation Export Management Scheme ("GEMS")<sup>10</sup> and LCM; Optional Downward Flexibility Management ("ODFM"); the Demand Flexibility Service ("DFS"); and, Enhanced Frequency Response ("EFR").

There were three responses to the official C16 consultation, including a joint response with five signatories. These responses concerned the treatment of NTC in the PGS and BPS, as well as the interim GB CCM. We consider that the updates made by the ESO to the PGS accurately reflect how NTC is expected to be procured by including reference to the GB CCM.

Participants in the industry forum also sought clarification from the ESO around the design of the LCM and MW Dispatch services. We consider that the changes to the PGS to include the new transmission constraint services make clear the processes associated with the new products as far as possible.

One stakeholder participating in the industry forum requested further clarification on expected ODFM / downward flexibility requirements. We believe that the changes made

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<sup>8</sup> NTC is a commercial service designed to allow the ESO to ensure system security as a last resort service. It is to be used on a temporary basis ahead of the introduction of a capacity calculation methodology as part of the EU-UK Trade and Cooperation Agreement.

<sup>9</sup> The GB Commercial Compensation Methodology is accessible at:

<https://www.nationalgrideso.com/electricity-transmission/document/191361/download>

<sup>10</sup> Generation Export Management Scheme is an automated dispatch capability for transmission-connected parties in South-West Scotland. More information is accessible at: <https://www.nationalgrideso.com/research-publications/regional-development-programmes>

to the PGS accurately reflect the ESO's expectations for the ODFM service, that a requirement is unlikely but retaining the tool is prudent at this time. We expect the ESO to make clear to industry the long-term future for ODFM, including whether it will be retained (and improved), replaced or become redundant, and continue to include appropriate wording in the C16 statements.

There was one industry response to the ESO's early consultation which sought to clarify the ESO's position on interconnector response. The ESO recognised that it was not certain as to whether it would continue procuring interconnector responses, and therefore has proposed to remove it from the list of 'other response' services which the ESO no longer intends to procure. We agree that this aids clarity and is appropriate until the ESO has more information on its plans for interconnector response reform and has engaged further with industry in this area.

There were no responses to the early and official consultations in relation to any of the other proposed changes to the PGS. We agree that these changes accurately reflect the ESO's procurement intentions for 2023-24, add clarity as to the impact of new services, and are a positive addition. We note that following our decision<sup>11</sup> on 10 February 2023, Static FFR is expected to be procured in day-ahead timeframes from 1 April 2023, and this is appropriately reflected in this update to the PGS.

*v. Changes to the BPS for other services*

In addition to the proposed changes made to accommodate BR and remove the WCS, the ESO has proposed to update the BPS for: NTC, to include reference to the GB CCM and clarify the circumstances surrounding the use of the service; Control Phase Pre-gate closure; GEMS and MW Dispatch; and DM and DR.

The ESO received significant stakeholder feedback relating to NTC. This included information that lies outside the scope of this C16 update.<sup>12</sup> However, we still expect the ESO to address the concerns raised in the feedback, as necessary, through the appropriate fora, and return to update the C16 documentation later if required.

For the purposes of their C16 statements, the ESO has included in the BPS text relevant to NTC application and its role in system balancing, specifically reiterating the point that this should not be used in preference to alternative actions. We believe this is an appropriate addition which adds some clarity to ESO balancing principles and is reflective of the status quo.

Another response questioned whether there should still be a requirement for NTC more broadly in light of the development of market-based services such as Dynamic Containment, suggesting that this reduces the need for NTC for local reasons. We also note that the ESO requires a derogation<sup>13</sup> from the requirements of SLC C28 to use NTC in its current form, which is set to expire by 1 May 2023. In response, the ESO has clarified that NTC will continue to be required to ensure the safe and secure operation of

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<sup>11</sup> Our 10 February 2023 decision is accessible at: <https://www.ofgem.gov.uk/publications/decision-static-firm-frequency-response-relation-amendment-terms-and-conditions-relating-balancing>

<sup>12</sup> This included comments around the suitability of the compensation methodology for all scenarios, and concerns over ESO reporting transparency in relation to NTC application.

<sup>13</sup> Our 23 August 2021 decision is accessible at: <https://www.ofgem.gov.uk/publications/decision-grant-national-grid-electricity-system-operator-derogation-standard-licence-condition-c28-procure-net-transfer-capacity-non-market-based-manner>

the system for the foreseeable future and that they intend to procure NTC beyond 1 May 2023 subject to the extension of their derogation.<sup>14</sup>

*vi. General housekeeping changes*

The ESO also proposed some minor housekeeping updates to all statements. The Authority considers that the proposed housekeeping 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 has taken this opportunity to update some outdated sections of text and encourage continuous review and, where appropriate, revision of the text by the ESO.

Following the submission of its annual Report to us, we requested that the ESO make some minor wording changes to the PGS to ensure uniformity across the document and add clarity. The ESO made these changes and resubmitted the PGS to us on 13 March 2023.

### **Next Steps**

We expect the ESO to publish the updated version of each C16 statement by 1 April 2023, and to follow the outlined methodologies effective from that date.

We expect the ESO to continue reviewing the C16 licence documents as required under its C16 licence obligations to ensure clarity and transparency for market participants.

We expect the ESO to significantly improve transparency to ensure market confidence that NTC is being procured in a consistent, fair and non-discriminatory manner. We expect the ESO to engage with industry on the GB CCM provisions where appropriate to ensure that it continues to be fit for purpose.

The ESO has further committed to engage with TSOs on NTC beyond the C16 consultation, including a commitment to action the feedback it has received. The ESO should continue to provide full transparency on procurement of all balancing services to all market participants.

If you have any queries regarding the information contained in this letter, please contact James Hill ([James.Hill@Ofgem.gov.uk](mailto:James.Hill@Ofgem.gov.uk)).

Yours sincerely,

### **Adam Gilham**

System Operation Principal Policy Advisor – Energy Systems Management and Security  
*For and on behalf of the Gas and Electricity Markets Authority*

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<sup>14</sup> This would be subject to approval by the Authority, and this C16 decision in no way fetters the discretion of the Authority's consideration of extending the derogation, noting that the ESO can procure NTC beyond 1 April 2023 under its current derogation.

## **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 PARAGRAPH 9 OF STANDARD LICENCE 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)(vi) allows the Authority to direct NGESO not to make revisions to the statements prepared pursuant to paragraphs 4(a), 6(a), 7(b)(iii), 7A(b)(ii) and 8(b)(iii).
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct the ESO not to include the proposed revisions for Balancing Reserve and one paragraph in the Applicable Balancing Services Volume Data Methodology Statement for the Local Constraint Market.

#### **Therefore:**

In accordance with paragraph 9(b)(vi) of SLC C16, the Authority hereby directs NGESO to make the changes proposed to the Procurement Guidelines Statement and Balancing Principles Statement but without reference to Balancing Reserve, and to make the changes to the Applicable Balancing Services Volume Data Methodology Statement without the paragraph on the treatment of MPANs participating in the Local Constraint Market.

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

**System Operation Principal Policy Advisor – Energy Systems Management and Security  
For and on behalf of the Gas and Electricity Markets Authority  
20 March 2023**