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28 March 2008

Dear Duncan

REVIEW OF THE GRID CODE : DECISION AND NOTICE IN RELATION TO CONSULTATION F/07 (Current Sourced DC Links)

The Gas and Electricity Markets Authority (the "Authority")¹ has carefully considered the changes that NGET² has proposed to its Grid Code as set out in the report to the Authority arising from consultation F/07 (Current Sourced DC Links)³ that has been submitted to it for approval.

The Authority has decided to approve the proposed changes to the Licensee's Grid Code (the "Grid Code") as set out in Appendix A of the report to the Authority arising out of Consultation F/07.

This document explains the background to the proposals and sets out the Authority's reasons for its decision to approve these changes to the Grid Code. This letter constitutes notice by the Authority under Section 49A of the Electricity Act 1989 in relation to this decision.

Background to the proposed changes to NGET's Grid Code

NGET has proposed changes to the reactive power capability requirements for high voltage direct current (HVDC) interconnectors that are defined in CC.6.3.2(b) of the Grid Code. NGET advised that the current Grid Code requirement does not properly reflect the

¹ Ofgem is the office of the Authority. The terms "we", "Ofgem" and "the Authority" are used interchangeably in this letter.

² National Grid Electricity Transmission plc

³ Report from NGET – Consultation Reference F/07, Issue 1, Date of Issue 29 Feb 2008.
<http://www.nationalgrid.com/NR/rdonlyres/9BFEA52D-A79B-4B3B-8AE6-943DD040F3D4/23885/ReporttotheAuthorityF07.pdf>.

recommendation made by the Grid Code Review Panel's HVDC Interconnectors working group (the 'Working Group'). NGET further advised that the Working Group's recommendation was intended to be reflected in the H/04 Grid Code change proposal.

NGET noted that the inconsistency in CC.6.3.2(b) of the Grid Code arose as a result of a drafting error in the H/04 Grid Code change proposal. This F/07 Grid Code change proposal would align the Grid code requirements with the Working Group's recommendation.

NGET received three responses to Consultation F/07 from authorised electricity operators. NGET reported that:

- All respondents were supportive of the proposed change to CC.6.3.2(b) of the Grid Code.
- One respondent suggested that the proposed change to CC.6.3.2(b) of the Grid Code could be clarified to explain that requirements would be agreed before being specified in a bilateral agreement.

Ofgem also notes the following points raised by respondents and NGET:

- One respondent considered that the proposed change was a pragmatic approach that would better meet the requirements of the Grid Code.
- NGET agrees that steady state tolerance requirements for HVDC interconnectors would be discussed with the relevant party and wherever possible, agreed before being specified in a bilateral agreement in line with NGET's normal processes. However, NGET noted that if such prior agreement could not be reached, it was still obliged by its transmission licence to make an offer (which would include a bilateral agreement) to the applicant.
- NGET considers that the proposed text for CC.6.3.2(b) of the Grid Code is consistent with other Grid Code references to site specific conditions that are defined in a bilateral agreement.
- NGET does not consider that the cumulative effect of the change to CC.6.3.2(b) of the Grid Code would have an adverse impact on the GB transmission system.
- NGET advised that the proposed Grid Code change will remove an undue restriction on the design of HVC interconnectors.

NGET noted in its report to the Authority that it had not amended the drafting of the proposed Grid Code changes to take account of the comments received from one respondent relating to clarification requested.

NGET's recommendation

In its report⁴ to the Authority on Consultation F/07 NGET set out the drafting for proposed changes to the Grid Code. It recommended that the Authority approved the proposed changes.

NGET explained that it considers that the proposed Grid Code change would better facilitate:

- the development, maintenance and operation of an efficient, co-ordinated and economical system for the transmission of electricity, and
- competition in the generation and supply of electricity.

⁴ As required by C14.2.a

Ofgem's view

Grid Code changes require Authority approval under standard condition C14(3) of the Transmission Licence. Having carefully considered the NGET's report on the proposed changes, Ofgem considers that, having had regard to the licensee's obligations⁵ set out in condition C14(1)(b) of the Transmission Licence ("the obligations") and Ofgem's wider statutory duties⁶, that the proposed changes to the Grid Code should be approved by the Authority. Ofgem's reasons for reaching this decision are outlined below.

We consider that it is important that the Grid code accurately defines capability requirements for connections to the GB transmission system. We acknowledge that the capability requirements need to properly reflect different types of connection. We note that currently, CC.6.3.2(b) of the Grid Code defines a generic capability requirement that applies to Non-Synchronous Generating Units, DC Converters and Power Park Modules. However we note that this was an unintended consequence of an error in the drafting of the H/04 change proposal.

We note that the Working Group considered capability requirements for HVDC interconnectors. We further note that the H/04 change proposal was intended to incorporate the recommendations from the Working Group in respect of HVDC interconnectors. We recognise that the current CC.6.3.2(b) of the Grid Code does not reflect the Working Group's recommendation. We consider that the F/07 Grid Code change proposal would better align the Grid Code with the Working Group's recommendation.

We note the support for the Grid Code to refer to a site specific requirement defined in a bilateral agreement between NGET and the relevant party. We acknowledge that the existing generic requirement in CC.6.3.2(b) of the Grid Code, which was not intended to apply to HVDC interconnectors, may unduly restrict design flexibility which could impair the efficiency of HVDC interconnector connections and therefore the development of the GB transmission system. We therefore agree with NGET that the F/07 Grid Code change proposal will better facilitate:

- the development, maintenance and operation of an efficient, co-ordinated and economical system for the transmission of electricity, and
- competition in the generation and supply of electricity.

The Authority's decision

Based on the reasons set out above the Authority has therefore decided to approve the Grid Code changes set out in Appendix A of the report submitted to the Authority arising from Consultation F/07 (Current Sourced DC Links).

⁵ The licensee's transmission licence defines the Grid Code objectives as follows:

- (i) to permit the development, maintenance and operation of an efficient, co-ordinated and economical system for the transmission of electricity;
- (ii) to facilitate competition in the generation and supply of electricity (and without limiting the foregoing, to facilitate the GB transmission system being made available to persons authorised to supply or generate electricity on terms which neither prevent nor restrict competition in the supply or generation of electricity); and
- (iii) subject to sub-paragraphs (i) and (ii), to promote the security and efficiency of the electricity generation, transmission and distribution systems in Great Britain taken as a whole.

⁶ Ofgem's statutory duties are wider than the matters that the NGET has to take into consideration and include amongst other things a duty to have regard to social and environmental guidance provided by Ofgem to the government.

The implementation date for these Grid Code changes is 1 April 2008.

Please do not hesitate to contact me on the above number if you have any queries in relation to the issues raised in this letter or alternatively contact Bridget Morgan on 020 7901 7080.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Feather', is positioned above the printed name and title.

Mark Feather

Director, Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose by the Authority

cc: Richard Dunn, GCRP Secretary (by email - richard.dunn@uk.ngrid.com)