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13 June 2008

Dear Duncan

**REVIEW OF THE GRID CODE : DECISION AND NOTICE IN RELATION TO
CONSULTATION A/08 (Emergency Instruction to De-Energise)**

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 A/08 (Emergency Instruction to De-Energise)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 the Appendix A of the report to the Authority arising out of Consultation A/08.

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.

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 A/08, Issue 1, Date of Issue 12 May 2008
<http://www.nationalgrid.com/NR/rdonlyres/4DB88E52-8F71-40C7-BEAA-AC44FB79A09B/25595/ReporttotheAuthorityA08.pdf>

Background to the proposed changes to NGET's Grid Code

NGET has proposed changes to the CUSC to define commercial arrangements should NGET in limited circumstances, need to issue an Emergency Instruction to a generator to de-energise (CAP144). The A/08 Grid Code change proposal sets out the changes to the Grid Code that would be required as a consequence of the CAP144 changes to the CUSC being implemented.

NGET has proposed changes to Balancing Code 2 and the Glossary and Definitions of the Grid Code to define a new type of Emergency Instruction (Emergency De-Energisation Instruction).

NGET received five responses to Consultation A/08 from authorised electricity operators. NGET reported that:

- Respondents were generally supportive of the proposed Grid Code changes.
- One respondent stressed the importance of ensuring that any instruction given to a generator in an emergency is clear and unambiguous and that the obligations are defined in the relevant Industry Code.
- One respondent queried the need for a separate form of Emergency Instruction.

We note that respondents made the following points:

- NGET should in general ensure that any consequential change proposals are progressed concurrently with the initial change proposal.
- Welcomed our view that CAP144 and A/08 are linked and should be considered together.
- There is a need to develop further Grid Code and CUSC change proposals if A/08 and CAP144 are implemented to improve the clarity of the new Emergency Instruction arrangements.
- Concern that the proposed change would remove the clarity and simplicity of the Emergency Instruction.
- The discipline between the content of the Grid Code and the CUSC should be maintained.

NGET noted in its report to the Authority that it had amended the drafting of the proposed Grid Code changes to take account of the comments received from respondents relating to the clarity of the drafting, but that it was not able to resolve all of the objections raised.

NGET's recommendation

In its report⁴ to the Authority on Consultation A/08 NGET set out the drafting for proposed changes to the Grid Code. It recommended that the Authority approved the proposed changes.

NGET advised that this change proposal in interactive with another Grid Code change proposal (consultation G/07 – Black Start). NGET also included draft legal text in the A/08 report to the Authority that shows the changes needed to implement the A/08 change proposal should this decision be made after the G/07 change proposal has been implemented.

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 note the importance of arrangements for emergency situations being defined for the security of the electricity system as a whole. We consider that the proposed change will clarify the process that will be followed should NGET need to issue an instruction to de-energise in specific circumstances. We note that the proposed process aligns with the commercial arrangements that will be introduced in the CUSC when CAP144 is implemented. CAP144 was approved by the Authority earlier today.

We note the concern of one respondent that the proposal to differentiate, in operational timescales, between types of Emergency Instruction may remove simplicity from the current Grid Code arrangements. We also note the views of another respondent in respect of the need to ensure that instructions given to a generator in an emergency are clear and unambiguous. We recognise that the proposed change will introduce a new set of arrangements which will increase complexity. However, we consider that there are greater benefits from improving the definition of the current arrangements, since it will ensure generators are immediately made aware of the reason to de-energise.

We note that respondents raised concerns about governance issues. In particular, these respondents considered that some aspects of CAP144 were more properly Grid Code (technical) matters and should not have been considered under the CUSC. We observe that NGET's transmission licence (standard conditions C14 and C10) set out the intended scope of the Grid Code and the CUSC respectively. We also acknowledge that NGET and respondents to consultation A/08 have recognised the value of maintaining robust governance arrangements. We welcome the commitment of all parties to further review of the Emergency Instruction to De-energise arrangements should CAP144 and A/08 be approved.

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 A/08 (Emergency Instruction to De-Energise).

The implementation date for these Grid Code changes is 27 June 2008.

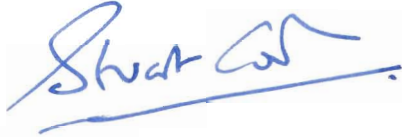
⁵ The licensee's transmission licence defines the Grid Code objectives as follows:

- (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.

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 blue ink, appearing to read 'Stuart Cook', with a horizontal line drawn underneath.

Stuart Cook
Director, Transmission

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

cc: Richard Dunn, GCRP Secretary