



All stakeholders

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18 December 2008

Dear Colleague

Request for derogation from standard condition C14 (Grid Code) ('SLC C14') of the electricity transmission licence of National Grid Electricity Transmission plc ('NGET') – 167/08

On 3 November 2003, Ofgem received a request from NGET for a time-limited derogation under SLC 14, specifically the obligation to require compliance with certain Grid Code obligations in respect of National Grid Grain LNG's ('NG GLNG') non-embedded customer site at Grain ('the Grain site')¹.

This letter:

- explains why the Authority decided to grant a time-limited derogation ('the derogation') on 11 November 2008 and in parallel to undertake a consultation concerning the grant of the derogation
- seeks views on whether respondents consider there is any potential for undue discrimination or potential commercial advantage to arise as a result of the derogation, noting that the non-embedded customer in question is within the same corporate group as NGET, and
- seeks views on whether there are any other reasons why the Authority should consider revoking or not-extending the derogation should a more enduring derogation be applied for.

Background

Grid Code Operating Code ('OC') 6.6 requires that users install the necessary equipment to enable automatic low frequency demand disconnection ('LFDD') in order to limit the consequences of a major loss of generation or an event on the system. OC 6.6.6 sets out the relevant obligations for network operators (a class of user that includes non-embedded customers).

In its 3 November 2008 request for a derogation, NGET advised that the OC 6.6 compliance issue has arisen in this instance because automatic LFDD capability had not been provided at the Grain site, a 100MW demand connection with a commissioning date of 9 November 2008.

¹ This derogation request relates only to NGET's licence obligations. The non-embedded customer is not licensed and therefore has no licence obligation to comply with the Grid Code against which a derogation could be granted.

The Authority understands that NG GLNG does not view the installation of LFDD as appropriate to its operation, and that it considers that such an installation at the Grain site may jeopardise the operation of the gas system during an electricity system incident. We note that in turn, this might have an adverse impact on the operation of gas generation plant with the potential of creating further problems on the electricity system.

NGET requested a time-limited derogation against OC 6.6.6 on the basis that it intends to work with NG GLNG ahead of engineering week 24 of 2009 (week commencing 8 June 2009) to identify any options under which NG GLNG may be able to operate whilst meeting Grid Code obligations in respect of providing automatic LFDD capability.

The Authority's decision

On 11 November 2008, the Authority advised NGET of its decision to grant the derogation to expire on the earlier of 12 June 2009 and the date, if any, upon which the Authority exercises its right to revoke the derogation. A copy of the derogation, together with the letter setting out the Authority's reasons for its decision, is available on Ofgem's electronic public register (ePR)².

The Authority first became aware of this compliance issue in late October 2008. The request for a derogation was submitted on 3 November 2008, with the Grain site due to commission on 9 November 2008.

In granting the derogation, the Authority noted that, in terms of the timing of the request, our guidance³ advises licensees to give as much notice as possible when requesting derogations. The guidance notes that the reason for this is that the Authority will not normally grant a derogation unless it is satisfied that the request is justified.

The Authority noted from the information provided that:

- NGET does not consider that a time limited derogation would have an operational impact on the transmission system; and
- NGET does not consider that the lack of automatic LFDD when NG GLNG is first connected is inconsistent with NGET's broader application of LFDD services from users.

Further we noted that this electricity supply is required to provide power to support the expansion at the Isle of Grain LNG terminal, and consider that a delay in connecting NG GLNG could have a significant impact on security of gas supply and ultimately therefore on consumers.

However, the Authority also noted that, in the time available, it had not been able to satisfy itself fully that it would be appropriate to issue a derogation on an unconditional basis for the time period sought in this case. For example, we had not been able to satisfy ourselves, in the time available, that NGET's request for a derogation in this circumstance is consistent with SLC C7 (Prohibition on discriminating between users) of NGET's transmission licence. (In this regard, we note that the non-embedded customer in question is within the same corporate group as NGET). We are also aware that there are other issues relevant to the request, such as potential commercial advantage, which we had not been able to assess fully.

The Authority decided to grant the derogation, and in parallel undertake a consultation concerning the grant of this derogation with a view to determining if there is any reason to revoke or not extend the derogation should a more enduring derogation be applied for.

²<http://epr.ofgem.gov.uk/index.php?pk=folder240130>

³http://ofgem2.ulcc.ac.uk/temp/ofgem/cache/cmsattach/4888_Derogation_Guidance_Note_21oct03.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/assetriskmanagement

The Authority may exercise its right to revoke the derogation if it:

- (a) considers that the existence or continued existence of the derogation is inconsistent or incompatible with any requirement or condition imposed on NGET by its licence or applicable legislation; or
- (b) having undertaken the consultation exercise described above, considers that the continued existence of the derogation is inconsistent or incompatible with the Authority's principal objective or statutory duties.

Where the revocation is made on the basis of (a) above, the Authority will also consider whether any enforcement action is necessary or appropriate.

Views sought

NGET stated in its 3 November request that it considers that the generic requirements for LFDD within user systems remain critical to the overall operation of the GB Transmission System. The Authority agrees that it is essential to have appropriate arrangements in place to limit the consequences of a major loss of generation or an event on the system, and that such arrangements are applied consistently. We have asked NGET to review the relevant Grid Code obligations to ensure that they properly reflect system requirements.

We note that there is a cost to users in providing such equipment, both in terms of installation costs and further potential costs arising as a result of reduced levels of power supply in the event of automatic LFDD protection scheme operating.

We note that there could be additional risks to the continuity of supply for a user associated with an automatic LFDD protection scheme. We also note that NG GLNG does not view the installation of LFDD as appropriate to its operation. We await the outcome of the work NGET is undertaking within the timescales of the time-limited derogation to clarify the ability and appropriate extent to which NG GLNG may operate under an LFDD scheme. Should NGET consider it appropriate to apply for a more enduring derogation, then subject to the responses to this consultation and further information available at the time of that application, we may issue a further consultation.

The purpose of this consultation is to seek respondents' views on potential adverse impacts of the time limited derogation that the Authority has already granted and more generally on a more enduring derogation. We would welcome respondents' views on the following:

- i. Do respondents consider that NGET's treatment of NG GLNG in this instance is consistent with NGET's obligations under SLC C7 (Prohibition on discriminating between users) of its transmission licence? For example, are respondents aware of other similar non-embedded customers that have not been treated in a consistent manner?
- ii. Have respondents identified any scope for commercial advantage to NG GLNG relative to other similar non-embedded customers as a result of the time-limited derogation?
- iii. Are there any other reasons why the Authority should consider revoking or not-extending the derogation should a more enduring derogation be applied for?

Next steps

Please address responses by email to lesley.nugent@ofgem.gov.uk, or by post to 70 West Regent Street, Glasgow, G2 2QZ. We would welcome responses by 5 February 2009.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart Cook', with a long horizontal line extending from the end of the signature.

**Stuart Cook,
Director, Transmission**