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Mr David Smith
GCRP Chairman
National Grid Electricity Transmission plc
National Grid Transco House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Your Ref:
Our Ref: blm / I09 004
Direct Dial: 020 7901 7009
Email: stuart.cook@ofgem.gov.uk

19 March 2009

Dear David,

**REVIEW OF THE GRID CODE : DECISION AND NOTICE IN RELATION TO
CONSULTATION E/08 (Grid Code Requirements for Forecast Generation Output
for Embedded Exemptable Large Power Stations)**

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 E/08 (Grid Code Requirements for Forecast Generation Output for Embedded Exemptable Large Power Stations)³ that has been submitted to it for approval.

The Authority has decided to reject 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 E/08.

This document explains the background to the proposals and sets out the Authority's reasons for its decision to reject these changes to the Grid Code.

Background to the proposed changes to NGET's Grid Code

NGET has proposed changes to the Planning Code and Data Registration Code of the Grid Code to require network operators to provide, on an annual basis, forecast output

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 E/08, Issue 1.0, Date of Issue 12 Feb 2009.
http://www.nationalgrid.com/NR/rdonlyres/6E5F7C91-8F29-455F-8826-87E6D8D33258/31945/ReporttotheAuthorityE08_website.pdf.

information to NGET for the time of GB transmission system peak demand in respect of embedded exemptable large power stations ('EELPS').

NGET considers that the information is required to improve the basis of NGET's modelling of EELPS in the DC Load Flow Incremental Cost Related Price (DCLF ICPR) Transport Model (the 'Transport Model'). NGET also considers that the proposed Grid Code changes will rectify the impact on the Transport Model of the regional difference in the definition of Large Power Stations found in the Grid Code.

NGET considers that the proposed Grid Code changes will codify current, ad-hoc arrangements that have been put in place with relevant network operators. NGET notes the request from these network operators to formalise data submission requirements. NGET advises that:

- The Transport Model is based on SYS⁴ data.
- SYS data does not include forecast generation output data for EELPS at the time of GB transmission system peak demand.
- NGET models generation liable for transmission charges discretely and treats other generators as negative demand for the purposes of the Transport Model.
- NGET considers that EELPS should be treated as negative demand for the purposes of the Transport Model.

NGET considers that network operators in Scotland are well placed to provide information in respect of EELPS as information can be obtained by the Network Operator under the Distribution Code.

NGET advised that the E/08 Grid Code changes would:

- Have no adverse impact on the GB transmission system.
- Have no additional environmental impact.
- Minimise additional administrative burden on users.

NGET received four⁵ responses to Consultation E/08 from authorised electricity operators. NGET reported that all respondents queried the appropriateness of the proposed Grid Code changes, given the data in respect of EELPS is already available to NGET directly from generators.

We note that respondents:

- Queried whether the proposed Grid Code changes are appropriate as generators are required to have a contract with NGET in respect of EELPS in Scotland.
- Provided detailed drafting comments.
- Noted that the proposed changes would increase the workload and have an impact on the time required by network operators in Scotland to prepare the annual week 24 submission to NGET (made in accordance with the Grid Code).

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 detailed drafting comments received from respondents.

NGET's recommendation

⁴ Seven Year Statement

⁵ One response was submitted on a confidential basis.

In its report⁶ to the Authority on Consultation E/08 NGET set out the drafting for proposed changes to the Grid Code. It recommended that the Authority approved the proposed changes.

NGET also noted that if the E/08 Grid code changes are not approved then a formal review of NGET's Charging Methodologies Statement may be required.

Ofgem's view

Grid Code changes require Authority approval under standard condition C14(3) of the Transmission Licence. Having carefully considered the NGET report on the proposed changes, Ofgem considers that, having had regard to the licensee's obligations⁷ set out in condition C14(1)(b) of the Transmission Licence ("the obligations") and Ofgem's wider statutory duties⁸, that the proposed changes to the Grid Code should not be approved by the Authority. Ofgem's reasons for reaching this decision are outlined below.

We acknowledge that improvement in the accuracy of the representation of the GB transmission system in the Transport Model will more appropriately inform the allocation of transmission network use of system charges and therefore facilitate competition in generation and supply of electricity. In principle we are supportive of such developments within the transmission arrangements.

We note that both distribution licensees that would be affected by the E/08 Grid Code change proposals have expressed reservations about the impact on the time required to prepare annual data submissions for NGET (as required by the Grid Code). We also note the concern raised by a generator representative about the appropriateness of a network operator providing forecast output data for EELPS.

We are concerned by the lack of evidence provided by NGET in its report to the Authority to support the proposed new network operator Grid Code obligations. In particular, it is not clear to us whether any alternative options were investigated by NGET. We would expect that NGET would have considered options for collecting information directly from generators in respect of EELPS, noting that NGET has contractual agreements with the relevant generator in respect of each EELPS. We would expect NGET to set out why alternative arrangements would be less transparent or less effective than the changes proposed. We note that when introduced as part of BETTA⁹, the principal purpose of the BELLA¹⁰ was to enable NGET to access information about an EELPS that is necessary for the operation of the GB transmission system, directly from the generator.

⁶ As required by C14.2.a

⁷ 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.

⁸ 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.

⁹ British Electricity Trading and Transmission Arrangements

¹⁰ Bilateral Embedded Licence exemptable Large power station Agreement

We note the references made by NGET in its report to the Authority to the Distribution Code. However we are not aware that the information required to enable a network operator in Scotland to comply with the proposed Grid Code requirements set out in E/08 forms part of the current Distribution Code information provision obligations relevant to EELPS.

We are unclear about the dependency between our decision in respect of E/08 and a possible need for a formal review of NGET's Charging Methodologies Statement. However we note that NGET has licence obligations to keep both the Grid Code and its charging methodologies statements under review.

The Authority's decision

Based on the reasons set out above the Authority has therefore decided to reject the Grid Code changes set out in Appendix A of the report submitted to the Authority arising from Consultation E/08 (Grid Code Requirements for Forecast Generation Output for Embedded Exemptable Large Power Stations).

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

Stuart Cook
Director, Transmission

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

cc: Richard Dunn, GCRP Secretary