



System Operators, Transmission
and Transportation System
Owners, Generators, Shippers,
Suppliers, Customers and Other
Interested Parties

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Date: 8 July 2009

Dear Colleague

Collective Licence Modification: Notice of Proposed Modifications of Standard Licence Condition C16 of the Electricity Transmission Licence under Section 11A of the Electricity Act 1989¹

The Gas and Electricity Markets Authority ("the Authority") is seeking representations or objections to the proposed modifications of Standard Licence Condition C16 ("SLC C16") of the Electricity Transmission Licence ("the licence") under section 11A of the Electricity Act 1989 ("the Act"). This collective licence modification is needed to support implementation of Balancing and Settlement Code ("BSC") Alternative Modification P217A ("P217A") which the Authority approved on 16 October 2008 and is due to be implemented on 5 November 2009².

The proposed modifications to the licence are required to support improvements to the electricity balancing system. These improvements will help to ensure the main Energy Imbalance Price that Parties are liable to pay when they use the electricity transmission system reflects the costs of energy balancing actions taken by National Grid Electricity Transmission ("NGET") to balance the system in its role as the operator of the national electricity transmission system³, instead of system balancing actions. The effect of P217A will be to reduce the effect of system pollution by explicitly removing constraint actions identified by NGET from the cash-out price calculation, which in turn should lead to more accurate energy imbalance price signals. The Authority believes that this will help NGET manage the transmission system in an efficient, economic and co-ordinated manner and facilitate competition in the generation, supply, sale and purchase of electricity.

To support the implementation of P217A, modifications are required to SLC C16 ("Procurement and use of balancing services") of the licence in accordance with the provisions of Section 11A of the Act. SLC C16 sets out how NGET in its capacity as the national SO must produce methodologies and statements as to how it will procure and make use of the services it uses to balance the electricity system. Additionally, once the appropriate amendments to SLC C16 have been made NGET will be required to establish a

¹ This letter, the accompanying Notice and Schedule replace the letter, the accompanying Notice and Schedule placed on Ofgem's website on 23 June 2009. These documents were replaced as they did not fully reflect the changes brought about to SLC C16 by the "Offshore Transmission Go Active" modifications made by the Secretary of State for the Department of Energy and Climate Change on 24 June 2009.

² Further information on P217A can be found at the following link: www.elexon.co.uk

³ Alternatively referred to as the national System Operator ("SO").

system management action flagging methodology, and prepare a statement of the system management action flagging methodology. NGET is required to consult on the statement of the methodology. The statement and methodology will then need to be approved by the Authority.

The attached statutory Notice and Schedule under section 11A of the Act specifies a period of not less than 28 days during which time relevant licence holders⁴ and interested parties can make objections or representations to the proposed collective licence modification.

To support the implementation of P217A, changes are also required to the Balancing Services Adjustment Data ("BSAD") methodology, and NGET will be consulting on such changes once an appropriate amendment to SLC C16 has been made.

On 24 June 2009 (the "Offshore Transmission Go Active" date), the Secretary of State made changes under sections 90 and 91 of the Energy Act 2004 to the licence and industry codes, which he considered appropriate for offshore transmission⁵. These changes included extending NGET's SO role offshore and associated amendments to SLC C16. We note that SLC C16 and the BSC now apply in all parts of the national electricity transmission system operator area. Having considered these changes we consider that the proposed collective licence modification in the attached Schedule to the Notice should be made.

The attached Notice invites representations on or objections to the proposed collective licence modification by 5 August 2009.

Yours sincerely,

Ian Marlee
Director, Trading Arrangements

⁴ For the purposes of this collective licence modification proposal NGET is the only "relevant licence holder" within the meaning of section 11A (10)(b) of the Electricity Act 1989 of an Electricity Transmission Licence with SLC C16 "switched on" for the purposes of its role as the national System Operator

⁵ The relevant decision notices were published by DECC and are available at <http://www.berr.gov.uk/energy/sources/renewables/policy/offshore-transmission/page51872.html>.