

COLLECTIVE LICENCE MODIFICATION

NOTICE OF PROPOSED MODIFICATIONS OF STANDARD LICENCE CONDITION C16 OF THE ELECTRICITY TRANSMISSION LICENCE UNDER SECTION 11A OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (“the Authority”) hereby gives notice pursuant to section 11A (3) of the Electricity Act 1989 (“the Act”) as follows:

1. The Authority proposes to modify all electricity transmission licences granted or treated as granted under section 6 (1)(b) of the Act by amending Standard Licence Condition C16 (“SLC C16”) (“Procurement and use of balancing services”) in accordance with the Schedule to this Notice.
2. National Grid Electricity Transmission plc (“NGET”) holds an Electricity Transmission Licence (“the licence”) with SLC C16 switched on for the purposes of its role as the operator of the national electricity transmission system.
3. NGET, in its capacity as the operator of the national electricity transmission system, uses the Balancing Mechanism to resolve both energy imbalances and system imbalances, and the Balancing and Settlement Code (“BSC”)¹ requires rules to extract the cost of energy balancing from the overall costs.
4. The proposed licence modifications are intended to facilitate the implementation of Alternative Modification P217A (“P217A”)² by seeking to address the problem of “system pollution”, which has been recognised by the industry as an issue with the current arrangements for some time³. This is where cash-out prices reflect some of the costs of system balancing actions (e.g. actions taken to resolve transmission constraints) rather than purely energy balancing actions (e.g. actions taken purely to resolve an overall supply-demand imbalance). It is estimated that the cost of ‘system pollution’ to consumers could be as high as £37m annually⁴. P217A seeks to improve the Main Energy Imbalance Price calculation by introducing a methodology for “flagging”⁵ Bid Offer Acceptances (“BOAs”) and Balancing Services Adjustment Data (“BSAD”) volumes (which will

¹ The BSC sets out the rules and governance arrangements for electricity balancing and settlement in GB. All licensed electricity companies must be a signatory to the BSC.

² Further information on Modification P217A can be found in the Authority’s decision to approve this proposal on 16 October 2008. A copy of which is available at the following link: www.ofgem.co.uk

³ Imbalance settlement or ‘cash-out’ is the process used in the British wholesale electricity market to settle all market participants’ energy account imbalances. Ofgem has been working with industry over recent years to explore the operation of the current cash-out regime. Further information can be found at the following link: www.ofgem.gov.uk

⁴ This estimate was developed as part of the analysis Ofgem undertook in its impact assessment on Modification P217A. A copy of this impact assessment can be found on Ofgem’s website at www.ofgem.gov.uk.

⁵ Flagging is NGET’s process of manually identifying actions that are taken to resolve transmission constraints.

be disaggregated under P217A) that are taken to balance the system in order to resolve transmission constraints and replacing the price of these where they would otherwise distort cash-out prices.

5. The proposed collective licence modification inserts a new paragraph 6A into SLC C16 to establish a system management action flagging methodology for the purposes of the BSC. The provisions of the proposed paragraph largely mirror that of paragraph 6 and set out the framework for the creation and revision of the balancing services adjustment data methodology. There are also consequential amendments to paragraphs 8(a), 8(b), 10, 11(a), 11(b) and 15.
6. The effect of the proposed collective licence modification will be to support implementation of P217A, which will 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. Reducing the effect of system pollution in cash-out prices should also benefit smaller industry players and intermittent generators as they tend to be disproportionately exposed to cash-out due to the size of their portfolios. It is also anticipated that it will make new entry more attractive.
7. 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 that he considered appropriate for offshore transmission⁶. These changes included extending NGET's system operator 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 this Notice should be made.
8. Information in relation to the proposed collective licence modification is contained in the following documents:
 - a. The final modification report: Modification Report for Modification Proposal P217 'Revised Tagging Process and Calculation of Cash Out Prices', 11 July 2008⁷.
 - b. The impact assessment for P217: BSC Modification Proposal P217 'Revised Tagging Process and Calculation of Cash-out Prices', 11 August 2008.
 - c. The Authority's decision of 16 October 2008 approving P217A.
9. The latter two documents are available from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at www.ofgem.gov.uk.

⁶ 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>

⁷ A copy of this report can be found at the following website: www.elexon.co.uk

10. Relevant licence holders for the purposes of this Notice are holders of the Electricity Transmission Licence (Standard Conditions) at the relevant time with Standard Licence Condition C16 in force.
11. Relevant licence holders who wish to register a statutory objection may use the pro-forma appended to this Notice. Any representations from interested third parties or objections to the proposed collective licence modification may be made by 5 August 2009 and sent to:

Ian Marlee
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

or by email to GB.Markets@ofgem.gov.uk

12. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if a respondent does not wish their response (or any part of it) to be made public then they should clearly mark their response (or the relevant part of it) as not for publication. Ofgem prefers to receive responses in electronic form so they can be placed easily on the Ofgem website.
13. If you wish to discuss any aspect of this Notice, Ben Woodside (020 7901 7471) or Raihana Braimah (020 7901 7005) would be pleased to assist.

Ian Marlee
Director, Trading Arrangements
Duly authorised on behalf of the Gas and Electricity Markets Authority

8 July 2009

**Suggested pro forma to register a statutory objection for statutory Collective
Licence Modifications**

Proposed Modification of Standard Licence Condition(s)

SLC C16 in Electricity Transmission Licence

In response to the statutory notice dated 8 July 2009 in respect of the above proposed modification, this notice constitutes a statutory objection to that proposal on behalf of [state full name of each relevant licence holder making the objection]. I confirm that I am duly authorised to give this notice on behalf of each of the above named companies.

[Signed]

Date: [xx]

[Address for acknowledgement, preferably including email address]