

To: National Grid Electricity Transmission  
plc

CC: Transmission System Owners,  
Generators, Suppliers, Traders, Consumers  
and Other Interested Parties

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Date: 15 October 2015

Dear colleagues

**Decision not to use our power of direction to veto National Grid Electricity Transmission plc (NGET) C16 statement changes that facilitate i) BSC Modification P305, ii) pricing of New Balancing Services (NBS) in cash-out at the administrative Value of Lost Load (VoLL), plus iii) other clarifications**

**Background**

Following consultation, NGET submitted to the Authority its Interim Review Report on 17 September. This presents to the Authority for consideration change marked versions of the C16 statements supporting

- (i) the consequential changes to the C16 statements resulting from BSC Modification P305,
- (ii) changes to the C16 statements to incorporate Supplementary Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) into the cash-out calculation,
- (iii) general changes as part of the review process, in particular inclusion of actions taken to help manage Rate of Change of Frequency (RoCoF) or fault levels as 'System Management'.

**NGET's proposed revisions to the C16 statements**

In its Report to Authority on 17<sup>th</sup> September, NGET submitted its proposed revisions to the C16 statement. NGET invites the Authority to approve the revised versions of the C16 Statements as proposed in the consultation published on 31st July 2015<sup>1</sup> in relation to all three areas. The Authority has 28 days from the date the report is submitted to direct the licensee not to make the revisions.

**The Authority's decision**

Our decision is *not* to use our power of direction to veto NGET's proposed revisions to the C16 statements.

In assessing NGET's proposed revisions, the Authority has considered the arguments presented in NGET's Interim Review Report including responses from stakeholders in relation to each proposed group of changes, and reached the following conclusion of the effect of these on consumers present and future:

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<sup>1</sup> <http://www2.nationalgrid.com/uk/industry-information/electricity-codes/balancing-framework/c16-consultations/>

- (i) consequential changes from P305: the Authority considers that the proposed changes facilitate the P305 solution, and serve the interests of consumers by supporting delivery of the reforms' benefits to the consumer<sup>2</sup>,
- (ii) pricing SBR and DSBR in cash-out: the Authority considers that the proposed changes provide clarity that NBS will be priced at administrative VoLL, help motivate an efficient market response to scarcity, and therefore both support the economic and efficient operation of the system as well as serve the interests of the consumer,
- (iii) general changes as part of the review process: the Authority considers that the proposed changes support the economic and efficient operation of the system, and therefore serve the interests of the consumer.

The revisions will be made within 28 days from the date they were submitted to Authority. The proposed changes will become effective from 5th November 2015.

Finally, in the event that NBS is extended beyond 2015/16, we recommend that consideration be given to whether the solution in this C16 statement relating to ii) pricing SBR and DSBR in cash-out may be revisited to provide a more enduring solution, in particular giving consideration to one that may:

- use a more automated process,
- provide a more timely signal to the market, and
- treat ramping up and down with greater sophistication.

Yours sincerely,

Mark Copley  
Associate Partner  
Markets  
Ofgem

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<sup>2</sup> For further consideration of these benefits, see our decision letter approving the BSC Modification P305 which brings forward the Electricity Balancing Significant Code Review reforms: <https://www.ofgem.gov.uk/publications-and-updates/electricity-balancing-significant-code-review-final-policy-decision>