

To: National Grid Electricity
Transmission

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

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Date: 25 March 2019

Dear colleagues,

Decision not to use our power of direction to veto National Grid Electricity Transmission plc (NGET) C16 statement changes

Background

In accordance with Standard Condition C16 of its Electricity Transmission Licence, the Electricity System Operator (ESO)¹ is required to conduct an annual review of all licence statements, proposing changes as necessary. Following consultation², the ESO submitted to the Authority³ its annual Interim Review Report for approval. This included proposed revisions to the following C16 Statements:

- i. Procurement Guidelines;
- ii. Balancing Principles Statement (BPS);
- iii. Balancing Services Adjustment Data Methodology Statement (BSAD);
- iv. System Management Action Flagging Methodology Statement (SMAF);
- v. Applicable Balancing Services Volume Data Methodology (ABSVD).

The changes proposed to these documents relate to the following:

- i. Changes to the Procurement Guidelines and BPS to provide more clarity on the balancing services the ESO intends to procure and what they are used for.
- ii. Changes to the ABSVD considering implementation of Balancing and Settlement Code (BSC) Modification P344 'Project TERRE' (hereafter "P344").
- iii. Changes to the C16 statements to prepare for the introduction of TERRE.
- iv. Changes to the C16 statements to amend references of NGET to NGESO.
- v. General housekeeping amendments to keep the statement current and relevant.

¹ The Electricity System Operator (ESO) role is currently carried out by National Grid Electricity Transmission plc (NGET), which is also the owner of the transmission network in England and Wales. NGET is part of the National Grid plc group of companies. From 1 April 2019, the ESO is due to become a legally separate company within the National Grid plc group.

² <https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>

³ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority," "we" and "us" are used interchangeably in this letter.

The Authority's decision

Our decision is *not* to use our power of direction C16(8)(b) to veto NGET's proposed revisions to the C16 statements for 2019-20.

In assessing NGET's proposed revisions, we considered the arguments presented in NGET's Interim Review Report including responses from stakeholders in relation to each proposed group of changes. We have summarised our conclusions below:

- i. Changes to the Procurement Guidelines and BPS to provide more clarity on the balancing services the ESO intends to procure and what they are used for.*

We consider that the proposed changes to the Procurement Guidelines and the BPS provide additional clarity and transparency to market participants on the different balancing services and what they are used for. We also recognise the additional clarity on the Commercial Ancillary Services that the ESO expects to procure. We note the ESO's commitment to procure commercial services through market mechanisms where possible and their long-term commitment to reduce the number of existing Commercial Ancillary Services contracts that were procured outside of a competitive process or market mechanism. Therefore, the Authority considers that the proposed changes to the Procurement Guidelines and BPS support the economic and efficient operation of the system as well as serve the interests of the consumers. The proposed changes will become effective from 1 April 2019.

We encourage the ESO to continue providing additional clarity and transparency around the different ancillary and balancing services in line with stakeholder feedback.

- ii. Changes to the ABSVD formula considering implementation of P344*

We consider that the proposed changes to the ABSVD formula are in line with P344, therefore they support the economic and efficient operation of the system as well as serve the interests of the consumers. The proposed changes will become effective from 1 April 2019.

We also note the addition of ABSVD methodology for 2020 onwards, which explicitly states that STOR, Fast Reserve and Demand Turn-Up will be included in non-ABSVD. The ABSVD methodology together with the BSC modification P354⁴ enable the implementation of Article 49 of the European Balancing Guideline (EBGL)⁵, which requires imbalance energy to be adjusted for all Balancing Services Providers. We consider these proposed changes to be in line with modification P354 which was approved on 18 June 2018⁶. We will formally approve any changes to the ABSVD methodology and other C16 statements for 2020-21 in March 2020 after we receive the C16 report for 2020-21.

- iii. Changes to the C16 statements to prepare for the introduction TERRE*

We consider that the proposed changes to the C16 statements are sufficient to prepare for the implementation of TERRE in December 2019. These changes support the economic and efficient operation of the system, and therefore serve the interests of the consumer. These changes will become effective from 1 April 2019.

- iv. Changes to the C16 statements to amend references of NGET to NGESO.*

On 1 April 2019, the ESO will become a legally separate company within the National Grid plc group. The changes proposed facilitate this change and therefore support the economic

⁴ P354 'Use of ABSVD for non-BM Balancing Services at the metered (MPAN) level'

⁵ Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

⁶ P354 Authority decision letter: <https://www.elexon.co.uk/wp-content/uploads/2017/01/P354-Decision-Letter-v1.0.pdf>

and efficient operation of the system. These changes will become effective from 1 April 2019.

v. General housekeeping amendments to keep the statement current and relevant.

The Authority considers that the proposed changes keep the statement current and relevant. They also support the economic and efficient operation of the system, and therefore serve the interests of the consumer. These changes will become effective from 1 April 2019.

Finally, under the new regulatory and incentives framework for the Electricity System Operator (ESO), we expect the ESO to ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent (as defined under principle 3 in the ESO roles and principles guidance). We note that one of the deliverables under the ESO's Forward Plan for 2018-19 was to review the Procurement Guidelines. We are interested in stakeholders' views on the ESO's review of the Procurement Guidelines and we encourage stakeholders to provide their feedback to ESOperformance@ofgem.gov.uk. This will feed into the ESO's end of year review for 2018-19 in June.

Going forward, we expect the ESO to continue reviewing and updating the Procurement Guidelines and the C16 statements as required under its C16 licence obligations to introduce further clarity and transparency for market participants and to take into account stakeholder feedback.

Yours sincerely,

Grendon Thompson

Head of SO Regulation