



Making a positive difference  
for energy consumers

Company Secretary  
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By email cc Jonathan Wisdom

Email: [Leonardo.Costa@ofgem.gov.uk](mailto:Leonardo.Costa@ofgem.gov.uk)

Date: 07 May 2020

Dear Company Secretary,

**Direction issued under sub-paragraph 8(a)(iv) of standard licence condition C16 of the electricity transmission licence held by National Grid Electricity System Operator Limited in relation to the Applicable Balancing Services Volume Data Methodology Statement**

On 5 May 2020 we received a letter<sup>1</sup> from National Grid Electricity System Operator Limited (the "ESO") requesting that a revision to the Applicable Balancing Services Volume Data (ABSVD) Methodology Statement (the "Statement")<sup>2</sup> be made to allow any provider to have its energy imbalances adjusted for its participation in the ESO's Optional Downward Flexibility Management (ODFM) service in the most efficient way. The ODFM is a new service developed by the ESO in response to the COVID-19 pandemic to enable it to access flexibility that is not currently accessible in real time. The letter also requested that the proposed revisions to the Statement have effect prior to the anticipated go-live of the service at 23:00 on Thursday 7 May 2020.

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<sup>1</sup>

[https://www.ofgem.gov.uk/system/files/docs/2020/05/ngeso\\_request\\_to\\_amend\\_absvd\\_statement\\_may\\_2020\\_1.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/05/ngeso_request_to_amend_absvd_statement_may_2020_1.pdf)

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/05/absvd\\_methodology\\_statement\\_v10\\_may\\_2020\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/05/absvd_methodology_statement_v10_may_2020_0.pdf)

**The Office of Gas and Electricity Markets**

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We have considered this request and have decided to allow the ESO to revise the Statement, with such revisions having effect from 23.00 on 7 May 2020. In order to achieve this we have issued a Direction under sub-paragraph 8(a)(iv) of standard licence condition C16 (Procurement and use of balancing services) ("SLC C16"):

- allowing the ESO to dispense with certain procedural requirements that would normally have been taken when revising the Statement under sub-paragraphs (8)(a) and (b) of SLC C16; and
- directing that the revisions have effect from 23:00 on 7 May 2020.

The reasons for our decision are set out in this letter and the Direction under sub-paragraph 8(a)(iv) SLC C16 is attached as an Annex to this letter.

## **Background**

We understand that the ESO has developed the ODFM to allow it to access flexibility that is not currently accessible in real time. The ESO aims to use this service during the summer as a response to the COVID-19 pandemic. The ESO seeks to include the ODFM on the list of Applicable Balancing Services for which the ESO calculates volume data under the Statement. The Statement is established by the ESO in accordance with Standard Condition C16 of its licence. Its purpose is to set out the information on Applicable Balancing Services that will be taken into account under the Balancing and Settlement Code for the purposes of determining The Account Energy Imbalance Volume.<sup>3</sup>

The ESO has noted that, without this revision to the Statement, any balancing energy provided by a balancing service provider through this service would lead to an imbalance to its respective balancing responsible party or would require additional mechanisms to be put in place contractually to remedy this impact.

The ESO believes that revising the Statement provides the most efficient route to address this issue. The ESO also comments that its view is supported by stakeholders that believe it is a fair way of addressing this concern and note that its inclusion in the Statement would follow similar reasoning to the inclusion of non-BM STOR and Fast Reserve in the Statement since 1 April 2020.

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<sup>3</sup> The Account Energy Imbalance Volume is defined in section T of the BSC as the difference between the energy credited to the account and the contract position and the Account Period Balancing Services Volume.

The ESO notes that following the normal Statement amendment process would not enable it to make the necessary changes ahead of the go-live of the service at 23:00 on 7 May 2020. Therefore, the ESO has requested that it be able to submit the revisions to the Statement and that they have effect from 23.00 on 7 May 2020 without following the procedural requirements under SLC C16(8), namely:

- Sub-paragraph (a)(ii) – the requirement to consult with BSC parties on the proposed revisions and allow them a period of not less than 28 days to make representations;
- Sub-paragraph (a)(iii) – the requirement to submit to the Authority within seven (7) days of the close of the consultation a report containing representations made to the ESO and any changes to the proposed revisions; and
- Sub-paragraph (b) – the requirement that the Statement not be revised until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph (a)(iii).

## **Reasons for our decision**

Article 49 of the guideline on Electricity Balancing (the EBGL Regulation)<sup>4</sup> requires that TSOs calculate an imbalance adjustment to the concerned balancing responsible parties for each activated balancing energy bid. Parties providing ODFM would be providing balancing energy to the ESO and therefore there is a requirement for such adjustments to be put in place by the ESO to their respective balancing responsible parties.

We agree with the ESO that including the ODFM in the Statement would provide the most efficient way to address this issue. The alternative to comply with those requirements would indeed be through subsequent contractual arrangements, which would not be practical and would lead to more uncertainty. More importantly, this alternative would not be part of the normal imbalance settlement process. Revising the Statement therefore ensures that the original calculation of the imbalance settlement is accurate of parties' imbalance. This would furthermore mitigate the risk that any outside arrangement leads to unforeseen impacts on parties obligations under the Balancing and Settlement Code (BSC).<sup>5</sup>

We have assessed the ESO's draft Statement submission. We believe that the draft text would apply a similar treatment, regarding the adjustment of the balancing responsible parties' imbalance as a result of the provision of this service to the ESO, as those applied

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<sup>4</sup> Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on Electricity Balancing. The EBGL Regulation came into force on 18 December 2017. It aims at enhancing the efficiency of European and national balancing markets, as well as contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the European Union.

<sup>5</sup> <https://www.elaxon.co.uk/bsc-and-codes/balancing-settlement-code/>

for non-BM STOR and Fast Reserve. These amendments were extensively discussed by industry through the BSC modification P354<sup>6</sup> as well as through the ESO's consultation to amend the Statement as part of its annual SLC C16 reviews.<sup>7</sup>

We also agree, on balance, that it is important that the revisions to the Statement are made quickly and in advance of the go-live of the service. Our view is based on the trade-off between consultation with BSC parties and implementing the more efficient solution on the Statement. In general, we believe it is important that the ESO fully engages with BSC parties and stakeholders more generally. This engagement enables the ESO to consider stakeholder concerns on its proposals and for us to consider all views before making a decision. However, in this instance, we have recent views from stakeholders on the importance that the Statement reflects balancing services on the imbalance settlement.<sup>8</sup> Moreover, if the normal process is followed, this will lead to the need to use a less efficient arrangements to account for the ODFM on parties' imbalances, with the risk of additional unforeseen circumstances.

Therefore, while we would normally require and expect the ESO to consult BSC parties on any amendment to the Statement, we believe that, on balance, it is in the interest of consumers to extend the already approved changes to the Statement for non-BM STOR and Fast Reserve to ODFM in order to avoid the need for this subsequent settlement between the ESO and balancing service providers.

## **Decision**

For the reasons set out above we have decided to allow the ESO to make revisions to the Statement to allow any providers to be kept whole against energy imbalances as a result of participating in the service in the most efficient way, with effect from 23:00 on 7 May 2020. In doing so we have allowed the ESO to dispense with certain procedural requirement set out in subparagraph 8(a) and (b) on SLC C16. The Direction issued under sub-paragraph 8(a)(iv) of SLC C16 is attached as an Annex to this letter.

This letter constitutes notice under section 49A of the Electricity Act 1989.

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<sup>6</sup> <https://www.elexon.co.uk/mod-proposal/p354/>

<sup>7</sup> The ESO is required to review the statements and guidelines produced under Standard Condition C16 on an annual basis.

<sup>8</sup> <https://www.nationalgrideso.com/document/161011/download>

## Next steps

We understand that the current framework for balancing is evolving and that we expect that, amongst others, by 25 June 2020, the national terms and conditions pursuant to Article 18 of the EBGL Regulation will enter into effect. Therefore, it is of paramount importance that the ESO reviews its requirements under the EBGL Regulation and make any required changes to its national terms and conditions to include any necessary amendment to reflect its new ODFM. If an amendment is necessary, we expect the ESO to follow the process set out in the EBGL Regulation ahead of 25 June 2020.

Finally, we have not made any review or decision on the service itself or any of the other points raised in your letter. We will, as normal, consider the ESO's actions to balance the system and therefore its delivery of its Forward Plan<sup>9</sup> commitments, as part of our ESO performance and incentives framework.

If you have any queries or comments in relation to the issues raised in this letter, please contact us by email at [esoperformance@ofgem.gov.uk](mailto:esoperformance@ofgem.gov.uk).

Yours sincerely,

**Leonardo Costa**

**Senior Manager SO/DSO**

For and on behalf of the Authority

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<sup>9</sup> <https://www.nationalgrideso.com/document/166441/download>

## **Annex**

### **Direction issued by the Gas and Electricity Markets Authority (the "Authority") under sub-paragraph 8(a)(iv) of standard licence condition C16 of the electricity transmission licence held by National Grid Electricity System Operator Limited in relation to the Applicable Balancing Services Volume Data Methodology Statement**

1. National Grid Electricity System Operator Limited (the "Licensee") is the holder of an electricity transmission licence treated as granted under section 6(b) of the Electricity Act 1989.
2. Standard licence condition C16 (Procurement and use of balancing services) ("SLC C16") requires the Licensee to produce certain guidelines and methodologies in relation to balancing services. Paragraph 6 of SLC C16 requires the Licensee to establish a Applicable Balancing Services Volume Data (ABSVD) Methodology Statement (the "Statement") approved by the Authority. The procedure for revising the Statement is set out paragraph 8 of SLC C16.
3. In a letter to the Authority dated 5 May 2020 the Licensee requested that a revision to the Applicable Balancing Services Volume Data (ABSVD) Methodology Statement (the "Statement") be made to allow any providers to be kept whole against energy imbalances as a result of participating in the Licensee's Optional Downward Flexibility Management (OFDM) service in the most efficient way. The letter requested that the proposed revisions to the Statement have effect prior to the anticipated go-live of the service at 23:00 on Thursday 7 May 2020.
4. The letter also requested that certain procedural steps for revising the Statement under paragraph 8 of C16 be dispensed with, namely:
  - a. Sub-paragraph (a)(ii) – the requirement to consult with BSC parties on the proposed revisions and allow them a period of not less than 28 days to make representations;
  - b. Sub-paragraph (a)(iii) – the requirement to submit to the Authority within seven (7) days of the close of the of the consultation a report containing representations made to the ESO and any changes to the proposed revisions; and
  - c. Sub-paragraph (b) – the requirement that the Statement not be revised until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph (a)(iii).
5. We have considered the Licensee's request, and for the reasons set out in the letter to which this Direction is attached, we have decided to direct that:
  - a. the Licensee dispense with certain procedural requirements that would normally been taken when revising the Statement under sub-paragraphs (8)(a)(ii) and (iii) and (b) of SLC C16; and
  - b. the revisions have effect from 23:00 on 7 May 2020.

### **Hereby:**

In accordance sub-paragraph 8(a)(iv) of the SLC C16 the Authority Directs with immediate effect that the Licensee dispense with the requirements of under sub-paragraphs (8)(a)(ii) and (iii) and (b) of SLC C16, and that the revisions have effect from 23:00 on 7 May 2020.

This Direction and the letter to which it is attached constitutes notice pursuant to section 49A of the Electricity Act 1989.

Leonardo Costa

**Leonardo Costa, Senior Manager SO/DSO**  
**For and on behalf of the Authority**  
**07 May 2020**