

Jonathan Wisdom
Commercial Codes Manager

jon.wisdom@nationalgrideso.com

Direct tel +44 (0)7929 375010

www.nationalgrideso.com

Date: 5th May 2020

Request for The Authority to Direct NGESO to Amend the ABSVD Statement as per Licence Condition C16 Section 8(a)

Dear Leonardo,

Following discussions between representatives of Ofgem and National Grid ESO (NGESO) regarding a new Operational Flexibility Product we requested that the Authority Direct NGESO to amend the Applicable Balancing Services Volume Data (ABSVD) 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. Ofgem requested further information before making a decision. We hope the details contained in this letter will allow you to make that decision prior to the anticipated go live of this service at 23:00 on Thursday 7th May 2020.

What is the Operational Flexibility product?

In our role as Electricity System Operator (ESO) we balance generation and demand in real time. To allow us to do this we need to hold enough reserve to turn generation up or down to meet demand second by second. When demand is low, we would expect embedded generation to be running along with nuclear, any transmission connected renewable generation, interconnectors and some conventional generation. Any conventional generation that is running is largely self-dispatching at the Stable Export Limit (SEL). With this profile, there may be a requirement for additional flexibility to balance generation and demand, as well as to achieve sufficient negative reserve and high frequency response. Optional Downward Flexibility Management (ODFM) is a service to allow the ESO to access flexibility that is not currently accessible in real time. Our intention is that this service is only procured for the summer of 2020 as a response to the COVID-19 pandemic.

How does the ODFM product map to the Procurement Guidelines?

The Procurement Guidelines are not intended to be exhaustive of all of our services and we consider that this service fits within the current statement as per the below in the second paragraph of Part A (page 6):

"The Guidelines are not prescriptive of every possible situation that we are likely to encounter, but rather represent a generic statement of the procurement principles we expect to follow".

On that basis we do not anticipate a change to the Procurement Guidelines is required and we will map the service in to the "Ancillary Service" category as detailed in the statement in Part B section 1. Balancing Services (Page 8), which is further defined in the Grid Code as:

"Commercial Ancillary Services: Other Ancillary Services are also utilised by NGET in operating the Total System if these have been agreed to be provided by a User (or other person) under an Ancillary Services Agreement or under a Bilateral Agreement, with payment being dealt with under an Ancillary Services Agreement or in the case of Externally Interconnected System Operators or Interconnector Users, under any other agreement (and in the case of Externally Interconnected System Operators and Interconnector Users includes ancillary services equivalent to or similar to System Ancillary Services) ("Commercial Ancillary Services"). The capability for these Commercial Ancillary Services is set out in the relevant Ancillary Services Agreement or Bilateral Agreement (as the case may be)."

NGESO believe the ODFM product maps to an ancillary service as there's an agreement for us to pay the providers for the services they deliver to help support the operation of the system. The service is entered under an Ancillary Service Agreement which in the Grid Code defines a product as being a Commercial Ancillary service.

What do stakeholders think?

During early discussions when designing and building the product it was determined by stakeholders that including the product in ABSVD would be the fairest way for providers to participate as it eliminates risk and complexity for the provider in having to negotiate deals with suppliers. It was also noted that Non-BM STOR and Fast Reserve products were included in ABSVD from 1st April 2020 for similar reasons.

In addition at a BSC Panel meeting there was a preference expressed that any new services be put through ABSVD.

Why is including the product into the ABSVD statement urgent?

The Downward Flexibility product has been developed to meet short term system operational needs and to allow additional providers to enter the market. Provider imbalance exposure is a key issue in allowing wider participation in the service and two routes of neutralising imbalance exposure have been identified:

1. Through a payment from NGESO (followed by cost recovery through normal routes).
2. Through the ABSVD route.

Both routes have been captured in contracts of the providers, however the preference from providers and NGESO is to go through the ABSVD route as this would neutralise the imbalance exposure while negating any further cashflow transfer between the provider and supplier. Under the non ABSVD route we would be creating extra steps for providers & suppliers to ensure the imbalance was settled correctly.

NGESO has included and would like to keep the direct payment for imbalance exposure in the contracts in case there are technical/regulatory reasons why the ABSVD route is not possible.

If Ofgem agree that the ABSVD route is the most appropriate we will need the statement to be updated urgently and prior to the go live date of the 7th May 2020 in order that potential providers can have certainty about their imbalance exposure when providing this service. In addition, a 28 day+ consultation could lead to confusion, as the product would already be live using option 1 and then could change to option 2.

If The Authority does not agree with this request then it is possible for NGESO to consult, however, we consider a consultation inefficient due to the expected period of the product. This will also mean that NGESO will have to use the more complex route of direct payments to ensure that provider's are kept whole until the consultation is concluded and the Authority has approved the revised statement.

What are the changes we want to make to the ABSVD statement?

NGESO propose that the ABSVD statement be changed to include the new product into in the list of non-BM products that will be put through the ABSVD process. To guard against the possibility of any issues as we develop the solution for this service we would also like to include the words "if technically possible" next to this product. This will allow us to use the backstop of paying providers for the imbalance as mentioned above. For the avoidance of doubt NGESO is **not** proposing to change any of the methodologies contained within the ABSVD statement.

NGESO has also provided a track changed version of the ABSVD statement with these changes included for Ofgem's consideration.

What is the ask?

Section 8(a) of the C16 section of the transmission licence states:

"(a) Except where the Authority directs otherwise, before revising the statements

prepared pursuant to paragraphs 3(a), 5(a), 6(b)(iii), 6A(b) (ii) and 7(b)(iii) and each revision thereof the licensee shall:

(i) send a copy of the proposed revisions to the Authority and to any person who asks for one;

(ii) consult BSC parties on the proposed revisions and allow them a period of not less than 28 days in which to make representations;

(iii) submit to the Authority within seven (7) days of the close of the consultation period referred to in sub-paragraph 8(a) (ii) above a report setting out

- the revisions originally proposed,

- the representations (if any) made to the licensee,

- any changes to the revisions, and

(iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) or any of them shall not apply, comply with such other requirements as are specified"

Based on the information provided, NGESO is asking Ofgem (The Authority) to direct NGESO that, on the basis that this letter and attached track changed ABSVD statement constitutes the copy to you of the proposed revisions, NGESO can amend the ABSVD methodology as above without following the 28 day consultation with BSC parties and the resulting requirement to submit a report to the Authority [otherwise this would still require all the other steps in 8(a)] and direct that we can revise the ABSVD statement in the manner proposed above and attached from the go live date of the 7th May 2020.

If you have any questions on the contents of this letter or the amended ABSVD statement then please get in touch with Jamie Webb (jamie.webb@nationalgrideso.com) in the first instance.

Yours sincerely



Jonathan Wisdom

For and on behalf of **National Grid Electricity System Operator plc**