

Jamie Webb / Company Secretary
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Cc: Transmission System Owners, Generators,
Suppliers, Traders, Consumers and Other
Interested Parties

Email: esoperformance@Ofgem.gov.uk

Date: 15 March 2021

Dear colleagues,

Decision not to use our power of direction to veto National Grid Electricity System Operator C16 statement changes

Background

In accordance with Standard Condition C16 of its Electricity Transmission Licence, the Electricity System Operator ("ESO") is required to conduct an annual review of all licence statements, proposing changes as necessary. Following consultation¹, the ESO submitted to the Authority² its annual Report for approval. This included proposed revisions to the following C16 Statements:

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

The changes proposed to these documents relate to the following:

- i. Changes to the Procurement Guidelines to include new product, Dynamic Containment ("DC"), and notice of potential future dynamic products.
- ii. Changes to the ABSVD to include DC.
- iii. Changes to the Procurement Guidelines to update descriptions of Short Term Operating Reserve ("STOR") and Optional Downward Flexibility Management ("ODFM") to reflect changes to those products.
- iv. Changes to include details regarding Pathfinders and Trials in the Procurement Guidelines.
- v. General housekeeping amendments to keep all five statements current and relevant.

¹ <https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>

² 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 the ESO's proposed revisions to the C16 statements for 2021-22.

In assessing proposed revisions submitted by the ESO, we considered the arguments brought forward to the ESO during the Industry Showcase Event, Early Consultation and Official Consultation, including responses from stakeholders in relation to each proposed group of changes. We have summarised our conclusions below:

- i. Changes to the Procurement Guidelines to include new product, DC, and notice of potential future dynamic products.*

We consider that the proposed changes to the Procurement Guidelines are necessary to reflect the introduction of the new DC product, and that they suitably describe the product. Signalling at an early stage that similar products will be due online is a good market signal.

- ii. Changes to the ABSVD to include DC.*

We consider that this change to include DC within the ABSVD was necessary and the change makes clear the processes associated with this new product. The description is in line with code modification P354.³

- iii. Changes to the Procurement Guidelines to update descriptions of STOR and ODFM to reflect changes to those products.*

We consider that the Procurement Guidelines update relating to STOR and ODFM accurately reflect how these balancing products are expected to be procured by the ESO during 2021-22. We believe that recognition of the changes to the procurement of these two products adds clarity and is a positive addition.

However, we now understand that the ESO is planning adjustments to the ODFM service, with the intention that these will be determined before the product is due to go live during 2021. We have so far been disappointed to see the lack of development to the ODFM product since its creation last year, and note that during the C16 consultation process, the ESO made commitments to addressing issues with ODFM, which until recently, were followed by a lack of action.

Whilst we accept that the C16 statements reflect the current status of the balancing products, and support the changes that the ESO now intends to make, the fact that the ESO is looking to address these issues at such a late stage in this process is disappointing. Should the ESO make changes to the ODFM product, these will need to be reflected in the C16 licence documents as appropriate. In particular, we anticipate that the BSAD will need to be modified as a result of the potential changes to the product.

We therefore ask the ESO to provide greater clarity and transparency around the development of different ancillary and balancing services in line with stakeholder feedback going forward.

- iv. Changes to include details regarding Pathfinders and Trials in the Procurement Guidelines.*

The ESO has improved the transparency of its procurement processes by including principles related to Pathfinders. While recognising that each Pathfinder is different, the underlying principles are now clear to industry.

³ Our decision letter approving P354 can be accessed at: <https://www.ofgem.gov.uk/publications-and-updates/p354-use-absvd-non-bm-balancing-services-metered-mpan-level>

Similarly, we consider that in providing a clear indication of expected remuneration for Trials, the ESO has added clarity to its procurement processes.

v. General housekeeping amendments to keep all five statements current and relevant.

The Authority considers that the proposed changes keep the statements 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 2021.

Going forward, we expect the ESO to continue reviewing and updating 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. We also welcome the ESO's positive outlook on making modifications to the Procurement Guidelines Report⁴, issued annually, to make this more useful to industry.

Yours sincerely,

Alastair Owen
Senior Policy Manager – Systems and Networks

⁴ The Procurement Guidelines Report is different to the Procurement Guidelines. It is a required output of the C16 licence condition, issued on an annual basis providing a summary of the procurement performance of the ESO over the previous 12 month period against the Procurement Guidelines. It is not a requirement of the C16 licence condition that this document be updated as part of this process, but the ESO has been front-footed in suggesting improvements to make the document more useful to industry. The Procurement Guidelines Report can be found at: <https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations>