



Making a positive difference
for energy consumers

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

Email: esoperformance@Ofgem.gov.uk

Date: 29 April 2021

Dear Colleagues,

Decision and Direction to National Grid Electricity System Operator Limited to make revisions to BSAD statement 2021-22 mid-term changes from 30 April 2021

Background

In accordance with Standard Licence Condition ("SLC") 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. The licence documents are:

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

Additionally, the ESO should promptly seek to revise these documents where there are changes to the methodologies or principles, or if new products or services are to be procured, as approved by the Authority.

The ESO introduced a new product, Optional Downward Flexibility Management ("ODFM"), to the market for summer 2020 to help manage periods of low demand in summer resulting from lockdown due to the COVID-19 pandemic. The ESO has carried out an assessment which shows that the product will need to be reintroduced for summer 2021 and, as a result of stakeholder feedback, will include it into calculation of cashout. Therefore, the ESO is seeking approval for an update to the BSAD Methodology Statement. This update to the BSAD Methodology Statement will also include minor housekeeping amendments.

We¹ received the final report on this proposed update of the BSAD Methodology Statement from the ESO on 21 April 2021. In accordance with sub-paragraph 9(b) of SLC C16, the changes proposed by the ESO should come into effect 28 days from the receipt by the Authority of the final report, unless vetoed by the Authority under its powers in SLC C16 sub-paragraph 9(b)(ii). Additionally, SLC C16 sub-paragraph 9(b)(i) grants the Authority the power to direct the ESO to make changes earlier than the expiry of this 28-day period.

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

The Authority's decision

Our decision is not to use our power of direction under C16 9(b)(ii) to veto the ESO's proposed revision of the BSAD Methodology Statement to reflect the updated BSAD Methodology. However, we have decided to use our power of direction C16 9(b)(i) to direct the ESO to make these revisions effective as of 30 April 2021. The Direction, issued under sub-paragraph 9(b)(i) of SLC C16, is attached as an Annex to this letter.

There were no responses to the consultation² on this change. We consider that this is because the change represents the wants of stakeholders, as evidenced through responses to the 2021/22 annual review of the C16 licence documents³ and through the recent consultation⁴ carried out on changes to the terms and conditions relating to balancing⁵ as a result of ODFM being reintroduced in 2021.

The Authority considers that the changes proposed by the ESO better align the BSAD Methodology Statement with the ESO's intentions for balancing, and address industry concerns raised over the ODFM product which previously was not entered into cashout calculations. We also understand that this update aligns the Methodology with evidence submitted to us by the ESO in support of a derogation request relating to ODFM.⁶

We expect the ESO to publish the updated version of the BSAD immediately, and to follow the outlined Methodology from 30 April 2021.

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

Yours sincerely,

Alastair Owen
Senior Policy Manager – Systems and Networks

² The ESO conducted a consultation from 21 March to 19 April 2021. The consultation can be accessed at: <https://www.nationalgrideso.com/c16-statements-and-consultations>

³ The ESO conducted their annual review of the C16 licence documents from 11 January to 8 February 2021. A summary of the responses can be accessed at: <https://www.nationalgrideso.com/c16-statements-and-consultations>

⁴ Further details of this consultation are available at: <https://www.nationalgrideso.com/industry-information/codes/european-network-codes-old/meetings/consultation-closed-ebgl-article-18>

⁵ The ESO is required by Article 18 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing, as amended by the Electricity Network Codes and Guidelines (Markets and Trading) (Amendment) (EU Exit) Regulations 2019 (the "EBGL Regulation") to establish national terms and conditions related to balancing. Where these terms and conditions need updating, the ESO must consult on the change. The EBGL Regulation can be accessed at: <https://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:32017R2195&from=EN>; and the UK SI amendment at: https://assets.publishing.service.gov.uk/media/5c17d6b440f0b60c8d601a2c/ENC_Markets_and_Trading_SI.pdf

⁶ We approved a derogation against the requirement for the ESO to procure ODFM at day-ahead time scales and on a pay-as-clear basis. This decision can be accessed at: https://www.ofgem.gov.uk/system/files/docs/2021/04/art64_derogation_decision_letter_odfm.pdf

Annex – Direction on Condition C16 in relation to the ESO’s C16 statements

For and on behalf of the Gas and Electricity Markets Authority

DIRECTION PURSUANT TO SUB-PARAGRAPH 9(b)(i) OF CONDITION C16 OF NATIONAL GRID ELECTRICITY SYSTEM OPERATOR LIMITED’S ELECTRICITY TRANSMISSION LICENCE IN RELATION TO THE PROCUREMENT AND USE OF BALANCING SERVICES

Whereas:

1. National Grid Electricity System Operator Limited (“NGESO”) is the holder of an electricity transmission licence (the “Licence”) granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the “Act”).
2. Standard Licence Condition (“SLC”) C16 (Procurement and use of balancing services), sub-paragraph 9(b)(i) allows the Authority to direct NGESO to make revisions to the statements prepared pursuant to paragraphs 4(a), 6(a), 7(b)(iii), 7A(b)(ii) and 8(b)(iii) earlier than the 28 days of receipt of the final report stipulated in sub-paragraph 9(b).
3. For the reasons set out in the letter to which this Direction is attached, the Authority has decided to direct the ESO to make the changes in relation to Optional Downward Flexibility Management inclusion within the Balancing Services Adjustment Data Methodology Statement earlier than 28 days from receipt of the final report.

Therefore:

In accordance with sub-paragraph 9(b)(i) of SLC C16, the Authority hereby directs NGESO to make the proposed changes in relation to the Optional Downward Flexibility Management inclusion within the Balancing Services Adjustment Data Methodology Statement immediately, and to follow the outlined Methodology from 30 April 2021.

This Direction and the letter to which it is attached constitutes notice of the reasons for the decision pursuant to section 49A of the Act.

Alastair Owen

Alastair Owen – Senior Policy Manager
For and on behalf of the Gas and Electricity Markets Authority
29 April 2021