

**To: All holders of an electricity transmission licence**

**Notice of statutory consultation on a proposal to modify the standard conditions of all electricity transmission licences**

1. The Gas and Electricity Markets Authority (the Authority)<sup>1</sup> proposes to modify the standard conditions of all electricity transmission licences granted or treated as granted under section 6(b) of the Electricity Act by amending standard licence condition C16 (Procurement and use of balancing services) in the manner set out in the Schedule to this Notice.
2. We are proposing this licence modification to provide greater clarity to National Grid Electricity Transmission plc (NGET), in its role as system operator, on the obligations placed on it under the licence when co-ordinating and directing the flow of electricity onto and over the national electricity transmission system.
3. The effect of the proposed modification is to strengthen the obligations placed on NGET under the licence when co-ordinating and directing the flow of electricity onto and over the national electricity transmission system.
4. A copy of our Final proposals for electricity System Operator incentives from April 2017 has been published alongside this Notice and are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
5. Any representations with respect to the proposed licence modification must be made on or before 29 March 2017 to: Leonardo Costa, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [soincentive@ofgem.gov.uk](mailto:soincentive@ofgem.gov.uk).
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
7. If we decide to make the proposed modification it will take effect not less than 56 days after the decision is published.

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**Philippa Pickford**  
**Duly authorised on behalf of the Authority**  
**1 March 2017**

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<sup>1</sup> The terms “the Authority”, “we” and “us” are used interchangeably in this document.

## Schedule 1

### Proposed to the Standard Conditions of the Electricity Transmission Licence

#### Standard Condition C16 (Procurement and use of balancing services)

Amendments to Standard Condition C16:

1. The licensee shall co-ordinate and direct the flow of electricity onto and over the national electricity transmission system in an efficient, economic and coordinated manner. This includes but is not be limited to the following:
  - (a) taking the most efficient actions to balance the national electricity transmission system based on the information the licensee had at the time; and
  - (b) taking into account the impact such actions have on competition in the wholesale electricity market and on the total system,  
and in doing so, the licensee shall:
    - (i) compare the costs of actions outside the balancing mechanism with the likely costs of actions inside the balancing mechanism; and
    - (ii) consider the likely impact any such action would have on:
      - (aa) wholesale electricity market price signals;
      - (bb) the behaviour of electricity market participants; and
      - (cc) the efficiency of the national electricity transmission system;
  - (c) the impact any action would have on the total system;
  - (d) optimising the timing of transmission outages under the outage plan on the national electricity transmission system;
  - (e) publishing information which the licensee holds to enable electricity market participants to make efficient operational and investment decisions;
  - (f) producing and publishing accurate and unbiased forecasts of:
    - (i) indicated margin;
    - (ii) demand;
    - (iii) wind generation output; and
    - (iv) balancing costs;
  - (g) ensuring the procurement of balancing services is transparent;
  - (h) ensuring that the technical requirements of balancing services do not restrict new and existing balancing service providers from competing in those services; and

- (i) anticipating future national electricity transmission system requirements by using and developing competitive approaches to procuring balancing services wherever this is in the best interests of current and future consumers.

#### **Amendment to paragraph 5**

- (d) The report prepared pursuant to sub-paragraph (c) shall be accompanied by a statement ~~from an independent auditor of internationally recognised standing appointed by the licensee from the licensee's auditors~~ that they have carried out an investigation the scope and objectives of which shall have been established by the licensee and approved by the Authority, and they shall give their opinion as to the extent to which the licensee has complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph 8 of this condition.

#### **Introducing the following terms into paragraph 15**

<u>active power</u>	<u>shall have the same meaning as that given to that term in the Grid Code</u>
<u>balancing costs;</u>	<u>means the costs incurred by the licensee to balance the national electricity transmission system.</u>
<u>demand;</u>	<u>means taking, or being able to take, megawatts (MW) of electricity (active power) from the total system</u>
<u>indicated margin</u>	<u>shall have the same meaning as that given to that term in the Grid Code</u>
<u>wind generation output</u>	<u>means the active power output in MW from each wind generator in respect of which operational metering is installed (excluding that relating to wind generators accepted as bids and offers in the balancing mechanism)</u>