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16 May 2006

Dear Ben

**REVIEW OF THE GRID CODE : DECISION AND NOTICE IN RELATION TO
CONSULTATION I/05 - GRID CODE BALANCING CODE CHANGES ASSOCIATED
WITH EMBEDDED EXEMPTABLE LARGE POWER STATIONS**

The Gas and Electricity Markets Authority (the "Authority")¹ has carefully considered the changes that NGET² has proposed to its Grid Code as set out in the report to the Authority arising from consultation I/05 (Grid Code Balancing Code Changes Associated with Embedded Exemptable Large Power Stations)³ that has been submitted to it for approval.

The Authority has decided to approve the proposed changes to the Licensee's Grid Code (the "Grid Code") as set out in the Appendix A of the report to the Authority arising out of Consultation I/05.

This document explains the background to the proposals and sets out the Authority's reasons for its decision to approve these changes to the Grid Code. This letter constitutes notice by the Authority under Section 49A of the Electricity Act 1989 in relation to this decision.

¹ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² National Grid Electricity Transmission plc

³ Report from NGET - Consultation Reference I/05, Issue 1, Date of Issue 26 April 2006
<http://www.nationalgrid.com/NR/rdonlyres/AE38E561-BF12-49FA-8286-67338C45D8D2/6992/ReporttotheAuthorityI06.pdf>

Background to the proposed changes to NGET's Grid Code

NGET has advised that currently Balancing Code 1 ('BC1') and Balancing Code 2 ('BC2') require Generators to provide data on a Generating Unit basis in respect of Embedded Exemptable Large Power Stations ('EELPS') which are Power Park Modules. NGET explained that the scope of the BC1 and BC2 obligations in respect of EELPS is an unintended consequence of an unforeseen interaction between two sets of previous Grid Code changes which were implemented during 2005. NGET noted that it requires data to be provided on a Balancing Mechanism ('BM') Unit basis from BM Participants and therefore receives data on a Power Park Module basis in respect of BM Participants' Power Park Modules. NGET further noted that under the current arrangements it would receive a greater volume of data in respect of EELPS Power Park Modules than it requires for its analysis and that the current obligations place a greater administrative burden on a Generator with in respect of an EELPS Power Park Module than a BM Participant's Power Park Module.

NGET is proposing amendments to BC1 and BC2 to clarify that EELPS Power Park Modules should submit data on a Power Park Module basis (rather than a Generating Unit basis). NGET is also proposing a change to the definition of Generating Unit Data to reflect the proposed changes to BC1 and BC2.

NGET received four responses to Consultation I/05 from authorised electricity operators. NGET reported that:

- All were supportive of the intent of the proposed Grid Code changes to rectify the unintended interaction between two sets of Grid Code changes that have recently been implemented.
- One respondent proposed minor changes to improve the draft legal text.
- One respondent raised concerns about the clarity of the proposed changes to the draft legal text and suggested further amendments to clarify the BC1 and BC2 requirements. This respondent also suggested an amendment to the Grid Code Glossary and Definitions to reflect the propose changes to BC1 and BC2 in the definition of Generating Unit Data.

NGET noted in its report to the Authority that it had amended the drafting of the proposed Grid Code changes to take account of the majority of comments received from respondents relating to the clarity of the drafting. NGET advised that it did not agree with one respondent's view that further clarity was required within the Objectives sections of BC1 and BC2 and had therefore not proposed further amendments to these sections.

NGET's recommendation

In its report⁴ to the Authority on Consultation I/05 NGET set out the drafting for proposed changes to the Grid Code. It recommended that the Authority approves the proposed changes.

⁴ As required by C14.2.a

Ofgem's view

Approval of these changes by the Authority is required by standard condition C14(3). Having carefully considered the NGET's report on the proposed changes, Ofgem considers that, having had regard to the licensee's obligations⁵ set out in condition C14(1)(b) of the Transmission Licence ("the obligations") and Ofgem's wider statutory duties⁶, that the proposed changes to the Grid Code should be approved by the Authority. Ofgem's reasons for reaching this decision are outlined below.

Ofgem notes that there were no objections to the proposed Grid Code changes.

Ofgem considers that the quality of data available to NGET is a significant factor in the efficiency of NGET's operation of the transmission system. Ofgem notes NGET's view that the current BC1 and BC2 obligations require Generators to provide an unnecessarily large volume of data. Ofgem further notes that the proposed Grid Code change would reduce the volume of data that Generators need to provide whilst ensuring that NGET receives the data it requires to operate the transmission system. Ofgem therefore considers that this proposed Grid Code change will enhance the efficiency of transmission system operation.

Ofgem acknowledges that the proposed Grid Code change would make the data requirements for EELPS Power Park Modules under BC1 and BC2 consistent with the data required in respect of BM Participant's Power Park Modules. Ofgem considers that improving the consistency in this way will facilitate competition in generation.

The Authority's decision

Based on the reasons set out above the Authority has therefore decided to approve the Grid Code changes set out in Appendix A of the report submitted to the Authority arising from Consultation I/05 (Grid Code Balancing Code Changes Associated with Embedded Exemptable Large Power Stations).

The implementation date for these Grid Code changes is 10 business days after the date of this letter.

⁵ The licensee's transmission licence defines the Grid Code objectives as follows:

- (i) to permit the development, maintenance and operation of an efficient, co-ordinated and economical system for the transmission of electricity;
- (ii) to facilitate competition in the generation and supply of electricity (and without limiting the foregoing, to facilitate the GB transmission system being made available to persons authorised to supply or generate electricity on terms which neither prevent nor restrict competition in the supply or generation of electricity); and
- (iii) subject to sub-paragraphs (i) and (ii), to promote the security and efficiency of the electricity generation, transmission and distribution systems in Great Britain taken as a whole.

⁶ Ofgem's statutory duties are wider than the matters that the NGET has to take into consideration and include amongst other things a duty to have regard to social and environmental guidance provided by Ofgem to the government.

Please do not hesitate to contact me on the above number if you have any queries in relation to the issues raised in this letter or alternatively contact Bridget Morgan on 020 7901 7080.

Yours sincerely

A handwritten signature in black ink that reads "John Scott". The signature is written in a cursive style with a horizontal line underneath the name.

John Scott
Technical Director

Signed on behalf of the Authority and authorised for that purpose by the Authority

cc: Lilian MacLeod, GCRP Secretary