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*Promoting choice and
value for all customers*

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25 February 2004

Dear Tim

STANDARD CONDITION 7 : TRANSMISSION LICENCE, LICENSEE'S GRID CODE

Decision in relation to consultation B/04 "Changes to BC2.9.2.2 to support the issue of Emergency Instructions for Maximum Generation Service via electronic data communication facilities"

The Gas and Electricity Markets Authority (the "Authority")¹ has carefully considered the changes that NGC has proposed to its Grid Code as set out in the report to the Authority² arising from consultation B/04 "Changes to BC2.9.2.2 to support the issue of Emergency Instructions for Maximum Generation Service via electronic data communication facilities" that has been submitted to it for approval.

The Authority has decided to approve the proposed changes to NGC's Grid Code (the "Grid Code") set out in the report to the Authority arising out of consultation B/04.

This document explains the background to the proposals and sets out the Authority's reasons for its decisions 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 the directions contained or referred to in this letter.

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

² Report from NGC – Consultation Reference B/04, Issue 1, Date of Issue 11 Feb 2004.



Background to the proposed changes to NGC's Grid Code

NGC has recently introduced a new balancing service ("Maximum Generation Service") to allow it to make use of energy reserves that cannot be offered by generators for use on a firm basis. Changes have been made³ to NGC's Balancing Principles Statement, Procurement Guidelines, Applicable Balancing Services Volume Data and Balancing Services Adjustment Data methodologies ("the AA4 statements") to introduce this service. Changes were also made to the Grid Code⁴ to facilitate the usage of the Maximum Generation Service by the issue by NGC of an Emergency Instruction.

Following the introduction of this new commercial service, NGC has agreed terms for its provision with a number of generators which are set out in bilateral Maximum Generation Service Agreements. Ofgem notes that these agreements are not public documents but that NGC has advised that the agreements provide for it to instruct the provision of this service using electronic communication facilities.

One industry participant raised this matter with Ofgem and queried whether this part of the agreement met the requirements of BC2.9.2.2 of the Grid Code. Ofgem investigated this issue and subsequently advised NGC that it was concerned that this aspect of the Maximum Generation Service Agreement did not comply with the Grid Code. As an interim measure, NGC confirmed that it was able to issue any instructions for the Maximum Generation Service in a manner that is compliant with the existing Grid Code although noting that it only considered that this alternative arrangement to be a viable short term measure.

NGC has identified further changes to its Grid Code that it considers necessary to facilitate the usage of the Maximum Generation Service using instructions issued via its electronic data communication facilities. NGC considered that this matter should be urgently progressed and following consultation with Grid Code Review Panel members, agreed the wording of the consultation paper that allowed five business days for responses.

NGC reported that:-

- 7 responses were received.
- There were no sustained objections to proposed changes.
- Several respondents noted their objection to the original proposals to introduce the Maximum Generation Service, but in light of the review work currently being undertaken by the Balancing Services Standing Group ('BSSG'), this proposed procedural change was acceptable.
- Some respondents also noted a concern that the proposal to allow Emergency Instructions to be issue by electronic data communication facilities would "downgrade" their status.
- One respondent expressed concern about the reference to a bilateral Maximum Generation Service Agreement in the proposed change to BC2.9.2.2.

³ Changes were approved by the Authority on 14 November 2003.

⁴ Changes were approved by the Authority on 18 November 2003.

NGC's recommendation

NGC recommends that the Authority approves the changes to its Grid Code set out in the report to the Authority arising from consultation B/04 "Changes to BC2.9.2.2 to support the issue of Emergency Instructions for Maximum Generation Service via electronic data communication facilities".

Ofgem's view

Ofgem agrees, having had regard to the licensee's objectives set out in condition 7(1)(b) of the Transmission Licence ("the objectives") and its principal objective and statutory duties, that the proposed changes to NGC's Grid Code should be made. Ofgem's reasons for reaching this decision are outlined below.

The reasons for the Authority's decision to approve the introduction of the new commercial service (Maximum Generation Service) are set out in the decision letter relating to the associated revisions to the AA4 statements and the Grid Code that NGC proposed. These reasons are not repeated in this letter (except where they apply directly to the proposed Grid Code changes or the response NGC received to this consultation). In reaching its decision to approve the B/04 amendment proposals Ofgem has considered the requirements to amend the Grid Code in the light of the Authority's approval of the Maximum Generation Service proposals. The B/04 decision is not a decision on the merits of those proposals but rather is based upon their practical effects. It is noted that the B/04 proposals would not be appropriate if the Maximum Generation Service had not been introduced.

In reaching its decision in relation to the Grid Code changes that NGC has proposed to enable the utilisation of the Maximum Generation Service, Ofgem has also taken into account the views set out in NGC's report to the Authority (including the responses that were included within that report).

Ofgem notes that the consultation process for this proposed change was different from that usually adopted by NGC when Grid Code changes are proposed. However, in light of the urgency with which this issue needs to be resolved such that the Maximum Generation Service can be instructed in accordance with the arrangements set out in the Maximum Generation Service Agreement and the pre-consultation with Grid Code Review Panel members. Ofgem is satisfied that NGC's consultation in this case was adequate.

Ofgem notes that some respondents remain concerned about the introduction of the Maximum Generation Service arrangements. Ofgem has previously stated that it also has concerns about the potential impact on trading arrangements and for this reason, has approved the introduction of this commercial service as a transitional measure and has also placed an information reporting requirement on NGC. However, this comment is related to the decision about whether or not to introduce the Maximum Generation service and not about the consequential Grid Code amendments. As noted, further details on the Authority's decision in this respect can be seen in the Authority's decision letter on the Maximum Generation Service. In addition, it is noted that in its approval of the revisions to the AA4 statements, Ofgem has stated that it considers that an enduring solution via the BSC and CUSC should be developed by market participants. Ofgem is pleased to note that such work is being progressed by the BSSG and that in light of this that respondents do not have outstanding concerns about this proposed Grid Code change.

Ofgem further notes the concerns raised by respondents about the possible consequences of NGC's proposal to use electronic data communication facilities would downgrade the status of Emergency Instructions. However, Ofgem also notes that NGC has advised that its electronic data communication facilities were designed with specific facilities to cover Emergency Instructions and that both NGC and Users receive a high standard of training on the use of these facilities. Ofgem is satisfied that the arrangements described by NGC are sufficiently defined to provide clarity about the status of the Maximum Generation Service instructions.

Ofgem notes the concern raised by a respondent about the transparency of the proposed change to BC2.9.2.2. However, Ofgem is aware that other obligations within the Grid Code are defined by reference to bilateral agreements and as such considers that this drafting approach is not inconsistent with other sections of the Grid Code. Ofgem further notes that this respondent's comment has been passed by NGC for consideration by the BSSG.

Ofgem believes that the proposed amendment is intended to facilitate a procedural change to allow NGC to instruct the Maximum Generation Service via electronic data communications facilities and note that there are not any objections to the proposed change. Ofgem considers that the amendment will improve the efficiency of the Maximum Generation Service arrangements which are intended to facilitate the usage of a commercial service which is intended to deliver benefits in terms of security of supply, which is consistent with the objectives and Ofgem's principal objective and statutory duties.

Ofgem notes that this change proposal was identified by NGC in consultation with the Grid Code Review Panel as urgent. The Authority agrees that the change proposal should be addressed on an urgent basis as it is important that NGC is able to issue Emergency Instructions to address any security of supply concerns. Ofgem therefore believes that the urgency of this matter makes it inappropriate to produce a regulatory impact assessment on this proposed change.

The Authority's decision

The Authority has therefore decided to approve the Grid Code changes set out in report to the Authority arising from consultation B/04 "Changes to BC2.9.2.2 to support the issue of Emergency Instructions for Maximum Generation Service via electronic data communication facilities".

The Authority agrees that the implementation date for these changes should be 2 March 2004.

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



John Scott
Technical Director

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

cc: David Payne, GCRP Secretary

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