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Dear Ben

REVIEW OF THE GRID CODE : DECISION AND NOTICE IN RELATION TO CONSULTATION B/06 (REGIONAL DIFFERENCES)

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 B/06 ("Regional Differences")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 B/06. In conjunction the Authority has decided to direct the amendments to the Grid Code⁴ as set out in Appendix 1 of this letter.

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 and direct the amendments set out in Appendix 1. This letter constitutes notice by the Authority under Section 49A of the Electricity Act 1989 in relation to these decisions.

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 B/06, Issue 1, Date of Issue 13 July 2006
http://www.nationalgrid.com/NR/rdonlyres/08C44C77-EA87-4639-A6B7-95B3D76206BD/7880/ReporttotheAuthorityB06Regional_Differences_final.pdf.

⁴ As permitted in C14.4

Background to the proposed changes to NGET's Grid Code

The applicability of some Grid Code obligations varies depending on the location of the User within Great Britain. These differences within the Grid Code reflect the differences between the previous Grid Codes that could not be harmonised as part of the implementation of the British Electricity Trading and Transmission Arrangements ("BETTA"). The Grid Code⁵ requires the Grid Code Review Panel ("GCRP") to reduce Regional Differences within the Grid Code wherever possible.

NGET initiated a review of the regional differences which it considered had a significant impact on Users ("Regional Differences"). A GCRP Working Group was established to assist NGET with its review.

NGET has proposed changes to the Grid Code definitions of Small, Medium and Large Power Stations to: -

- Remove the Medium Power Station category in the SPT area.
- Classify Small Power Station as power stations with a Registered Capacity less than 30MW (currently less than 5MW) in the SP Transmission ("SPT") Area and less than 10MW (currently less than 5MW) in the Scottish Hydro-Electric Transmission Limited ("SHETL") area.
- Classify Large Power Station as power stations with a Registered Capacity of 10MW or larger (currently 5MW or larger) in the SHETL Transmission Area.
- Apply each of the definitions of Small, Medium and Large Power Station in respect of boundaries that reflect the electrical connection rather than the geographic location.

NGET has proposed changes to the size threshold at which Power Park Modules are required to have frequency response capability. NGET proposes that the threshold in Scotland should be increased to 50MW (currently 30MW) to align the requirement across GB.

NGET has also proposed changes to align the Demand side requirements with the proposed changes to the thresholds of Small, Medium and Large Power Stations. NGET has proposed a change which would require Demand Physical Notifications ("PNs") to be submitted only in respect of Balancing Mechanism Units ("BMUs") with a Demand Capacity greater than 10MW in the SHETL Transmission Area and greater than 30MW in the SPT Transmission Area.

NGET received seven responses to Consultation B/06 from authorised electricity operators. NGET reported that all respondents were supportive of the proposed Grid Code changes to minimise the number of regional differences within the Grid Code.

Ofgem notes that:

- Three respondents provided detailed comments on the draft legal text.
- Two respondents considered that there would be a need to further review the definitions of Small, Medium and Large Power Station in the future. One respondent requested a review in two years. The other respondent recommended that the thresholds and their area of applicability are reviewed as the transmission system in Scotland is strengthened.

⁵ General Condition GC.4.2 of the Grid Code requires the GCRP to 'consider and identify changes to the Grid Code that would remove any unnecessary differences in the treatment of issues in Scotland from their treatment in England and Wales'.

- One respondent suggested that the definition of Small Power Station for the SHETL Transmission Area should allow for a project specific review of developments between 10 and 12.5MW. This respondent considered that classification as a Small Power Station should reflect local distribution system conditions.
- Two respondents questioned whether the applicability of obligations in respect of Demand PNs should also be defined in terms of boundaries that reflect the electrical connection arrangements rather than geographic location.

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 comments received from respondents relating to the drafting of the proposed Grid Code changes, but that it was not able to:-

- Replace all references to 'in England and Wales' and 'in Scotland' without a more detailed review as such changes may have material impacts on some Users.
- Refer to either 'Transmission System' or 'Transmission Area' as both terms are required to define boundaries that reflect the electrical connection arrangements rather than geographic location.
- Refer to the GB Transmission System as being entirely owned by NGET as this is factually inaccurate.

NGET's recommendation

In its report⁶ to the Authority on Consultation B/06 NGET set out the drafting required for proposed changes to the Grid Code. It recommended that the Authority approved the proposed changes.

NGET noted that approval of these proposed Grid Code changes would necessitate consequential changes to the GB Security and Quality of Supply Standard ("GBSQSS") which includes the current Grid Code definitions of Small, Medium and Large Power Station. NGET advised that should the Authority approve the changes to the Grid Code set out in consultation B/06, it would progress GBSQSS change proposals.

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 obligations⁷ set out in condition C14(1)(b) of the Transmission Licence ("the obligations") and Ofgem's wider statutory duties⁸, that the proposed changes to the Grid Code should be approved by the Authority. Ofgem's reasons for reaching this decision are outlined below.

⁶ As required by C14.2.a

⁷ 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.

⁸ 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 to Ofgem by the government.

Ofgem notes that all respondents to NGET's consultation were supportive of the proposed Grid Code changes.

Ofgem considers that the proposed changes to the definitions of Small, Medium and Large Power Stations in the SHETL and SPT Transmission Areas will reduce the number of power stations that are classed as Large Power Stations. Ofgem notes that the Grid Code contains many more obligations in respect Large Power Stations than in respect of Small Power Stations. Ofgem also notes that NGET considers that these proposed Grid Code changes will not adversely impact on its ability to operate the GB Transmission System.

A concern has been raised with Ofgem about the interaction between the proposed definitions of Small, Medium and Large Power Station and the definition of Registered Capacity that requires data submissions in whole MW. Ofgem raised this query at the July GCRP meeting and notes the view that the declared value of Registered Capacity is at the Generator's discretion as this term is not defined in terms of other contractually agreed parameters. Ofgem has assessed the legal text included within change proposal B/06 and is concerned that it does not meet the intention set out in consultation B/06. In particular, Ofgem is concerned by the impact of the requirement within the definition of Registered Capacity for the Generator's declaration to be expressed in whole MW. Ofgem has raised this issue with NGET who confirmed that there are no systems requirements for a whole number submission and that it would be able to accept submissions of Registered Capacity that are specified to one decimal place.

Ofgem considers that a further change to the Grid Code is required to implement the changes described in consultation B/06. As such, the Authority has decided to direct a further change to the Grid Code Glossary and Definitions to amend the definition of Registered Capacity in respect of the obligations on Generators to permit Registered Capacity to be specified in MW to one decimal place. These additional changes to the Grid Code that the Authority considers are needed, are set out in Appendix 1.

Ofgem notes the suggestion that a definition for a Small Power Station which reflects an assessment of system conditions local to the power station connection may be appropriate in the SHETL Transmission Area. Ofgem is concerned that a locally agreed, variable threshold for a Small Power Station in the SHETL Transmission Area could lead to an inconsistent interpretation of the Grid Code obligations. Ofgem agrees with the view expressed by NGET that there is benefit in a clearly defined, fixed threshold.

Ofgem considers that the proposal to harmonise the threshold at and above which a Power Park Module is required to provide frequency response capability at 50MW better reflects that system frequency is now managed on a GB basis. Ofgem considers that the proposed Grid Code change is consistent with the changes to the responsibilities for managing system frequency that were implemented under BETTA.

Ofgem recognises that there are considerable differences in terms of the strength and other technical characteristics between different parts of the GB Transmission System. Ofgem understands that Regional Differences were required to reflect these differences and have been defined in terms of individual transmission licensees' Transmission Areas. Ofgem considers that it is appropriate for the applicable definition for the size of the power station to be determined by the connection arrangements of each power station. Ofgem considers that the proposed change to apply the definitions of Small, Medium and Large Power Station on an electrical boundary basis will better facilitate NGET's operation of an efficient, co-ordinated and economical system for the transmission of electricity.

Ofgem notes the change proposed in respect of the requirement to submit Demand PNs is less extensive than the changes proposed relating to the definitions of Small, Medium and Large Power Stations. Ofgem understands that NGET does not consider that the applicability of the obligations to submit Demand PNs at the boundaries between the three Transmission Areas has been properly assessed. Ofgem acknowledges NGET's decision to consider this issue as part of a future review of the Grid Code. Ofgem notes that NGET has assessed the current Demand BMUs and has not identified any issues at the boundaries between the three Transmission Areas.

Ofgem considers that the proposed Grid Code changes will change the obligations with which Generators are required to comply, to better reflect the services that are necessary to enable NGET to operate an efficient and economical system of electricity transmission. Ofgem considers that changing Grid Code obligations to more accurately reflect the information and services required from a Generator will facilitate competition in generation. Ofgem also considers that there is value in Grid Code obligations on Demand and Generation BMUs to be aligned wherever possible. Ofgem considers that this type of consistency will facilitate competition in the generation and supply of electricity.

Ofgem acknowledges respondents' requests for a further review of the Grid Code definitions of Small, Medium and Large Power Station. Ofgem notes that NGET is required by its transmission licence to keep the Grid Code under review. Ofgem further notes NGET's specific references to this obligation in its responses on this point. Ofgem also notes that Users are able to raise Grid Code issues via GCRP.

Ofgem accepts that its decision on these proposed Grid Code changes will trigger a review of the GBSQSS. Ofgem acknowledges NGET's commitment to initiate the necessary review work in a timely fashion.

Ofgem notes that the Distribution Code includes definitions for Small, Medium and Large Power Station that reflect the relevant definitions in the current Grid Code. Ofgem has reviewed the relevant Distribution Code obligations and does not consider that there is a risk that significant Distribution Code issues will arise in the short term as a consequence of its decision on these Grid Code changes. However, Ofgem considers that there would be value in a review of the Distribution Code to assess the consequential impact of the Grid Code changes arising from Consultation B/06. Ofgem will therefore raise this matter with the Chair of the Distribution Code Review Panel.

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 B/06 ("Regional Differences"). In conjunction it has decided to direct the amendments set out in Appendix 1 to amend the restriction on the Registered Capacity data submission to better reflect the intent of consultation B/06.

The implementation date for these Grid Code changes is 1 September 2006.

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

**Appendix 1 – Amendment to Changes Proposed in the Report to the Authority
Arising from Consultation B/06 (“Regional Differences”)**

Glossary and Definition Revisions

- Registered Capacity**
- (a) In the case of a **Generating Unit** other than that forming part of a **CCGT Module** or **Power Park Module**, the normal full load capacity of a **Generating Unit** as declared by the **Generator**, less the MW consumed by the **Generating Unit** through the **Generating Unit’s Unit Transformer** when producing the same (the resultant figure being expressed in whole MW, or in MW to one decimal place).
 - (b) In the case of a **CCGT Module** or **Power Park Module**, the normal full load capacity of the **CCGT Module** or **Power Park Module** (as the case may be) as declared by the **Generator**, being the **Active Power** declared by the **Generator** as being deliverable by the **CCGT Module** or **Power Park Module** at the **Grid Entry Point** (or in the case of an **Embedded CCGT Module** or **Power Park Module**, at the **User System Entry Point**), expressed in whole MW, or in MW to one decimal place.
 - (c) In the case of a **Power Station**, the maximum amount of **Active Power** deliverable by the **Power Station** at the **Grid Entry Point** (or in the case of an **Embedded Power Station** at the **User System Entry Point**), as declared by the **Generator**, expressed in whole MW, or in MW to one decimal place. The maximum **Active Power** deliverable is the maximum amount deliverable simultaneously by the **Generating Units** and/or **CCGT Modules** and/or **Power Park Modules** less the MW consumed by the **Generating Units** and/or **CCGT Modules** in producing that **Active Power**.

2. Construction of References

- (xii) (a) Save where (b) below applies, where there is a reference to an item of data being expressed in a whole number of MW, fractions of a MW below 0.5 shall be rounded down to the nearest whole MW and fractions of a MW of 0.5 and above shall be rounded up to the nearest whole MW;
- (b) In the case of the definition of **Registered Capacity**, where the figure is submitted to more than one decimal place, fractions of a MW below 0.05 shall be rounded down to one decimal place and fractions of a MW of 0.05 and above shall be rounded up to one decimal place.