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to customers*

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20 September 2004

Dear Ben,

## **STANDARD CONDITION C14 – TRANSMISSION LICENCE, LICENSEE’S GRID CODE**

### Decision in relation to consultation F/04 (“Development of Maximum Generation Service”)

The Gas and Electricity Markets Authority (the “Authority”)<sup>1</sup> has carefully considered the changes that NGC<sup>2</sup> has proposed to its Grid Code as set out in the report to the Authority<sup>3</sup> arising from consultation F/04 (“Development of Maximum Generation Service”) that has been submitted to it for approval.

Having directed NGC to implement Working Group Alternative Amendment CAP071, the Authority has decided to approve the proposed changes to the Licensee’s Grid Code (the “Grid Code”) as set out in the report to the Authority arising out of consultation F/04 subject to the amendment set out in Appendix 1 that reflect the changes made to the Grid Code for BETTA that were implemented on 1 September 2004.

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.

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<sup>1</sup> The terms “Ofgem” and “the Authority” are used interchangeably in this letter. Ofgem is the office of the Authority.

<sup>2</sup> National Grid Company plc.

<sup>3</sup> Report from NGC – Consultation Reference F/04, Issue 1, Date of Issue 2 August 2004  
[http://www.nationalgrid.com/uk/indinfo/grid\\_code/pdfs/020804%20F\\_04%20Report.pdf](http://www.nationalgrid.com/uk/indinfo/grid_code/pdfs/020804%20F_04%20Report.pdf).

## Background to the proposed changes to NGC's Grid Code

CUSC<sup>4</sup> Amendment Proposal CAP071 ("CAP071") proposed the development of the Maximum Generation Service (MGS) that would allow NGC on an enduring basis to make use of additional generation capability that cannot be offered by generators for use on a firm basis. These proposed revisions were the subject of formal consultation by NGC<sup>5</sup>. NGC submitted a report to the Authority<sup>6</sup> recommending approval of the Working Group Alternative Amendment proposal. This alternative amendment to the CUSC was approved by the Authority on 20 September 2004.

NGC has also proposed changes to its Balancing Principles Statement, Procurement Guidelines, Applicable Balancing Services Volume Data and Balancing Services Adjustment Data methodologies ("the AA4 statements")<sup>7</sup> that are consequential on CAP071. These proposed revisions were the subject of formal consultation by NGC<sup>8</sup>. NGC submitted a report to the Authority<sup>9</sup> requesting approval of the proposed revisions to the AA4 statements. The proposed revisions were approved by the Authority on 20 September 2004.

NGC considered that changes to its Grid Code were also needed as a consequence of CAP071 because the current Grid Code provisions relating to MGS reflect the commercial service that was introduced in November 2003 as a transitional measure.

NGC has identified changes to its Grid Code that it considers necessary as a consequence of CAP071. NGC has proposed a change to the definition of MGS to reflect that this service will be provided in accordance with provisions under the CUSC and as set out in the Balancing Principles Statement. Changes are also proposed to BC2.9 of the Grid Code to explain that Emergency Instructions in relation to the MGS will be given and implemented in accordance with the relevant CUSC provisions. NGC has also proposed a change to OC7.4.8.5 as part of F/04 that requires notification that MGS may be instructed as part of the information about intended consequences to Users that is provided when NGC issues a "NGC System Warning – Inadequate System Margin"<sup>10</sup>. This change does not restrict NGC's ability to issue Emergency Instructions (including those relating to MGS) under emergency circumstances, if a warning in accordance with OC7.4.8.5 has not been issued.

These proposed changes were the subject of formal consultation by NGC who reported that:-

- ◆ 5 responses were received.
- ◆ 3 respondents were supportive of the proposed changes.
- ◆ 1 respondent considered that the proposed changes would suffice but that they could be improved by specifying how the use of Maximum Generation Service interacts with actions that NGC may take in emergency circumstances.
- ◆ 1 respondent was unable to support the changes proposed by NGC.

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<sup>4</sup> Connection and Use of System Code

<sup>5</sup> <http://www.nationalgrid.com/uk/indinfo/cusc/amendments.asp?id=61>.

<sup>6</sup> [http://www.nationalgrid.com/uk/indinfo/cusc/admin/scripts/uploads/CAP071%20-%20Amendment%20Report%20-%20V1.0\(3\).pdf](http://www.nationalgrid.com/uk/indinfo/cusc/admin/scripts/uploads/CAP071%20-%20Amendment%20Report%20-%20V1.0(3).pdf).

<sup>7</sup> Information about the AA4 statements is available from NGC's website and can be found at the following url : <http://www.nationalgrid.com/uk/indinfo/balancing/index.html>.

<sup>8</sup> [http://www.nationalgrid.com/uk/indinfo/balancing/mn\\_consultations.html](http://www.nationalgrid.com/uk/indinfo/balancing/mn_consultations.html).

<sup>9</sup> [http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/071\\_July04\\_report\\_to\\_Ofgem.pdf](http://www.nationalgrid.com/uk/indinfo/balancing/pdfs/071_July04_report_to_Ofgem.pdf).

<sup>10</sup> The changes to the Grid Code for BETTA that were implemented on 1 September 2004 amended this term to "GB Transmission System Warning – Inadequate System Margin".

The respondent who was unable to support NGC's proposed Grid Code changes did not believe that the proposals were adequate to support an enduring MGS arrangement. In particular, this respondent expressed concern that the Grid Code would not prescribe the sequence of actions that NGC would be expected to take in emergency circumstances. Acknowledging that the principles and criteria upon which balancing services, including MGS, will be utilised are set out in the Balancing Principles Statement, this respondent believes that the provision of MGS is material to NGC's operation of the transmission system and as such clarification of the sequence of actions that NGC would take in utilising this service in emergency circumstances is primarily a Grid Code matter.

This respondent also raised concern that specifications for electronic data communications facilities that will be used to instruct MGS have not been included in the proposed Grid Code changes.

### **GB Consultation**

Ofgem notes that it has consulted<sup>11</sup> on the GB wide impact of the changes proposed in NGC's consultation and that it received one response. This respondent believed that the changes proposed in F/04 should be applied on a GB wide basis and noted its support for the proposed change to be incorporated in the GB Grid Code.

Ofgem has consulted on whether the proposed changes are applicable for the GB Grid Code as part of its consultation on CAP071 and related changes to other documents<sup>12</sup> and that it received two responses. One of these respondents noted support for the proposed changes associated with CAP071 being incorporated in the GB Grid Code. The other respondent did not comment on the Grid Code changes.

### **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 F/04 ("Development of a Maximum Generation Service").

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<sup>11</sup> [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/7416\\_12904\\_GBCon\\_F04.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/7416_12904_GBCon_F04.pdf).

<sup>12</sup> [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8175\\_gb\\_consultation04.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8175_gb_consultation04.pdf).

## Ofgem's view

Ofgem considers that, having had regard to the licensee's objectives set out in condition C14.1(b)<sup>13</sup> of the Transmission Licence ("the objectives") and Ofgem's wider<sup>14</sup> 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 proposals to develop MGS are set out in the decision letter relating to CUSC Amendment Proposal CAP071. 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 the associated consultation). In reaching its decision to approve the F/04 amendment proposals Ofgem has considered the requirements to amend the Grid Code in the light of the Authority's approval of the Working Group Alternative Amendment proposal set out in CAP071. The F/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 F/04 proposals would not be appropriate if the Working Group Alternative Amendment set out in CAP071 is not implemented.

Ofgem considers that the proposed Grid Code changes are intended to facilitate the usage of a service under the CUSC which is intended to deliver benefits in terms of security of supply, which is consistent with NGC's objectives and Ofgem's wider statutory duties. Grid Code Change F/04 is required as a result of Ofgem's approval of the Working Group Alternative Amendment proposal of CUSC Amendment Proposal CAP071. Grid Code Change F/04 has been considered in light of the applicable code objectives and Ofgem is satisfied that the change better facilitates those objectives.

Ofgem acknowledges the respondents' concern regarding the lack of definition in the Grid Code of the circumstances under which MGS may be used by NGC. Ofgem believes that the amendments made to the definition of MGS, by referring to both the CUSC and the Balancing Principles Statement provides an explicit link to the documents where the definition is set out in more detail and provides clarification of the circumstances in which MGS may be used by NGC. Ofgem is concerned that the Grid Code should not unduly restrict NGC's ability to operate the transmission system under emergency circumstances and is satisfied that the provisions set out in the CUSC and Balancing Principles Statement provide an appropriate level of clarity in relation to MGS. Ofgem further notes that NGC is obliged by its transmission licence<sup>15</sup> not to discriminate between any persons (or class of persons) in its procurement and use of balancing services.

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<sup>13</sup> 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.

<sup>14</sup> Ofgem's statutory duties are wider than the matters that NGC must take into consideration and include amongst other things social and environmental guidance provided to Ofgem by the government.

<sup>15</sup> Standard Condition C16, Procurement and Use of Balancing Services.

In relation to the respondent's concern that the proposed Grid Code changes do not include specification of the electronic data communication facilities that may be used to instruct MGS, Ofgem notes that specifications for other electronic data communication facilities have been listed as Electrical Standards in the Annex to the General Conditions of the Grid Code. Ofgem also notes NGC's view that given the range of facilities that may be used, that specification is better managed as part of specific bilateral arrangements with each MGS provider. Ofgem considers that there may not be a common specification of the electronic data communication facilities required for instructing MGS and that if this is the case then it is not inappropriate for specific requirements to be agreed on a bilateral basis. However, Ofgem shares the concern of the respondent about the lack of transparency of such arrangements. Ofgem notes that the Governance of Electrical Standards procedure set out in the Grid Code (GC11) allows for NGC or any User to propose changes to the list of Electrical Standards set out in the Annex to the General Conditions of the Grid Code. Ofgem considers that any common specification of the electronic data communication facilities that may be used to instruct MGS that is developed could be considered in accordance with this Governance of Electrical Standards procedure.

Ofgem asked NGC to review the proposed drafting for the changes set out in the report to the Authority arising from consultation F/04 ("Development of the Maximum Generation Service") in light of the changes to the Grid Code for BETTA ("Issue 3 of the Grid Code") that were implemented on 1 September 2004. NGC has subsequently provided revised drafting for OC7.4.8 and OC7.4.8.5 that highlights the proposed changes against Issue 3 of the Grid Code which is included as Appendix 1 to this letter. Ofgem does not consider that there are significant differences between the drafting for OC7.4.8 and OC7.4.8.5 in F/04 and that contained in Appendix 1.

### **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 F/04 ("Development of Maximum Generation Service") subject to the amendment set out in Appendix 1 that reflect the changes made to the Grid Code for BETTA that were implemented on 1 September 2004.

The Authority agrees that the implementation date should be 4 October 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

A handwritten signature in black ink that reads "John Scott". The signature is written in a cursive style and is underlined with a single horizontal stroke.

**John Scott**  
**Technical Director**

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

cc: David Payne, GCRP Secretary

Appendix 1 – Amendment to Change Proposed to OC7.4.8 and OC7.4.8.5 in the Report to the Authority Arising from Consultation F/04 (“Development of the Maximum Generation Service”)

OC7.4.8      **GB Transmission System Warnings**

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OC7.4.8.5    **GB Transmission System Warning – Inadequate System Margin**

A **GB Transmission System Warning – Inadequate System Margin** may be issued to **Users** in accordance with OC7.4.8.2 at times when there is inadequate **System Margin** as determined under BC1.5.4. It will contain the following information:

- (i) the period for which the warning is applicable; and
- (ii) the availability shortfall in MW; and
- (iii) intended consequences for **Users**, including notification that **Maximum Generation Service** may be instructed.