



*Bringing choice and value
to customers*

Mr Ben Graff
GCRP Chairman
The National Grid Company plc
National Grid Transco House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Your Ref: DP/G-04
Our Ref: blm / I 039
Direct Dial: 020 7901 7366
Email: john.scott@ofgem.gov.uk

3 September 2004

Dear Ben

STANDARD CONDITION C14 : TRANSMISSION LICENCE, LICENSEE'S GRID CODE

Decision in relation to consultation G/04 "Proposed Changes to OC1 and OC2"

The Gas and Electricity Markets Authority (the "Authority")¹ has carefully considered the changes that NGC² has proposed to its Grid Code as set out in the report to the Authority³ arising from consultation G/04⁴ ("Proposed Changes to OC1 and OC2") 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") set out in the report to the Authority arising out of consultation G/04 subject to the amendment set out in Appendix 1 that reflects 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.

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

² National Grid Company plc

³ Report from NGC – Consultation Reference G/04, Issue 1, Date of Issue 4 August 2004 (http://www.nationalgrid.com/uk/indinfo/grid_code/pdfs/authrep_g04.pdf)

⁴ NGC issued two versions on consultation G/04 and details of both are included within the report to the Authority.

Background to the proposed changes to NGC's Grid Code

NGC has recently reviewed the Grid Code and identified changes to Operating Code 1 ("OC1") and Operating Code 2 ("OC2") that it considers that if implemented would improve the consistency of the information that it receives from generators and is therefore able to disseminate to users of the transmission system.

In consultation G/04 ("Proposed Changes to OC1 and OC2"), NGC proposed revisions to OC2 and the definition of Output Usable such that the obligation for generators to make allowance for generating unit breakdown (neutral data) in preparing Output Usable forecasts would be removed. A change was also proposed to OC1 that would introduce a requirement on NGC to take account of the demand taken by Station Transformers⁵ when forecasting demand in the Programming and Control Phases.

NGC reported that it received 7 responses to the initial consultation G/04 and that 5 of these responses were from authorised electricity operators. Of the respondents who are authorised electricity operators:-

- 2 respondents supported the proposed changes.
- 1 respondent supported the proposed changes subject to detailed drafting comments.
- 2 respondents were opposed to the proposed changes.

These respondents raised a number of issues about NGC's proposed changes in particular noting concern about the:-

- Recent volume of changes that have been made to OC2 and a request for a period of stability following the decision on this change proposal to allow for the new information transfer system to be implemented.
- Lack of consideration to reducing the administrative burden for generators when these proposed changes to the Grid Code were identified. This respondent considered that changes to OC2 should not be made until a complete and transparent review of OC2 has been carried out.
- Guidance note (which does not form part of the Grid Code) containing additional data requirements than would be set out in OC2 if the proposed changes were implemented.
- Impact that the proposed changes would have on market participants' abilities to make comparisons with historic data.
- Definition of Output Usable not being more directly linked with Maximum Export Limit.

Of the respondents who are not authorised electricity operators:-

- 1 respondent identified that the proposed changes to the Grid Code are inconsistent with the definition of "Demand Forecast" in the BMRS⁶ help text.
- The other respondent agreed with NGC's intention to amend the data requirements but identified inconsistencies between the proposed changes to OC2 of the Grid Code and the Guidance Notes that have been provided by NGC.

⁵ The Grid Code defines Station Transformer as "A transformer supplying electrical power to the Auxiliaries of a Power Station, which is not directly connected to the Generating Unit terminals (typical voltage ratios being 132/11kV or 275/11kV)."

⁶ Balancing Mechanism Reporting Service

NGC explained that in light of the responses it received to its consultation that it revised the Grid Code change proposals that were set out in consultation G/04 in a manner that it considered addressed the issues that were identified. NGC subsequently issued a further consultation G/04 Version 1.1.

NGC reported that it received 3 responses to consultation G/04 Version 1.1 from authorised electricity operators and that these respondents did not have sustained objections to these proposed changes and generally agreed that the revised drafting provided additional clarity.

GB Consultation

Ofgem notes that it has consulted⁷ on the GB wide impact of the changes proposed in the initial NGC consultation and that it received one response. This respondent believed that the changes proposed in G/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 also consulted⁸ on the GB wide impact of the revised change proposals in NGC's subsequent consultation and received two responses. Neither of these respondents identified any additional implications of the proposed changes on a GB wide basis and both noted support for the proposed changes.

Ofgem has consulted on whether the proposed changes are applicable for the GB Grid Code⁹ and did not receive any responses to this consultation.

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 G/04 "Proposed Changes to OC1 and OC2".

Ofgem's view

Ofgem considers that, having had regard to the licensee's objectives set out in condition 7(1)(b) of the Transmission Licence ("the objectives") and Ofgem's wider¹⁰ statutory duties, that the proposed changes to the Grid Code should be made. Ofgem's reasons for reaching this decision are outlined below.

⁷ http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/7459_Cons_of_G04.pdf.

⁸ http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8003_17604_G04V1.pdf

⁹ http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/8268_ConsultationofG04publication.pdf.

¹⁰ 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.

Ofgem considers that the quality of data available to NGC has a significant contribution to the efficiency of NGC's operation of the transmission system and that the proposed changes to the Grid Code will require the information provided to NGC to be collated on a more consistent basis which is expected to improve the quality of this information. Ofgem also understands that NGC uses this information when preparing forecasts that are provided to users of the transmission system. Ofgem considers that improvements to the quality of this information will facilitate competition in generation and supply and also promote the security of the electricity system as a whole by enabling market participants to make informed decisions.

Ofgem agrees that it is important that Grid Code requirements are sufficiently stable to enable efficient implementation by those to whom they apply. Ofgem also notes that NGC is required by its licence¹¹ to periodically review both the Grid Code and the implementation of that Grid Code. Ofgem notes that NGC's licence obligation does not specifically require NGC to identify changes to the Grid Code that would reduce the administrative burden on any particular class of user. However, Ofgem considers that the proposed Grid Code changes slightly reduce the administrative burden on generators by removing the obligation on generators to make assessments of the expected likelihood of generating unit breakdown. Ofgem also notes that the governance arrangements for the Grid Code allow users to submit suggested amendments to the Grid Code to NGC, for the Grid Code Review Panel's consideration.

Ofgem is concerned that there should not be inconsistency between Grid Code requirements and any explanatory guidance notes. However in this case, Ofgem notes that NGC has clarified that the guidance note does not form part of the Grid Code (and therefore compliance with the guidance note is not mandatory) and stated that it intends to review the guidance note should these proposed changes to the Grid Code be implemented.

One respondent highlighted the fact that a change to the data submitted by generators would result in a change to the information subsequently provided by NGC. Ofgem recognises that there is value to market participants in being able to make comparisons with historic data and notes that NGC has agreed to provide detailed explanation of any changes to the data provided should these Grid Code changes be implemented to assist with transition to the new arrangements. Ofgem does not consider that it would be appropriate to require NGC to reissue historic data in the revised format or provide future information in both formats.

A number of respondents questioned whether the definition of Output Usable should be directly linked with Maximum Export Limit. Ofgem notes that NGC advised these respondents that such a link is not appropriate with the current obligations relating to Output Usable but agreed that this definition would be considered further as part of NGC's wider review of market information provision.

Ofgem is aware that these Grid Code changes require a change to be made to the BMRS Help Text and notes that NGC has submitted a Change Proposal to Elexon that is dependent on the implementation of these Grid Code changes.

¹¹ Electricity Transmission Licence, Standard Condition C14, paragraph 2.

Ofgem asked NGC to review the proposed drafting for the changes set out in the report to the Authority arising from consultation G/04 ("Proposed Changes to OC1 and OC2") 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 OC1.6.1 and OC2.4.1.2.1(a) 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 OC1.6.1 and OC2.4.1.2.1(a) in G/04 Version 1.1 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 G/04 ("Proposed Changes to OC1 and OC2") subject to the amendment set out in Appendix 1 that reflects the changes made to the Grid Code for BETTA that were implemented on 1 September 2004.

The Authority agrees that the implementation date for these changes should be 11 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 line.

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 the Change Proposed to OC1.6.1 and OC2.4.1.2.1(a) in the Report to the Authority Arising from Consultation G/04 (“Proposed Changes to OC1 and OC2”)

OC1.6.1

The following factors will be taken into account by **NGC** when conducting **GB Transmission System Demand** forecasting in the **Programming Phase** and **Control Phase**.

(k) Demand taken by Station Transformers

OC2.4.1.2.1

(a) By the end of week 2

Each **Generator** will provide **NGC** in writing with:

- (i) a provisional **Genset** outage programme (covering all non-**Embedded Power Stations** and **Embedded Large Power Stations**) for Year 3 to Year 5 (inclusive) specifying the **Genset** and MW concerned, duration of proposed outages, the preferred date for each outage and where there is a possibility of flexibility, the earliest start date and latest finishing date; and
- (ii) a best estimate ~~neutral~~ weekly **Output Usable** forecast of all its **Gensets** for Year 3 to 5.”