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15 September 2005

Dear Ben

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

Decision in relation to consultation G/05 "Time Extension for the Requirements of Grid Code General Conditions GC.15"

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 G/05 ("Time Extension for the Requirements of Grid Code General Conditions GC.15")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 G/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 the decisions contained or referred to in this letter.

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

² National Grid Company plc

³ Report from NGET - Consultation Reference G/05, Issue 1, Date of Issue 2 September 2005 (http://www.nationalgrid.com/uk/indinfo/grid_code/pdfs/Report%20to%20the%20Authority%20G05.pdf).

Background to the proposed changes to NGET's Grid Code

NGET stated in the report that GC.15 allows it (with the User's agreement) to disapply parts of the Grid Code in relation to EELPS⁴ (across GB) and Embedded Exemptable Medium Power Stations (in Scotland) until 31 March 2006. NGET further noted that this provision was introduced as part of the BETTA EELPS arrangements by an Authority direction on 4 March 2005 on the basis that it was not practical to expect all Users affected by the new EELPS arrangements to achieve and/or demonstrate Grid Code compliance ahead of BETTA go-live.

NGET has proposed an amendment to General Conditions GC.15 of the Grid Code to extend the time limit and correct a typographical error.

NGET has proposed that the time limit defined in GC.15 should be extended by 12 months to allow sufficient time for a considered review of the definitions of small, medium and large power stations to be carried out. NGET advised that a GCRP WG has been established to consider this Grid Code regional difference. NGET considers that the output of this review is likely to have a significant impact on the numbers of generators who are required to comply with the Grid Code. NGET states that deferring, until the outcome of the definition review is known, the need for generators for whom Grid Code obligations are currently disapplied (in accordance with GC.15) to achieve Grid Code compliance and should avoid the need for any unnecessary expenditure by generators or NGET. NGET advised that there may be a need to amend some of its existing agreements with generators should this Grid Code change be approved.

NGET received 4 responses to consultation G/05 from authorised electricity operators. NGET reported that:-

- All respondents indicated that the proposed change either had no effect on them or were supportive of the proposed change.
- 2 respondents welcomed the proposal to review the Grid Code definitions on small medium and large power stations.
- 1 respondent noted that there would be a need for further changes to GC.15.1 to include DNOs⁵ in respect of LEEMPS⁶ should the proposed Grid Code changes (associated with LEEMPS) be implemented.
- 1 respondent considered that as this change only affects one page of the Grid Code that it should be implemented alongside other changes.

NGET acknowledged that the scope of GC.15.1 requires consideration in light of the LEEMPS related proposed Grid Code changes and has raised this matter in its consultation D/05⁷.

NGET considers that if approved these Grid Code changes should be implemented as soon as possible to avoid unnecessary interaction with future Grid Code changes.

⁴ Embedded Exemptable Large Power Stations

⁵ Distribution Network Operators

⁶ Licence Exempt Embedded Medium Power Stations

⁷ Consultation Reference G/05, Grid Code changes associated with Licence Exempt Embedded Medium Power Stations (http://www.nationalgrid.com/uk/indinfo/grid_code/pdfs/cp_d05.pdf).

NGET's recommendation

NGET recommends that the Authority approve the changes to the Grid Code set out in the report to the Authority arising from consultation G/05 ("Time Extension for the Requirements of Grid Code General Conditions GC.15").

Ofgem's view

The proposed changes by NGET are set out in its report to the Authority as required by standard condition C14(2) of NGET's electricity transmission licence. Approval of these changes by the Authority is required by standard condition C14(3). Ofgem considers that, having had regard to the licensee's obligations set out in condition C14(1)(b)⁸ of the Transmission Licence ("the obligations") and Ofgem's wider statutory duties, that the proposed changes to the Grid Code should be approved by the Authority. Ofgem's reasons for reaching this decision are outlined below.

The Authority acknowledges that there were no objections to the proposed Grid Code changes.

The Authority notes that NGET has not reported any security of supply implications associated with this proposal to extend the duration of the exemption defined in GC.15.

The Authority notes that NGET considers that the proposed extension to the time limit in GC.15 will allow time to complete a review of the Grid Code definitions of small, medium and large power stations. The Authority was pleased to note that two respondents' welcomed NGET's proposal to initiate a review of the definitions of small, medium and large power stations. The Authority notes that a GCRP working group has been established to assist with this review work. The Authority acknowledges that the conclusion of a Grid Code review will not necessarily be a recommendation to propose changes to the Grid Code and notes that not all Grid Code change proposals can be approved for implementation. However, the Authority recognises that the work required to comply with (and demonstrate compliance with) the Grid Code varies considerably depending on the size of the power station, given that there are many more Grid Code obligations for large power stations than for medium power stations. The Authority acknowledges that NGET expects that the output of this review work would significantly impact on the volume of generators who would be required to comply with Grid Code obligations.

The Authority considers that the proposed Grid Code change promotes the efficiency of the electricity systems as a whole by allowing time for an evaluation of the regional difference in the definitions of small, medium and large power stations before requiring expenditure by generators and NGET in achieving and demonstrating that compliance.

⁸ 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.

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 G/05 ("Time Extension for the Requirements of Grid Code General Conditions GC.15").

The implementation date for these Grid Code changes is 30 September 2005.

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: David Payne, GCRP Secretary