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*Bringing choice and value
to customers*

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22 September 2005

Dear Ben

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

Decision in relation to consultation C/05 ("Re-declaration of Operational Frequency Capability")

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 C/05 ("Re-declaration of Operational Frequency Capability")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 C/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 Electricity Transmission plc

³ Report from NGET - Consultation Reference C/05, Issue 1, Date of Issue 9 September 2005
http://www.nationalgrid.com/uk/indinfo/grid_code/pdfs/C05ReporttotheAuthority.pdf.

Background to the proposed changes to NGET's Grid Code

NGET has proposed an amendment to the Grid Code to add a formal process for the re-declaration of operational frequency capability. The proposed process caters for the notification to NGET by a Generator of the withdrawal of frequency response services in real time should a generating unit develop an operational problem that is expected to be resolved in a limited timescale (hours or a few days). NGET further noted that should frequency response services from a generating unit appear to be unavailable for an extended period then it may seek through the process described in Operating Code 5 ("OC5") to clarify that the generator's capability is as required by the Connection Conditions ("CC"). The proposed process also caters for the notification of the return of frequency response services when the operational issue has been resolved.

NGET states that the proposed Grid Code process is based on an existing informal process that has been in place for a number of years and that the draft Grid Code changes are based on a similar Grid Code process in relation to reactive capability. NGET notes that it does not consider it appropriate to use the commercial arrangements for mandatory frequency response services to indicate or manage short term restrictions to frequency response service provision. NGET also states that allowing short term restrictions to be notified under the proposed Grid Code process should avoid undue restrictions on the volume of response services available to the market at certain times. NGET notes in its report that the proposed Grid Code process is not intended to be used to reflect commercial issues which should be reflected under the CUSC processes.

NGET received 9 responses to consultation C/05 from authorised electricity operators. NGET reported that:-

- 6 respondents were supportive of the proposed Grid Code changes.
- 2 respondents had no comments to make about the proposed Grid Code changes.
- 1 respondent was opposed to the proposed Grid Code change.

The respondents that supported the proposed changes noted in particular that:-

- At the time that this type of notification would be submitted to NGET, a specific underlying cause of the problem may not be known and it may only be possible to provide a generic description such as "Testing" or "Technical Problem".
- The proposed Grid Code change is the only real solution that allows Generators to inform NGET of re-declared operational frequency capability.
- The proposed Grid Code change is a pragmatic arrangement for managing technical problems.

One of these respondent also suggested some amendments to the draft Grid Code changes in consultation C/05.

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, to improve the clarity of the proposed Grid Code changes. NGET advised that it has added a further change to the proposed Appendix 4, Annexure 1 to include an area to allow NGET to indicate the reasons why a received fax is considered illegible.

The respondent who opposed the proposed Grid Code changes was not convinced that there was a need to formalise the existing informal process and considered that should NGET consider that there is such a need then the process should be formalised in the Mandatory Services Agreements.

NGET considers that there is a need to formalise the notification process to provide a clear working framework to be followed when operational problems with generating plant occur. NGET believes that the process should be included in the Grid Code as this would be transparent to the industry and does not require revision of individual Mandatory Services Agreements.

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 C/05 ("Re-declaration of Operational Frequency Capability").

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)⁴ 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.

Ofgem notes that the drafting of the Grid Code proposal change takes account of the drafting suggestions intended to improve the clarity of the proposed requirement that NGET received in response to its consultation C/05.

Ofgem notes that the majority of the respondents to NGET's consultation C/05 were supportive of or had no comments about the proposed Grid Code change. Ofgem acknowledges that one respondent opposed the Grid Code change on the grounds that there did not appear to be a need to formalise the existing arrangements.

⁴ 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.

Ofgem notes that the proposed process will allow for notification by a Generator of changes to operational frequency capability of generating plant in real time. Ofgem notes that the proposed Grid Code changes reflect current practice and that this type of information is already exchanged under the informal process but not in a standardised format. Ofgem considers that the use of a proforma for data submissions is likely to improve the consistency of data submitted. Ofgem considers that it is appropriate for the current informal process to be added as a Grid Code process as this improves visibility of the current arrangements which are within the scope of the Balancing Codes defined in the electricity transmission licence.

Ofgem notes that this process is only intended for the notification of short term unavailability of a generator's frequency response capability due to a technical issue. Ofgem further notes that the OC5 process allows NGET to investigate a generator's compliance with the CCs should frequency response services be notified as unavailable for an extended period.

In general, Ofgem considers that market arrangements are likely to result in a more efficient outcome for service provision and that there are risks associated with the provision of services if the arrangements do not provide adequate signals of the need or provide the necessary incentives for long term investment. Ofgem acknowledges that the frequency of CAP047 submissions would not be sufficient to reflect short duration frequency sensitive mode unavailability as provided for by this proposed Grid Code change. In this narrowly specified instance, Ofgem considers that a notification process under the Grid Code is appropriate in relation to technical issues that have a short term impact on a generator's frequency response capability. Ofgem acknowledges that this Grid Code change is a pragmatic solution which is expected to minimise the duration of frequency response unavailability but would welcome the continuing review of the arrangements as there may be other more appropriate solutions.

Ofgem considers that a process that allows for the return of frequency response service when the technical issue has been remedied will enhance the efficiency of transmission system operation. Ofgem further considers that a facility for notification of generating plant capability in real time promotes the security of the electricity systems 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 C/05 ("Re-declaration of Operational Frequency Capability").

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