

**Modification to the National Grid
Company's Transmission Licence:
Applicable Balancing Services Volume Data
Methodology Statement**

**Consultation under section 11(2) of the
Electricity Act 1989**

September 2002

Summary

Ofgem is currently considering a number of Balancing and Settlement Code (BSC) Modification Proposals and Connection and Use of System Code (CUSC) Amendment Proposals relating to the treatment of balancing services¹. All of these BSC Modification Proposals require NGC² to calculate the energy volumes delivered to the system associated with the provision of certain Balancing Services in accordance with a methodology statement. Modification Proposals P34 and P71 propose that the methodology statement is established outside the BSC under the CUSC and/or NGC's Transmission Licence.

Ofgem is currently minded to accept Modification Proposal P71 and it is Ofgem's view that the methodology statement that would be required if this proposal were implemented should be established under NGC's Transmission Licence. However, in reaching its final decision on this Modification Proposal, Ofgem considers that it should take account of the views of interested parties on the consequential modifications that would be required to NGC's Transmission Licence. Ofgem is, therefore, consulting on a modification to the Transmission Licence under Section 11(2) of the Electricity Act 1989.

This document, including the formal notice under Section 11(2) of the Electricity Act 1989, sets out for consultation the proposed consequential modifications to special conditions AA4 "Licensee's Procurement and Use of Balancing Services" and AA5A "Revised Restrictions on Revenue" of the National Grid Company's (NGC's) Transmission Licence. The modification to special condition AA4 would place an obligation on NGC to introduce a new methodology statement, the "Applicable Balancing Services Volume Data Methodology Statement" (ABSVD Statement), that would define:

- ◆ services for which a service provider would be allowed to transfer any imbalance volume caused by the delivery of the service to NGC's Energy Account, and
- ◆ the methodology by which such transferred imbalance volumes would be calculated.

¹ Balancing services enable NGC to maintain the quality and security of electricity supplies and to match generation and demand on a second-by-second basis.

In parallel to this consultation, NGC will consult on the scope content of the ABSVD Statement.

In conjunction with the requirement to publish an ABSVD Statement, it would be necessary to modify special condition AA5A of NGC's Transmission Licence to place an obligation on NGC to provide Ofgem with information on the level of energy volumes that had been transferred to NGC's Energy Account via the mechanism defined in the ABSVD Statement.

In addition, Ofgem is proposing to modify the change procedures for all methodology statements identified in special condition AA4 of NGC's Transmission Licence. At present, NGC can only implement changes to the methodology statements 28 days after it delivers the modification report to the Authority, if it has not been vetoed. There is no power to shorten this period. The proposed change to the licence would allow the Authority to make a direction to NGC to implement the change within the 28 day period. This modification is being proposed independently of the other modifications and is not dependent on them being made.

² NGC (The National Grid Company plc) is the owner and operator of the Transmission Network in England and Wales.

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1. Rationale

Issue

- 1.1 Ofgem is currently considering a number of Balancing and Settlement Code (BSC) Modification Proposals and Connection and Use of System Code (CUSC) Amendment Proposals relating to balancing services. These are BSC Modification Proposals P34, P36 and P71 and CUSC Amendment Proposals CAP009, CAP010 and CAP011, all of which are described in Chapter 4.
- 1.2 Under the current arrangement, market participants, particularly those on the demand side³ can face exposure to imbalance prices as a result of providing balancing services⁴. NGC (the proposer of Modification Proposals P34 and P71) has argued that the risk of exposure to high imbalance charges is making market participants (in particular, smaller demand side participants) reluctant to provide services. NGC further argued that the loss of services from these providers results in it having to use more expensive service providers; thus increasing the overall cost of system balancing to customers, and potentially reducing system security. These Modification Proposals are designed to reduce service providers' imbalance exposure and hence NGC considers that implementation of either Modification Proposal would result in a reduction to the overall costs of system balancing.
- 1.3 The BSC Modification Proposals require NGC to calculate energy volumes delivered to the system as a result of the provision of balancing services in accordance with a methodology statement. In two cases (Modification Proposal P36 and Alternative Modification Proposal P34), it is proposed that this methodology statement would be established as a framework document under the BSC. In two other cases (Modification Proposals P34 and P71), it is proposed

³ The CUSC contains provisions for the reimbursement of imbalance costs to Generators incurred whilst providing Mandatory Balancing Services.

⁴ Balancing services include: Reactive Power; Frequency Response; Black Start; Fast Start; Reserve Services – Fast Reserve, Standing Reserve, Warming; Intertrip; Emergency Assistance; and Energy Related Products. For full information on balancing services see NGC's website www.nationalgrid.com/uk.
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that the methodology statement would be established outside the BSC under the CUSC and/or the Transmission Licence.

- 1.4 Where a Modification Report or Amendment Report is submitted to the Authority, Ofgem needs to consider whether it appears likely or necessary that the resolution of the issue addressed would involve amendments to conditions in the licences of BSC Parties, normally that of NGC. Where this is the case, Ofgem can only be satisfied that such modifications can be achieved when it has carried out the statutory consultation process under section 11 or 11A of the Electricity Act. Although the consultation may, in part, relate to issues already addressed in producing the Reports and, therefore, on which consultees will already have had an opportunity to comment, the proposed licence modification may itself raise issues, not limited to its drafting. It is therefore appropriate that Ofgem should be aware of these issues before it reaches its decision on the Reports so that it can be satisfied that the full resolution of the issue can be achieved.
- 1.5 Therefore, where Ofgem is either initially minded to reach a decision which would involve or require such licence modifications, or does not consider that it can properly reach a decision without exploring the use of a licence modification to resolve, or assist in resolving, the issue, it will expect to consult on such modifications before reaching a final decision. In the light of the responses to the consultation, the relevant Modification Report, its statutory duties, and the relevant objectives, Ofgem will then reach a final decision on the proposal. This may not be the same as its initial view and it will only make the licence modifications if they are still appropriate.

Policy

- 1.6 Currently, Ofgem is minded to accept Modification Proposal P71 and reject Modification Proposals P34 and P36 and their respective alternatives. However, in reaching its final decision, Ofgem considers it appropriate that it should be able to take account of the views of interested parties on the consequential modifications that would be required to special conditions AA4 and AA5A of NGC's Transmission Licence, as outlined below. It is for this reason that Ofgem is consulting on these modifications to the Transmission Licence at this stage.

Objectives

- 1.7 This document, including the formal notice under Section 11(2) of the Electricity Act 1989, constitutes the consultation process to seek interested parties' views concerning modifications to the Transmission Licence of NGC to require it to produce a new statement relating to the treatment of certain balancing services and to provide Ofgem with data concerning the calculations undertaken by NGC pursuant to that statement. It also seeks the views of interested parties' on a change to NGC's Transmission Licence to allow the Authority to direct NGC to implement changes to the statements governed by special condition AA4 before the expiry of the 28 day period following NGC issuing its report to the Authority.
- 1.8 Ofgem will not reach a final decision on BSC Modification Proposals P34, P36 or P71 until it has considered the responses to this consultation on the possible Transmission Licence changes.

Transmission licence changes

Modification to special condition AA4

- 1.9 The proposed modifications to special condition AA4 of NGC's Transmission Licence would place an obligation on NGC to introduce a new methodology statement, the Applicable Balancing Services Volume Data (ABSVD) Methodology Statement. The ABSVD would have the same governance arrangements as those that apply to the Procurement Guidelines, the Balancing Principles Statement and the Balancing Services Adjustment Data Methodology, currently contained in paragraph 7 of special condition AA4.
- 1.10 The ABSVD Methodology Statement would define:
- ◆ services for which a service provider would be allowed to transfer any imbalance volume caused by the delivery of the service to NGC's Energy Account, and
 - ◆ the methodology by which such transferred imbalance volumes would be calculated.

- 1.11 In parallel to this consultation, NGC will consult on the scope and content on the new ABSVD Methodology Statement. Further details regarding this consultation can be found in Appendix 2.

Modification of special condition AA5A

- 1.12 Ofgem has identified that a consequential modification to special condition AA5A of NGC's Transmission Licence would be necessary to place an obligation on NGC to provide Ofgem with information on the level of energy volumes that had been transferred to NGC's Energy Account via the mechanism defined in the new ABSVD Statement. A similar obligation already exists under special condition AA5A of NGC's Transmission Licence to provide Ofgem with information on certain variables contained in the BSAD methodology.
- 1.13 If Ofgem decides not to approve any of the Modification Proposals or to approve a Modification Proposal that does not require these modifications to the Transmission Licence, these modifications will not be made.

Methodology statements change procedures – special condition AA4

- 1.14 In addition, Ofgem proposes to modify the change procedures that are in place for the methodology statements contained in special condition AA4 of NGC's Transmission Licence. The change procedures are currently contained in special condition AA4.7. At present, unless the Authority has directed a change to the standard procedure, NGC cannot change the methodology statements until 28 days after it delivers the modification report to the Authority. The proposed change to the licence would allow the Authority to make a direction to NGC to implement the change within the 28 day period. A similar change has been made to condition C3.4(c) of NGC's Transmission Licence to allow the Authority to direct NGC to shorten (or extend) the timetable for implementing BSC Modification Proposals that have been approved by the Authority. Ofgem believes it is appropriate to make the change procedures for the methodology statements governed by special condition AA4 of NGC's Transmission Licence consistent with the change procedures for the BSC.

2. Way forward

- 2.1. Ofgem invites views from interested parties on the proposed modifications to special conditions AA4 and AA5A of NGC's Transmission Licence, as outlined in section 5 of this document. This consultation represents the statutory consultation prior to a licence modification, under section 11(2) of the Electricity Act 1989.
- 2.2. When Ofgem has considered the views expressed in response to this consultation, together with the relevant Modification Reports and Amendment Reports, Ofgem will issue its decisions on BSC Modification Proposals P34, P36 and P71 as well as the related CUSC Proposed Amendments CAP009, CAP010 and CAP011.
- 2.3. If Ofgem accepts Modification Proposal P71 or P34, it will, if NGC consents to the changes, direct a modification to special conditions AA4 and AA5A of NGC's Transmission Licence, to enable the introduction of the ABSVD methodology and to require NGC to provide ABSVD to Ofgem.
- 2.4. Irrespective of its decision in relation to P71 and P34 but subject to considering respondents' views, Ofgem will, with NGC's consent, direct the modification to special condition AA4 to alter the change procedures for the various statements that NGC produces.

Views invited

- 2.5. Ofgem is seeking comments on the proposed licence modifications outlined in this document. Responses should be received by 5 pm on 21 October 2002, addressed to:

Ms Sonia Brown
Director, Electricity Trading Arrangements
Ofgem
9 Millbank
London
SW1P 3GE

- 2.6. Ofgem prefers electronic responses. These may be sent to tracey.hunt@ofgem.gov.uk. Responses can also be sent by fax to 020 7901 7451.
- 2.7. Respondents are free to mark all or part of their replies as confidential although Ofgem would prefer, as far as possible, to be able to publish responses to this consultation by placing them in the Ofgem library. Consequently, it would be helpful if any confidential material could be confined to appendices.
- 2.8. If you have any queries in relation to this consultation, please contact Sonia Brown. She can be reached by telephone on 020 7901 7412, by fax on 020 7901 7452 or by email at sonia.brown@ofgem.gov.uk. Alternatively, contact Richard Ford by telephone on 020 7901 7411, by fax on 020 7901 7452 or by email at richard.ford@ofgem.gov.uk.

3. Legal and regulatory framework

- 3.1. This section outlines the current legal and regulatory framework that is relevant to the proposed licence modifications.

The Electricity Act 1989 (the Electricity Act)

- 3.2. The Electricity Act provides the framework for the functions of the Gas and Electricity Markets Authority (the Authority) and sets out the licensing regime in relation to the, generation, transmission, distribution, and supply of electricity.
- 3.3. Under section 9(2) of the Electricity Act, holders of Transmission Licences are obliged to develop and maintain an efficient, co-ordinated and economical system of electricity transmission and to facilitate competition in the supply and generation of electricity.
- 3.4. Under section 11 of the Electricity Act, the Authority can modify a licence with the licensee's consent (and after consultation). If the licensee does not consent to the modification, the Authority may refer a question relating to the modification to the Competition Commission under section 12 of the Electricity Act.

The Utilities Act 2000 (the Utilities Act)

- 3.5. The Utilities Act received Royal Assent on 28 July 2000 after which the Authority was created. On 20 December 2000, the functions of the Director General of Electricity Supply and the Director General of Gas Supply were transferred to, and are exercisable by, the Authority.
- 3.6. The Utilities Act introduced a new principal objective on the Authority as defined in Section 3A of the Electricity Act. This principal objective is "to protect the interests of consumers in relation to electricity conveyed by distribution systems, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity." Further sections of the Utilities Act were implemented on 1 October 2001 including:

- ◆ the introduction of standard licence conditions for each type of electricity licence granted under the Electricity Act, and
- ◆ the separation of the licensing of electricity supply and distribution.

NGC's Transmission Licence

- 3.7. NGC owns and operates the national grid in England and Wales, which transports electricity at high voltage from the generators to the local distribution networks and to customers connected directly to the transmission system. In its role as transmission asset owner (TO) NGC is responsible for the maintenance and longer-term development of and investment in the transmission system. The role of system operator (SO) covers all short-term operational activities required to keep the system balanced and operating within safe limits. NGC is the sole possessor of a Transmission Licence in England and Wales, which is treated as granted under section 6(1)(b) of the Electricity Act by virtue of a licensing scheme under Schedule 7 to the Utilities Act.
- 3.8. In addition to its obligations under section 9(2) of the Electricity Act, NGC has a duty to operate the transmission system in an efficient, economic and co-ordinated manner under special condition AA4 of its Transmission Licence.
- 3.9. In carrying out the SO role, NGC makes use of a number of different tools including purchasing balancing services under contract. To ensure transparency in the way in which it procures and uses such contracted balancing services, NGC is required, under special condition AA4 of its Transmission Licence, to have in place and publish:
- ◆ **Procurement Guidelines**, which set out the type of Balancing Services that NGC may be interested in purchasing, together with the mechanisms envisaged for purchasing such Balancing Services
 - ◆ a **Balancing Principles Statement**, which is produced to assist BSC participants in understanding the actions NGC takes in achieving the efficient, economic and co-ordinated operation of the transmission system. It defines the broad principles and criteria (the Balancing Principles) by which NGC will determine, at different times and in

different circumstances, which Balancing Services will be used to assist in the operation of the transmission system, and

- ◆ a **Balancing Services Adjustment Data (BSAD) Methodology Statement**, which details the methodology by which the costs of electricity balancing services contracts are included in the calculation of imbalance prices. It also specifies which balancing services will be included within the BSAD calculations.

- 3.10. The modification procedures for these three Statements (the Procurement Guidelines, Balancing Principles Statement and BSAD Methodology Statement) are contained in paragraph 7 of special condition AA4 of NGC's Transmission Licence. There is a requirement on NGC to consult with BSC Parties on any revisions to these Statements. Any revisions are subject to veto by Ofgem.
- 3.11. NGC is also required, under supplementary standard conditions C3 and C7C respectively, to have in place and maintain a Balancing and Settlement Code (BSC) and a Connection and Use of System Code (CUSC). These are described in more detail below.

Industry codes

The Balancing and Settlement Code

- 3.12. The BSC is a code that sets out the rules for the Balancing Mechanism and imbalance settlement process under the New Electricity Trading Arrangements (NETA).
- 3.13. A BSC Panel (the Panel) has been charged with overseeing the management, modification and implementation of the BSC rules, as specified in Section B of the BSC. The Panel has twelve representatives made up from industry members, consumer representatives, independent members and NGC. The Authority appoints the Chairman of the Panel.
- 3.14. The details of the modification procedures are contained in Section F of the BSC. The modification procedures are designed to ensure that the process is as efficient as possible whilst ensuring that as many parties as possible can propose

modifications and have the opportunity to comment on modification proposals. The Authority does not have the right to propose a modification.

3.15. The Authority is the only body that can take a decision to approve a modification to the BSC. In making a decision on a BSC modification proposal, the Authority must take account of its statutory duties and consider whether the Modification Proposal would (or could be expected to) better facilitate the Applicable BSC Objectives. The Applicable BSC Objectives are contained in supplementary standard condition C3.3 of NGC's Transmission Licence and are:

- ◆ the efficient discharge by the licensee of the obligations imposed upon it by this licence
- ◆ the efficient, economic and co-ordinated operation by the licensee of the Licensee's Transmission System
- ◆ promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity
- ◆ promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

The Connection and Use of System Code

3.16. The CUSC is the current contractual framework governing connection to and use of NGC's Transmission System. The CUSC is a licence-based code, setting out the principal rights and obligations in relation to connection to and/or use of the Transmission System and relating to the provision of certain balancing services.

3.17. The governance arrangements for the CUSC are contained in section 8 of the CUSC. An Amendments Panel, chaired by an NGC appointed representative, considers all amendment proposals, which then come to the Authority for approval. The Authority does not have the right to propose Amendments. The Panel, in addition to the Chairman, consists of 2 NGC representatives, 7 members appointed by the industry and an energywatch representative. The Authority has power to appoint one additional member to represent the interests

of any class whose interests are not reflected in the Panel membership. The Chairman and industry elected Panel members are required to act independently. All CUSC amendments come to the Authority for approval and the set of Applicable CUSC Objectives that Ofgem must take into account, in addition to its statutory duties, in reaching its decision are contained in supplementary standard condition C7F.1 of NGC's Transmission Licence and are:

- ◆ the efficient discharge by the license of the obligations imposed upon it under the Act and by this licence, and
- ◆ facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

3.18. NGC is responsible for implementing or supervising the implementation of approved amendments.

4. Relevant BSC modification proposals and CUSC proposed amendments

- 4.1. This section outlines the background to BSC Modification Proposals P34, P36 and P71 and CUSC Amendment Proposals CAP009, CAP010 and CAP011. All of these proposals address similar issues. As outlined earlier, the proposed modification to NGC's Transmission Licence will be necessary should Ofgem decide to accept either Modification Proposal P34 or P71.

Introduction

- 4.2. As part of the Grid Code, all users of the transmission system are required to be capable of providing certain mandatory balancing services. For generators, these mandatory balancing services include providing specified levels of frequency response and reactive power. In addition, they may choose to tender to provide commercial balancing services, including providing enhanced levels of frequency response and reactive power.
- 4.3. Participants can be exposed to imbalance charges⁵ as a result of providing mandatory or commercial balancing services. This is because providing these services changes the output of participants i.e. their metered volumes, but the change in output is not captured as an accepted Balancing Mechanism bid or offer or as a contracted volume that can be notified at Gate Closure⁶.
- 4.4. For the introduction of NETA, a mechanism intended to compensate generators for imbalance exposures arising due to the delivery of mandatory frequency response was put in place. The NETA Implementation Scheme was used to incorporate this mechanism in the Mandatory Services Agreements (MSAs) and it was subsequently codified into the CUSC.

⁵ Imbalance charges are levied on participants whose metered volumes (adjusted for transmission losses) differ from their contract volumes. For the purposes of imbalance settlement, a participant's contract volumes are adjusted to include an accepted Balancing Mechanism bid or offer volume as well as any contract volumes notified to the central systems by Gate Closure.

⁶ Gate Closure is the time by which contract volumes for a trading period have to be notified and is also the time at which the Balancing Mechanism for that period opens.

- 4.5. A central element to the imbalance compensation mechanism is the estimation of the volume of energy delivered by a generator when it is providing mandatory frequency response. Initially, the estimates were based on matrix values contained in the MSAs. These values were based on the response capability of generating units at periods of 10 seconds (Primary Response) and 30 seconds (Secondary Response) after a low frequency incident (when the frequency of supplies on the transmission system falls below 50 Hz) and 10 seconds after a high frequency incident (High Frequency Response). However, it has been argued this methodology could still leave participants exposed to imbalance exposure as the values contained in the matrices in the MSAs may not always lead to correct estimations of the energy volumes delivered when delivering frequency response.
- 4.6. On 15 November 2001, the Authority approved the implementation of CUSC Amendment CAP001 "Frequency Response Imbalance Payments", which was designed to improve the accuracy of the imbalance compensation mechanism. The changes incorporated in the imbalance compensation mechanism as a result of this amendment included:
- ◆ calculating the energy associated with frequency deviations on a minute-by-minute basis rather than as the net deviation over a whole trading period;
 - ◆ the use of detailed linear interpolations of the response capability matrix for each individual generating unit;
 - ◆ a better approximation of the low frequency response power delivered after primary response time-scales (i.e. after 10 seconds); and
 - ◆ a more accurate representation of the cost of non-delivery charges incurred by providers of mandatory frequency response.
- 4.7. Following the approval of the amendment by the Authority, these changes were introduced retrospectively from 21 September 2001.
- 4.8. Despite these improvements, participants have continued to have concerns regarding their potential imbalance exposure as a result of providing certain

balancing services. Several BSC Modification Proposals and CUSC Amendment Proposals have been raised to address these concerns. The Authority has yet to make decisions on these Modification Proposals and Proposed Amendments. These Modification Proposals and Proposed Amendments are set out below.

BSC Modification Proposals

Modification Proposal P34

- 4.9. NGC raised Modification Proposal P34 “Transfer of imbalances caused by Balancing Services to the Transmission Company Energy Account” on 14 August 2001. Under this proposal, NGC would be required to determine the energy volume associated with the provision of “Applicable Balancing Services” for a Balancing Mechanism Unit (BMU) within two working days of the period in which the service was provided (i.e. in time for the Interim Information Settlement Run). The volumes NGC calculated would be reported on the Balancing Mechanism Reporting System (BMRS) and used in the settlement calculations.
- 4.10. The calculated Applicable Balancing Services volumes would be transferred from the appropriate Energy Account of the balancing services provider to the Energy Account of NGC, which is always cashed out at a zero price. However, balancing services providers would be able to opt out of this transfer process.
- 4.11. Under this modification, the methodology for determining the transferable volumes and balancing services for which this treatment would apply (the Applicable Balancing Services) would sit outside the BSC governance. In addition, it specifies a retrospective implementation date of 23 August 2001.
- 4.12. The Modification Group developed an alternative to Modification Proposal P34. Alternative Modification Proposal P34 has a prospective implementation date of 1 December 2002. The only other difference between Modification Proposal P34 and Alternative Modification Proposal P34 is that under the Alternative Modification Proposal the methodology for determining the energy volumes delivered, and the list of Applicable Balancing Services would sit under the governance of the BSC.

Modification Proposal P36

- 4.13. Innogy plc raised Modification Proposal P36 “The generation of bid - offer acceptances relating to energy delivered as a result of providing applicable Balancing Services” on 10 September 2001. As under Modification Proposal P34, NGC would be required to determine the energy volumes associated with the provision of Applicable Balancing Services. However, instead of these volumes being transferred to NGC’s Energy Account, they would be treated as Bid-Offer Acceptances (BOAs), but would be explicitly excluded from the calculation of imbalance prices as these BOAs would be due to system balancing rather than electricity balancing actions⁷. As a result of these BOAs, the balancing service provider would have any energy associated with the provision of Applicable Balancing Services settled at the bid or offer price applicable to the relevant volume that the provider had submitted for the Settlement Period when the Applicable Balancing Services were provided. Therefore, it would not face imbalance exposure due to these energy volumes. Under this modification, the methodology for determining the energy volumes delivered, and the list of Applicable Balancing Services would sit under the governance of the BSC.
- 4.14. The Modification Group developed Alternative Modification Proposal P36, which they believed better facilitated the achievement of the Applicable BSC Objectives. Under this Alternative Modification Proposal, the energy volumes associated with the provision of Applicable Balancing Services could be treated in one of two ways:
- ◆ as a BMU Applicable Balancing Services BOA (essentially the same mechanism as original Modification Proposal P36), or
 - ◆ as a BMU Applicable Balancing Services Volume, which would be transferred from the Energy Account of the Balancing Service provider and transferred to the Energy Account of NGC (the mechanism set out in Modification Proposal P34).

⁷ Imbalance prices are only intended to reflect the costs of electricity balancing.
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- 4.15. Alternative Modification Proposal P36 was developed to ensure that all aspects of balancing services provision were covered, as the original Modification Proposal P36 would only have applied to participants who were the Lead Party for a BMU (given the BSC rules for BOAs and settlement). However, some balancing service providers are not the Lead Party for a BMU and/or do not actively participate in the Balancing Mechanism so the mechanism set out in original Modification Proposal P36 would not have applied to them.

Modification Proposal P71

- 4.16. NGC raised Modification Proposal P71 "Transfer of Imbalances caused by Balancing Services to the Transmission Company Energy Account", on 4 March 2002. Modification Proposal P71 is identical to the original Modification Proposal P34 except that it has a prospective implementation date. The Authority granted this proposal Urgent status on the grounds of efficiency due to the fact that many of the issues had been discussed and consulted on within the industry during the Assessment Phase for Modification Proposals P34 and P36.

Proposed CUSC amendments

Amendment CAP009

- 4.17. First Hydro Company raised Amendment Proposal CAP009 "Mandatory frequency response" on 1 November 2001. CAP009 would introduce further changes to the methodology used for calculating frequency response volumes. First Hydro suggested that the approach of using frequency response capability matrices to calculate the volume of energy delivered over a period of time is inappropriate for certain types of plant whose output continues to increase after the 10 second cut-off in Primary and High Frequency response tables. The amendment proposed that an additional set of tables be included in MSAs to describe the response delivery for generators during normal "frequency following".

Amendment CAP010

- 4.18. Innogy plc presented Proposed Amendment CAP010 “Mandatory response imbalance exposure” to the CUSC Panel at its meeting 9 November 2001. The Proposed Amendment seeks to replace the current reference price paid for the provision of mandatory frequency response with a mechanism that uses bid prices for high frequency response and offer prices for low frequency response⁸. It was suggested that the effect would be the same as if the variation in the volume of energy supplied had been achieved by way of a series of BOAs, each of one minute’s duration.
- 4.19. Under this Proposed Amendment, the BOA volumes would be equal to the imbalance compensation volumes calculated by NGC (so that if Proposed Amendment CAP009 were implemented, the volumes would be calculated on the basis specified in Proposed Amendment CAP009). The payment for delivered response energy during a settlement period would be the sum of the minute-by-minute offer payments less the sum of the minute-by-minute bid payments over the settlement period.
- 4.20. Proposed Amendment CAP010 would not alter the imbalance compensation element of the payment in each Settlement Period. It would continue to be calculated by reference to System Buy Price or System Sell Price, depending on the overall direction of the variation in energy deviation due to delivering frequency response.

Amendment CAP011

- 4.21. Modification Proposals P34, P36 and P71, their alternatives and any similar Modification Proposals with the same effect would remove Parties’ exposure to imbalance charges as a consequence of providing Mandatory Frequency Response. NGC identified that if the Authority were to approve any such Modification Proposal, changes to Section 4 “Balancing Services” of the CUSC would need to be considered. These changes would be required to remove the

⁸ When the system frequency rises, generation must be decreased, and when system frequency falls it must be increased, in order to restore the frequency to the target frequency.

compensation that is currently offered under the CUSC for exposure to imbalance charges associated with delivering Mandatory Frequency Response.

4.22. NGC submitted Proposed Amendment CAP011 "Changes to frequency response payments to reflect a potential change to the BSC" on 3 January 2002. It would remove from Section 4 of the CUSC the compensation for BSC imbalance and non-delivery charges incurred as a result of delivering Mandatory Frequency Response.

4.23. During the assessment of this proposal, it was recognised that there would need to be further changes to the CUSC if BSC Modification Proposal P36 or any similar Modification Proposal were to be implemented, and therefore an Alternative Amendment to CAP011 was drafted to address this issue. Alternative Amendment CAP011 removes the compensation mechanism from Section 4 of the CUSC in the same manner as Proposed Amendment CAP011. In addition, Alternative Amendment CAP011 seeks to remove the payments under the CUSC for delivery or avoidance of delivery of energy due to a Party delivering frequency response as under Modification Proposal P36 all payments would be covered by BOAs.

5. Summary of proposals

5.1. For completeness, this chapter summarises the proposed modifications to NGC's Transmission Licence that are the subject of this consultation. These modifications relate to:

- ◆ Consequential changes required if Ofgem were to accept BSC Modification Proposal P71; and
- ◆ Providing additional flexibility with regard to the change procedures for the various methodology statements that NGC is required to maintain.

5.2. The modifications all relate to special conditions AA4 and AA5, and the modifications to each condition are outlined in turn below.

Modifications to special condition AA4

5.3. In the event that it decides to accept P71, Ofgem proposes to modify this special condition to require NGC to produce an ABSVD Methodology Statement, which would be subject to the same change procedures as apply to the other methodology statements which this special condition requires NGC to produce.

5.4. Ofgem also proposes to alter the change procedures that are currently included in this special condition, whether or not the requirement to produce an ABSVD statement is added. Under the proposed modification, Ofgem would be able to direct NGC to implement a change to one of its methodology statements without NGC having to wait for 28 days from delivering the modification report on the proposed change to the Authority.

Modifications to special condition AA5

5.5. Ofgem only proposes to modify special condition AA5, if it decides to accept P71. In this event, Ofgem proposes to modify this condition to require NGC to provide it with information on the level of energy volumes that had been transferred to NGC's Energy Account via the mechanism defined in the new ABSVD Statement.

Appendix 1 Notice under section 11(2) of the Electricity Act 1989

The Gas and Electricity Markets Authority (the "Authority") hereby gives notice pursuant to Section 11(2) of the Electricity Act 1989 (the "Act") as follows:

1. The Authority proposes to modify the special licence conditions contained in the transmission licence ("the Transmission Licence") of The National Grid Company plc ("NGC") treated as granted under Section 6(1)(b) of the Act
 - (a) by amending special licence condition AA4, so as to enable the introduction of an Applicable Balancing Services Volume Data Methodology Statement and amending special licence condition AA5A so as to place an obligation on NGC to provide the Authority with information on the level of imbalance volumes that has been transferred to NGC's Energy Account via the mechanism defined in the Applicable Balancing Services Volume Data Methodology Statement.
 - (b) by amending special licence condition AA4 to allow the Authority to direct NGC to make changes to the statements governed by special licence condition AA4 before the expiry of the 28 day period following NGC presenting the Authority with its report.
2. The reasons why the Authority proposes to make these licence modifications were published by the Authority in a document entitled "Modification to The National Grid Company's Transmission Licence: Applicable Balancing Services Volume Data Methodology Statement. Consultation under section 11(2) of the Electricity Act 1989."
3. In summary, the effect of the modifications referred to in paragraph 1 (a) above is:
 - to allow the implementation of a methodology statement that defines services for which a service provider would be allowed to transfer any imbalance volume caused by the delivery of the service to NGC's Energy Account and the methodology by which such transferred imbalance volumes would be calculated; and

- to require NGC to provide the Authority with information on the level of such transferred imbalance volumes.

The effect of the modifications referred to in paragraph 1 (b) above is to allow the Authority to direct NGC to make changes to the statements governed by special condition AA4 before the expiry of the 28 day period following NGC presenting the Authority with its report.

4. Copies of the document referred to in paragraph 2 which sets out the proposed licence modification are available (free of charge) from the Ofgem Library, 9 Millbank, London SW1P 3GE (020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk).
5. Any representations or objections to the proposed licence modification should be received by 5 pm on 21 October 2002 and sent to:

Ms Sonia Brown
Director, Electricity Trading Arrangements
Ofgem
9 Millbank
London
SW1P 3GE

or by e-mail to tracey.hunt@ofgem.gov.uk



duly authorised on behalf of the Authority.

Appendix 2 Services to be included in the ABSVD Methodology Statement

- 2.1 The list of services to be included in the ABSVD Methodology Statement will be one of the issues that NGC will consult on with interested parties. NGC's consultation in this matter will be undertaken in parallel with Ofgem's consultation on the modifications of special conditions AA4 and AA5A of NGC's Transmission Licence.
- 2.2 If the Authority decides to issue a direction to modify special conditions AA4 and AA5A of NGC's Transmission Licence, as set out in Appendix 3 of this document, NGC will have to present a new methodology statement to the Authority for approval. The approved methodology statement will define the services which are to be included within the scope of the new methodology.
- 2.3 In making its decision on whether to direct the modifications to special conditions AA4 and AA5A of NGC's Transmission Licence, Ofgem will also have regard to the views expressed by respondents to NGC's consultation on the scope and content of a possible new statement under special condition AA4 of NGC's Transmission Licence.

Appendix 3 Proposed modifications to NGC's Transmission Licence: Legal Text

- 3.1 The proposed changes to special conditions AA4 "Licensee's Procurement and Use of Balancing Services" and AA5A "Revised Restrictions on Revenue (only Part 2(iii))" of NGC's Transmission Licence referred to in paragraphs 1(a) and 1(b) of the Notice under section 11 of the Electricity Act are set out below. Changes are highlighted in red and sidelined. Text that has been added is underlined, whereas text that has been deleted is indicated by strikethrough.
- 3.2 If the modifications referred to in paragraph 1(a) of the notice are not made, those referred to in paragraph 1(b) would be achieved by modifying the existing paragraph 7(b) of Special Condition AA4 by substituting for it the text shown below in paragraph 8(b) omitting the words "and 7(b)(iii)".

Special Condition AA4: Licensee's Procurement and Use of Balancing Services

1. The licensee shall operate the licensee's transmission system in an efficient, economic and co-ordinated manner.
2. Having taken into account relevant price and technical differences, the licensee shall not discriminate as between any persons or classes of persons in its procurement or use of balancing services.
3. (a) The licensee shall before the effective time and thereafter at 12 monthly intervals (or such longer period as the Authority may approve) prepare a statement in a form approved by the Authority setting out the kinds of balancing services which it may be interested in purchasing in the period until the next statement is due and the mechanisms by which it would envisage purchasing them.

(b) Where during the term of the statement referred to in sub-paragraph (a) the licensee's intentions change regarding the types of services it wishes to purchase, the licensee shall review the statement and consider whether any revision to the statement is necessary and promptly seek to establish a revised statement in accordance with the terms of paragraph ~~7~~8 of this special condition.

4. Within one month after the date on which each statement (other than the first one) is due to be published pursuant to paragraph 3, the licensee shall prepare a report in a form approved by the Authority in respect of the balancing services which the licensee has bought or acquired (other than balancing services which the licensee has acquired through the mere acceptance of an offer or bid in the balancing mechanism, provided such offer or bid was not made pursuant to any prior agreement) in the period of 12 months (or such longer period as the Authority may approve) ending on the date referred to above.
5. (a) The licensee shall before the effective time prepare a statement approved by the Authority setting out (consistently with the licensee's duty under paragraph 2 and consistently with its other duties under the Act and the conditions of its transmission licence) the principles and criteria by which the licensee will determine, at different times and in different circumstances, which balancing services the licensee will use to assist in the operation of the licensee's transmission system (and/or to assist in doing so efficiently and economically), and when the licensee would resort to measures not involving the use of balancing services.
 - (b) The licensee shall if so directed by the Authority or when any modification should be made to the statement referred to in paragraph 5(a) to more closely reflect the intentions of the licensee but in any event at least once a year, review the statement prepared pursuant to sub-paragraph (a) and promptly seek to establish a revised statement approved by the Authority, such revisions to be made in accordance with the terms of paragraph ~~78~~ of this special condition.
 - (c) The licensee shall as soon as practicable:
 - (i) after 1 April 2002, in respect of the period beginning at the effective time and ending on 1 April 2002;
 - (ii) after 30 September 2002, in respect of the period beginning on 1 April 2002 and ending on 30 September 2002; and
 - (iii) after 30 September 2003 and in each subsequent year, in respect of each period of twelve months commencing on 1 October and ending on 30 September

prepare a report on the manner in which and the extent to which the licensee has, during that period, complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph ~~78~~ of this special condition and whether any modification should be made to that statement to more closely reflect the practice of the licensee.

(d) The report prepared pursuant to sub-paragraph (c) shall be accompanied by a statement from the licensee's auditors that they have carried out an investigation the scope and objectives of which shall have been established by the licensee and approved by the Authority, and they shall give their opinion as to the extent to which the licensee has complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph ~~78~~ of this special condition.

6. (a) This paragraph applies where the BSC provides that any imbalance price is to be determined (in whole or in part) by reference to the costs and volumes of relevant balancing services.

(b) Where this paragraph applies the licensee shall:

(i) before the effective time, establish a balancing services adjustment data methodology approved by the Authority;

(ii) from time to time thereafter, when the licensee first buys, sells or acquires any relevant balancing services of a kind or under a mechanism which is not covered by the prevailing balancing services adjustment data methodology, promptly seek to establish a revised balancing services adjustment data methodology approved by the Authority which covers that kind of balancing services or mechanisms for buying, selling or acquiring them;

(iii) prepare a statement of the prevailing balancing services adjustment data methodology as approved by the Authority; and

(iv) at all times determine and provide (for use under the relevant provisions of the BSC) the costs and volumes of relevant balancing services in compliance with the prevailing balancing services adjustment data

methodology, which are to be taken into account in determining imbalance price(s) under the BSC.

- (c) The licensee shall when any modification should be made to the statement referred to in sub-paragraph 6 (b) (iii) to more closely reflect the intentions of the licensee review the statement prepared pursuant to sub-paragraph 6 (b)(iii) and promptly seek to establish a revised statement approved by the Authority made in accordance with terms of paragraph ~~7~~8 of this special condition.

7. (a) This paragraph applies where the BSC provides that any applicable balancing services volume data is to be determined (in whole or in part) by reference to the volumes of energy associated with the provision of applicable balancing services.

(b) Where this paragraph applies the licensee shall:

(i) before the date this paragraph comes into effect, establish an applicable balancing services volume data methodology approved by the Authority;

(ii) from time to time thereafter, when the licensee first buys, sells or acquires any applicable balancing service of a kind which is not covered by the prevailing applicable balancing services volume data methodology, promptly seek to establish a revised applicable balancing services volume data methodology approved by the Authority which covers that kind of applicable balancing service;

(iii) prepare a statement of the prevailing applicable balancing services volume data methodology as approved by the Authority; and

(iv) at all times determine and provide (for use under the relevant provisions of the BSC) the volumes of applicable balancing services in compliance with the prevailing applicable balancing services volume data methodology, which are to be taken into account in determining applicable balancing services volume data under the BSC.

(c) The licensee shall when any modification should be made to the statement referred to in sub-paragraph 7(b)(iii) to more closely reflect the intentions of the licensee review the statement prepared pursuant to sub-paragraph 7(b)(iii) and

promptly seek to establish a revised statement approved by the Authority made in accordance with terms of paragraph 8 of this special condition.

~~7.8.~~ (a) Except where the Authority directs otherwise, before revising the statements prepared pursuant to paragraphs 3(a), 5(a) ~~and~~ 6(b)(iii) and 7(b)(iii) and each revision thereof the licensee shall:

- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;
- (ii) consult BSC Parties on the proposed revisions and allow them a period of not less than 28 days in which to make representations;
- (iii) submit to the Authority within seven (7) days of the close of the consultation period referred to in sub-paragraph ~~7.8~~(a) (ii) above a report setting out
 - the revisions originally proposed,
 - the representations (if any) made to the licensee,
 - any changes to the revisions, and
- (iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) or any of them shall not apply, comply with such other requirements as are specified in the direction.

(b) ~~Where sub-paragraph (a) applies the~~The licensee shall not revise the statements referred to in paragraphs 3(a), 5(a), ~~and~~ 6(b)(iii) and 7(b)(iii) and each revision thereof:

~~(i) before the day (if any) specified in the direction made pursuant to that sub-paragraph; or~~

~~(ii)(i) where no date is specified in such direction,~~ until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph (a)(iii) unless prior to the expiry of such 28 day period the Authority directs the licensee to make the revisions on an earlier date; or

~~(iii)(ii)~~ if, within that period of 28 days, the Authority directs the licensee not to make the revision. ~~before the expiry of the 28 day period referred to in sub-paragraph 7 (b) (ii) above.~~

8. ~~Not used~~

9. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 5(a).

10. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 3, 4, 5, ~~and 6~~ and 7 and of all revisions to any such statements made in accordance with the terms of paragraph ~~7~~8 of this special condition.

11. The licensee shall:

(a) publish (in such manner as the Authority may approve from time to time) the statements prepared pursuant to paragraphs 3(a), 5(a), ~~and 6(b)(iii)~~ and 7(b)(iii) and each revision thereof, and

(b) send a copy of each statement and report prepared pursuant to paragraphs 3, 4, 5, ~~and 6~~ and 7 or the latest revision of any such statements to any person who requests the same, provided that the licensee shall exclude there from, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests,

and, for the purposes of paragraph (b), the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).

12. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 11(b) of an amount reasonably reflecting the licensee's reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this special condition.

13. The licensee shall, unless the Authority otherwise consents, maintain for a period of six years:
- (a) particulars of all balancing services offered to it;
 - (b) particulars of all contracts (other than those in the balancing mechanism) for balancing services which it entered into;
 - (c) particulars of all contracts for balancing services entered into by way of the acceptance of a bid or offer in the balancing mechanism where the bid or offer was made pursuant to a prior agreement;
 - (d) records of all balancing services called for and provided; and
 - (e) records of quantities of electricity imported and exported across each interconnector(s).

14. The licensee shall provide to the Authority such information as the Authority shall request concerning the procurement and use of balancing services.

15. In this special condition:

"applicable balancing services" means those balancing services that the Authority directs the licensee to treat as applicable balancing services;

"applicable balancing services volume data" means the amount of energy produced or consumed as a result of delivering applicable balancing services;

"applicable balancing services volume data methodology" means a methodology to be used by the licensee to determine what volumes of applicable balancing services are to be taken into account under the BSC for the purposes of determining in whole or in part the applicable

balancing services volume data in any period, which methodology shall cover each of the applicable balancing services which the licensee buys, sells or acquires at the time at which the methodology is established;

"balancing services adjustment data methodology"

means a methodology to be used by the licensee to determine what costs and volumes of relevant balancing services are to be taken into account under the BSC for the purposes of determining in whole or in part the imbalance price(s) in any period, which methodology shall cover each of the kinds of balancing services which the licensee buys, sells or acquires, and the mechanisms by which the licensee buys, sells or acquires them, at the time at which the methodology is established.

"imbalance price"

means a price, in the BSC, for charging for imbalances as referred to in paragraph 2(b)(ii) of standard condition C3 (Balancing and Settlement Code);

"relevant balancing services"

means balancing services other than

- (a) those which the licensee has acquired through the mere acceptance of an offer or bid in the balancing mechanism, provided that such offer or bid was not made pursuant to any prior agreement,

and

- (b) those which the Authority directs the licensee not to treat as relevant balancing services.

Special Condition AA5A: Revised Restrictions on Revenue (only Part 2(iii))

Nothing in this text alters parts 1, 2(i) and 2(ii) of this special condition (paragraphs 1 – 15 inclusive).

Part 2 (iii): Information on the balancing services activity revenue restriction

- 16. (a) Not later than 3 months after the end of each relevant year the licensee shall send to the Authority a statement giving the value for that relevant year of the terms specified in subparagraph (c);
- (b) The statement referred to in subparagraph (a) shall:
 - (i) be certified by a director of the licensee on behalf of the licensee that to the best of his knowledge, information and belief having made all reasonable enquiries:
 - (A) there is no amount included in its calculations of the terms specified in subparagraph (c) which represents other than an amount permitted to be included by this special condition; and
 - (B) all amounts of which the licensee is aware and which should properly be taken into account for the purposes of this special condition have been taken into account; and
 - (ii) accompanied by a report from the Auditors that in their opinion:

- (A) such statement fairly presents the value of each of the terms specified in subparagraph (c) in accordance with the requirements of this special condition; and
- (B) the amounts shown in respect of each of those terms are in accordance with the licensee's accounting records which have been maintained in accordance with standard condition 5.

(c) The terms specified in this subparagraph are:

$BX_{ext,t}$, $CSOBM_t$, $BSCC_t$, ET_t , RT_t , $IncPayExt_t$, OM_t , $BXint_t$, $CSOC_t$, $IncPayInt_t$, PSC_t , ASO_t , $SOBR_t$ and CP_{Mt}

and

BCA_{jt} , SCA_{jt} , BVA_{jt} , ~~SVA_{jt}~~ and QAS_j

where:

BCA_{jt} is the Buy Price Cost Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

SCA_{jt} is the Sell Price Cost Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

BVA_{jt} is the Buy Price Volume Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

SVA_{jt} is the Sell Price Volume Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

QAS_j is the volume of applicable balancing service energy in respect of BM Unit i, in settlement period j, defined in the BSC for each Settlement Period.

- (d) The statement referred to subparagraph (a) shall separately identify components of the terms specified in subparagraph (c) to the extent stipulated in this special condition.