C16 ANNUAL REVIEW EARLY CONSULTATION 2020-21

16th November 2020



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Executive Summary

This early consultation has been produced in addition to the requirements of Condition C16 of the Transmission Licence to undertake a review of National Grid Electricity System Operator's (NGESO) C16 Statements.

NGESO held an industry forum on the 10th November 2020, the aim of which was to allow both NGESO and industry to share their early thoughts on what changes should be considered to the five C16 statements this year and what could be considered for future reviews.

This consultation will summarise the key elements of that forum and allow wider industry to submit more detailed thoughts on both the changes NGESO should consider during this year's review and future reviews.

There are five statements that form Condition C16, all of which are open for review and change during this consultation process;

- 1) Procurement Guidelines
- 2) Balancing Principles Statement (BPS)
- 3) Balancing Services Adjustment Data Methodology (BSAD)
- 4) System Management Action Flagging Methodology (SMAF)
- 5) Applicable Balancing Services Volume Data Methodology (ABSVD)

Key Dates:

Early Consultation Response Deadline: 7th December 2020

Official Consultation Release: 11th January 2021

Official Consultation Deadline: 8th February 2021

Documents sent to Ofgem: 15th February 2021

Ofgem Direction: 15th March 2021

Revised C16 Statements go live: 1st April 2021

NGESO's proposed key focus areas for review of the five statements this year are:

- Existing products such as STOR and Fast Reserve (FR)
- New products such as Dynamic Containment (DC)
- Consideration of further products including Reserve Reform and a downward flexibility product similar to Optional Downward Flexibility Management (ODFM)
- Review of the reports and how they could be improved in the future

NGESO welcomes further detailed industry views on the proposed changes and invites views on any other aspects of the subject documents for future consideration. Responses are required by 7th December 2020. Details on how to make a response can be found in the Consultation Questions section.

Following receipt of responses to this consultation NGESO will incorporate feedback where possible in a first draft of changes to the statements. This will then be documented and issued via an official consultation to meet the specified regulatory timescales.

The current versions of the C16 statements, this consultation, industry responses and the consultation report will all be published at the link below:

https://www.nationalgrideso.com/balancing-services/c16-statements-and-consultations



If you have any questions about this document, please contact:

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Please note consequential changes resulting from modifications to GB industry codes, stakeholder suggestions and upcoming regulatory changes which are not captured here will be actioned either in future annual reviews, or individual statement reviews as appropriate.



Mark Herring
Code Change Delivery Manager



Introduction

Overview of C16 Process

The Review

In accordance with Standard Condition 16 (C16) of its Transmission Licence, NGESO is required to conduct an annual review of all licence statements, regular reviews of the methodologies and, if appropriate, to propose changes to these documents.

The purpose of NGESO's annual review and consultation is to ensure that each of the applicable documents remains current by seeking industry views on any proposed changes. Proposed changes can only become effective if approved by the Authority.

The following statements are the focus of each review:

Procurement Guidelines

Balancing Services Adjustment Data Methodology (BSAD)

System Management Action Flagging Methodology (SMAF)

Balancing Principles Statement (BPS)

Applicable Balancing Service Volume Data (ABSVD)

It should be noted that the annual review of the C16 statements is not the primary forum for development of new products. They will be created and consulted on in a separate process, and any subsequent changes to the statements will be as a consequence of the created service. This process merely allows for industry input on these new products as a means for industry input to be received.

Step 1 Industry Forum

The first step of the review process is for NGESO to hold an industry forum, the aim of which is to allow NGESO to engage early with industry on the key elements of change we are considering allow industry to offer early challenge and further suggestion. Any thoughts from NGESO at this forum should not be considered as NGESO's final position.

Step 2 Early Consultation

The second step of the review process is for NGESO to issue an early more "informal" consultation, this should build on the outputs from the industry forum and should allow wider industry to respond to NGESO's early thoughts on what needs to change this year.

This consultation does not form part of the C16 Licence Condition and is an additional one that allows NGESO to do more fact finding and create a more efficient and thorough review.

At this point of the process it is unlikely NGESO will suggest all text changes to the statements, however we may provide some suggestions to text changes on certain topics.

We try and allow a full 28 days, similar to the official consultation, as above any thoughts from NGESO during this early consultation should not be considered as NGESO's final position.

Step 3 Review and Final Consultation

The third step of the process is for NGESO to review all the early consultation responses and begin to finalise a draft first position on the text changes in the statements, NGESO should also offer a response to each point raised by industry.

This should be documented and issued via an "official" consultation that does form part of the C16 Licence Condition.

This consultation should allow industry to review our responses to them as well as the recommended text changes in the statements.

This consultation should run for 28 days.

Step 4 Report to Authority

The fourth step in the review process is for NGESO to document in the form of a report their final position on the changes for this year along with the track changed versions of the statements, the report should also include in a clear and transparent way all industry responses and NGESO's view on them all.

This report must be issued to the Authority (Ofgem) within 7 days (5 working) from the closure of the official consultation.

Step 5 Authority Decision and Statement go live

The fifth step in the review process is for the Authority (Ofgem) to review all the documents submitted to them from step 4.

As part of the Licence Condition, Ofgem have 28 days to offer a direction or challenge the submission, if Ofgem approve the changes then the statements go live on the NGESO website on the 1st April of that year.

If Ofgem do not approve then there are 2 different directions for the statements to go live. Ofgem can either direct a change or they can request NGESO to run a further consultation on the specific issues they have identified, which may push back the go live date or a statement might go live with pending further changes.

2020-21 Industry Event - Summary of Industry Feedback

This consultation marks the second step of the review process relating to the C16 statements and methodologies.

Step 1 Industry Forum

The industry forum was held on 10th November 2020. This was attended by a variety of stakeholders. The aim was to discuss potential changes to be included in the 2020-2021 annual update in more detail. The slides can be found here.

Areas highlighted by National Grid ESO and stakeholders were:

- Overview of the constraint management pathfinder and any subsequent C16 changes
- Accurate reflection of STOR in the procurement guidelines and general compliance with day ahead procurement as per Clean energy package 6(9)
- Accurate reflection of Firm Fast Reserve in the procurement guidelines
- Accurate reflection on Dynamic Containment/Moderation/Regulation into the C16 statements including asking for industry views on the difference in treatment between BM and Non-BM Dynamic Containment providers in relation to ABSVD settlement
- Consideration for future services through Reserve reform and potential for a future service similar to ODFM
- Discovery work on BPS/SMAF/Procurement Guideline reports, identifying how we could improve them and make them more useful to industry

The forum was attended by 8 stakeholders from across industry. There was a lot of productive discussion around the proposed changes and wider feedback from attendees on a number of points which will be detailed in section 2, Industries feedback has been summarised rather than a word for word response, the output from this consultation will contain the more detailed responses that we receive rather than summaries.

Step 2 Early Consultation

16th November – 7th December 2020

Step 3 Review and Final Consultation

Final Consultation issued 11th January until 8th February 2021

Step 4 Report to Authority

Issued 15th February 2021

Step 5 Authority Decision and Statement go live

Decision by the 15th March 2021, Statements go live 1st April 2021.



Review of Suggested Changes

Proposals for the Procurement Guideline review 2020-21

The Procurement Guidelines set out the kinds of Balancing Services which we may be interested in purchasing, together with the mechanisms by which we envisage purchasing such Balancing Services. It acts as a generic statement of the procurement principles we expect to follow. The amendments proposed for 2020-21 are:

- Version Control
- Housekeeping
- Amendments to the STOR section
- Amendments to Fast Reserve section
- Amendments to include Dynamic products
- Amendments to include a Downward Flexibility Service
- Thoughts on Reserve Products Reform for 2022

More detail of these changes and industry feedback from the session is below:

Amendments to STOR

NGESO has suggested the procurement guidelines for STOR should be amended in order to be compliant with the Clean Energy Package Article 6(9) regarding moving to day ahead procurement. Suggested revised text, yellow highlighted suggests new amended text:

"Short-term Operating Reserve (STOR) allows us to have extra power in reserve for when we need it through an increased output from generation or a reduction in consumption from demand sources. It helps us meet extra demand at certain times of the day or if there's an unexpected drop in generation. The requirement for STOR is dependent upon the demand profile at any time. The STOR year starts in April, and is split into six seasons, which specify the Availability Windows where STOR is required each day. STOR is procured through daily auctions, starting in April 2021. You can find more detail about STOR, and the timetable for future tenders, on our website at www.nationalgrideso.com. Look under Balancing services, and then Reserve services."

Initial Industry Feedback:

- Agree with the change in terms of CEP 6(9) compliance
- Would like to see further clarity on whether Terms and Conditions are changing
- Would like more clarity on the definition around "The STOR year is split into six seasons", what are the 6 seasons and what are the differences?

Initial NGESO Response:

T&C are not changing materially, but will be in a revised format which we will commence the formal consultation process on in the next few weeks in line with EBGL requirements. The need for STOR Reserve varies depending on the time of year, the time of week and time of day, being a function of the system demand profile at that time. To reflect this, National Grid splits

the year into a number of Seasons, for both Working Days (including Saturdays) and Non-Working Days (Sundays and most Bank Holidays), and specifies the periods in each day that Short Term Operating Reserve is required. These periods are referred to as Availability Windows.

Amendments to Fast Reserve

NGESO has suggested the procurement guidelines for Fast Reserve should be amended in order to better reflect that Firm Fast Reserve is not being procured as Optional Fast reserve can provide volumes needed to meet the system requirements.

Suggested revised text, yellow highlighted suggests new amended text:

"Fast Reserve provides the rapid and reliable delivery of active power through an increased output from generation or a reduction in consumption from demand sources, following receipt of an electronic dispatch instruction from NGESO. Fast Reserve service must commence within two minutes following instruction, at rates of 25MW or greater per minute and providing a minimum of 25MW. NGESO currently breaks down the Fast Reserve into three two categories. Firm Fast Reserve, Optional Fast Reserve for BM and Non-BM suppliers, and non-tendered Fast Reserve. You can find more detail about Fast Reserve on our website at www.nationalgrideso.com. Look under Balancing services, and then Reserve services."

Initial Industry Feedback:

- What happens to legacy contracts?
- Do we still use the service?

Initial NGESO Response:

We are fulfilling our signed contracts, but the service is not being actively procured, NGESO will make reference to this in the procurement guidelines.

Yes, we still use the optional service at the moment. We will be looking at what is required in the future through reserve reform.

Amendments to Include Dynamic Products

NGESO will be including Dynamic Containment into the procurement guidelines for 2021 following the soft launch of the service this year. We will also be looking to include Dynamic Moderation and Dynamic Regulation into the 2021 procurement guidelines. No proposed text has been recommended at this time.

Initial Industry Feedback:

- Agree with inclusion of the services into the procurement guidelines
- Would like more clarity on the dates and the plan for all 3 services
- Ensure that Article 18 and 26 consultations are completed before go live

Initial NGESO Response:

We will be sharing the plan for the soft launch of DC in the next couple of weeks. We then plan to launch the full delivery of DC next year. Following delivery, we will then move our focus on to Dynamic Moderation and Dynamic Regulation applying the lessons learnt from DC. We plan to update industry once we have a set plan in place.



We will make sure we consider Article 18 and 26 consultations when we create the plan for the new services.

Amendments to Include Downward Flexibility Service

NGESO will be looking to make reference to the possibility of having a Downward Flexibility Service similar to ODFM in the Procurement Guidelines.

The ODFM service has only recently concluded and NGESO is still investigating feedback from industry, we will engage thoroughly with industry on any creation of a new service. No proposed text has been recommended at this time.

Initial Industry Feedback:

- Whatever the service is, NGESO need to find a way of including it into Cashout
- NGESO should also consider Article 13 and the output from GC0147 in the creation of a downward flexibility service
- It is not clear on the role this C16 process plays in the creation of new services
- It would be useful to have some time frames and a plan to this work
- ODFM volumes not going into cashout created a distortion this year, so Downward Flexibility must rectify that as a principle from the offset.

Initial NGESO Response:

NGESO appreciates the feedback from all participants on the call, in relation to ensuring whatever service is created flows into Cashout, NGESO will consider the best approach to this in the design of any new Downward Flexibility product.

NGESO will also consider all of the above suggestions in any creation of a Downward Flexibility Service.

Thoughts on Reserve Product Reform for 2022

With the soft launch of Dynamic Containment, we are continuing to progress with our reform of response and reserve.

As part of this, we will be reviewing our requirements for reserve products and engaging with the industry over the next few months to create a timetable for reform of these products.

Our aim is to deliver a standardised (i.e. fungible) suite of upward and downward reserve products that work holistically with new frequency response products and reserve replacement products and can be procured at day ahead through an auction held on the Single Market Platform.

Our hope is that these will go live from March 2022, so is likely to form a larger part of next year's consultation

Initial Industry Feedback:

- What is the difference between this Reserve Reform and TERRE and MARI
- We need a better holistic view of how all the reserve products work together

Initial NGESO Response:

TERRE and MARI are classed as "replacement reserve" whereas the reserve product reform is focusing more on GB's reserve products. We are aware of the Ofgem open letter on TERRE and MARI and we are considering our response at this time.

NGESO agrees that we need to be able to provide industry a more joined up picture of how all the reserve products work together, although that work will sit outside of this process, where possible we will sign post it.

As mentioned in our initial view we anticipate that the detail of these changes will form a large part of the consultations for 21/22.

Review of the Balancing Principles Statement Report

NGESO We have identified that these reports cover a lot of the same information and want to seek views on what would be most useful to be presented in the MBSS on a monthly basis and in the Procurement Guidelines report on a yearly basis.

Initial Industry Feedback:

At this time, there were no suggestions on improvements, but we anticipate that newer
providers may offer some ways to simplify or improve the reports as they may be able to cast
fresher eyes of them.

Initial NGESO Response:

We appreciate the initial feedback, and we hope to hear from other parties during the consultation



Proposals for the BPS review 2020-21

The Balancing Principles Statement defines the broad principles of when and how we will use balancing services and other balancing actions to manage the system.

The amendments proposed are:

- Versioning control
- Housekeeping
- Review of the Balancing Principles Statement Report

Review of the Balancing Principles Statement Report

As per Licence condition C16 para 5(c) and 5(d) NGESO should publish a balancing principles report "as soon as reasonably practicable"

NGESO would like to apologise for the oversight on producing these reports in a timely manner for the last few years, as of the release of this consultation the BPS reports are now all contained on the NGESO website. NGESO have committed to having renewed focus on these reports and will commit to having them in place by December each year going forward.

The BPS report provides information for instances where ESO needed to use additional measures to balance the system:

- BMU emergency instructions and interconnector emergency assistance/ instruction
- Demand control actions
- Maxgen
- NRAPM
- Black Start/ Islanding
- Communication failures
- Involuntary reductions
- BMUs disconnected by transmission faults

Whilst we are not suggesting any changes at this time, we would like feedback from industry through this consultation on how this report is used and how it could be improved.

Initial Industry Feedback:

- These reports help us measure your performance and can support in Cashout analysis
- At this time there were no suggestions on improvements but we anticipate that newer providers may offer some ways to simplify or improve the reports as they may be able to cast fresher eyes of them.

Initial NGESO Response:

We appreciate the initial feedback, and we hope to hear from other parties during the consultation.



Proposals for the BSAD review 2020-21

This document sets out the Balancing Services Adjustment Data methodology. It sets out the information on relevant balancing services that will be taken into account when determining the imbalance price.

The amendments proposed are:

- Version Control
- Potential changes from the constraint management pathfinder
- Consequential changes of modification P399

More detail of these changes and industry feedback from the session is below:

Potential changes from the Constraint Management Pathfinder

NGESO are seeking to reduce the costs of managing transmission constraints across GB through a Constraint Management Pathfinder. We will initially be focusing on the (B6 boundary - Scotland/England border) before focusing on other parts of the network.

We intend to run tenders annually offering 12 month contracts, with the first tender by the end of Q1 2021 where successful units will be connected to relevant Transmission Operator's Operational Tripping Scheme

Contracted units will have to de-load to 0MW in 150ms following a fault on the system. In regarding the statement text changes, we do not foresee any changes that are required to the Procurement Guidelines as we classify CMP as "Import and export constraints – commercial" as set out Part C, Section 2.1.

We do not believe any changes are required to the ABSVD document as it currently accounts for Fast De-load services in Part B, Section 1.2 Fast De-load.

We do not believe any changes are required to the SMAF document as it currently accounts for Fast De-load services being flagged as System under Part B, Section 2, Commercial Fast De-Load Service

We do not believe any changes are needed to the BPS documents as we do not intend to change our principles for managing transmission constraints

However, we believe changes may be required to the BSAD statement to account for Fast De-Load services under Part B section 2.1. At this time, no draft text change has been made.

Initial Industry Feedback:

- Can NGESO explain how the Terms and Conditions work?
- Can providers mitigate from other intertrips to this, and what is the process for doing so?
- Can NGESO put this in context of all of the services and put a picture of how it works together?
- Will this need article 18 and 26 consultations to be carried out?
- It would be helpful if the C16 statements also made reference to the pathfinder projects in the widest sense and the high level assessment principals for them



Initial NGESO Response:

NGESO appreciates the feedback and questions on the Constraint management Pathfinder, prior to tendering NGESO will look to create and release all the information being asked for by industry to better help the transparency of the service.

We are looking into Article 18 and 26 consultation compliance and will update industry as soon as possible

We do reference the pathfinders in the current Procurement Guidelines though we note this is very generally and not in the detail that we are considering for the Constraints Pathfinder.

We will check if the references are still relevant/correct and consider adding more detail, though we would not want to cover the assessment principals as these are covered in the NOA process

Consequential Changes of modification P399

BSC Modification P399 will bring some changes to the BSAD files and may result in a small consequential statement change. This modification is not expected to complete until June 2020 at the earliest therefore the statement will change in line with the modification outside of this process

Initial Industry Feedback:

There was no initial industry feedback at this time

Initial NGESO Response:

NGESO will look to respond to any feedback from the early consultation.



Proposals for the ABSVD review 2020-21

The Applicable Balancing Services Volume Data methodology set out the information on Applicable Balancing Services that will be taken into account for the purposes of determining imbalance volumes.

The amendments proposed are:

- Version Control
- Housekeeping
- BM and Non BM Dynamic Containment
- Consequential Changes from Modification P412

More detail of these changes and industry feedback from the session is below:

BM and Non BM Dynamic Containment

The soft launch does not ABSVD non-BM DC units whereas BM units are, this is consistent with the wording contained within the ABSVD statement that states, non-BM frequency service products are not ABSVD and the decision on P354 meant that BM Service providers could no longer opt out of providing ABSVD.

It has been mentioned during the DC consultation that this causes an unlevel playing field for DC providers, and we said that NGESO would use this consultation to determine how both should be treated ready for the full launch, with that said at this early stage of the C16 consultation we are asking for industry to help form the decision.

Initial Industry Feedback:

- NGESO need to consider how to reflect the volumes of all providers fairly in Cash Out
- Belief that non-delivery under the dynamic containment contract is much more onerous that payment of cash out prices. This needs to feed into the consultation

Initial NGESO Response:

We appreciate the initial feedback, industry were unanimous in the need for the service to feed into Cash Out in a fair way, NGESO will take this away and consider the best way forward in line with the full roll out of Dynamic Containment. We also hope to hear from other parties during the consultation how can also support the rationale.

Consequential Changes of modification P412

BSC Modification P412 will likely bring some changes to the ABSVD statement, as above the outcome of that modification will need to take in to account to relevant C16 changes required and the statements will be amended upon the go live of the solution.

Initial Industry Feedback:

There was no initial industry feedback at this time

Initial NGESO Response:

NGESO will look to respond to any feedback from the early consultation.



Proposals for the SMAF review 2020-21

The System Management Action Flagging (SMAF) methodology sets out the means which NGESO will use to identify balancing services that are for system management reasons. The amendments proposed are:

- Versioning control
- Housekeeping
- Review of the SMAF Report

More detail of these changes and industry feedback from the session is below:

Review of the SMAF Report

As per Licence condition C16 para (b) (ii) and 5(d) and appendix C section 5 NGESO should "prepare a statement of the prevailing system management action flagging methodology" and "report annually on the accuracy of the flagging methodology."

We currently have good processes in place to deliver this for May each year.

Part of the P217A actions include:

- Transmission Constraints
- Voltage Support
- Rate of Change of Frequency (RoCoF)

And we have a 99.8% accuracy as of 2019-20.

Whilst we are not suggesting any changes at this time, we would like feedback from industry through this consultation on how this report is used and how it could be improved.

Initial Industry Feedback:

 At this time there were no suggestions on improvements but we anticipate that newer providers may offer some ways to simplify or improve the reports as they may be able to cast fresher eyes of them.

Initial NGESO Response:

We appreciate the initial feedback, and we hope to hear from other parties during the consultation



The Consultation

The Questions

We now invite industry to provide further feedback on the changes proposed to the C16 statements as part of the 2020-21 annual review process. The consultations questions are summarised below are also summarised in within the response proforma in Appendix A..

Procurement Guidelines

- 1) Do you agree with the proposed suggestions to the Procurement Guidelines in relation to STOR and Fast Reserve? please provide rationale.
- 2) Do you agree with the proposed suggestions to the Procurement Guidelines Downward Flexibility and Dynamic Products? please provide rationale.
- 3) Do you wish to add further comments on the Future of Reserve?
- 4) Do you find the Procurement Guidelines Report and MBSS useful? Can you provide examples of what you have used them for? Do you have any suggestions on improvements?
- 5) Do you have any other comments in relation to the changes proposed to the Procurement Guidelines? Or any additional changes you would like to see?

BPS

- 1) Do you find the BPS Report useful? Can you provide examples of what you have used them for? Do you have any suggestions on improvements?
- 2) Do you have any other comments in relation to the changes proposed to the BPS or the BPS reports? Or any additional changes you would like to see?

BSAD

- 1) Do you agree that the changes proposed to the BSAD and the other statements as a results of the Constraint Management Pathfinder? Please provide rationale.
- 2) Do you agree that changes will need to be made to the BSAD statement as a consequence of P399? Please provide rationale.
- 3) Do you have any other comments in relation to the changes proposed to the BSAD? Or any additional changes you would like to see?

ABSVD

- Should BM DC providers be removed from providing ABSVD and why? Do you
 agree that the changes suggested regarding treatment of BM and Non BM Dynamic
 Containment in ABSVD? Please provide rationale
- 2) Do you agree that consequential changes to the ABSVD will be required as a consequence of P412? Please provide rationale.
- 3) Do you have any other comments in relation to the changes proposed to the ABSVD? Or any additional changes you would like to see?

SMAF

- 1) Do you find the SMAF Report useful? Can you provide examples of what you have used them for? Do you have any suggestions on improvements?
- 2) Do you have any other comments in relation to the changes proposed to the SMAF or the SMAF reports? Or any additional changes you would like to see?

How to respond

Responses should be submitted by replying to the consultation questions within the response proforma, attached as Appendix A and e-mailing the completed proforma to:

balancingservices@nationalgrideso.com

(Please ensure there is an "s" at the end of balancing services, as there have been issues of the "s" not populating when clicking on the hyperlink).

If you do not wish any elements of your response to be made publicly available, please mark these as confidential.

Responses should be returned no later than 7th December 2020.

Following the closure of the consultation, NGESO will review all feedback and publish a further consultation in January 2021 which will include our views on the responses received as well as draft statement changes.

Appendix A: Response Proforma Please see separate document - Here https://www.nationalgrideso.com/document/180766/download