

C16 Report to Authority

Proposed revisions to the: Procurement Guidelines C16 Statement for 2021/22

26th July 2021

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Executive Summary

This Report has been produced under Condition C16 of the Transmission Licence to undertake a further review of National Grid Electricity System Operator's (NGESO) Procurement Guidelines C16 Statement.

In accordance with Standard Condition C16 of its Electricity Transmission Licence, the annual review of all licence statements has concluded and approval of NGESO's annual report has been received from the Authority (Ofgem). All approved changes to the C16 Statements changes were effective from 1st April 2021.

NGESO has launched a consultation seeking views from across industry on the commercial compensation methodology for interconnector capacity management. The commercial compensation methodology has been developed in collaboration with GB interconnectors. The commercial compensation methodology is independent of the capacity calculation process and seeks to ensure the correct commercial arrangements for interconnectors when NGESO limits capacity to ensure system security.

To best facilitate this, and to provide transparency to the market, NGESO have ran a further consultation to ensure market participants are aware of the new proposed change and have an opportunity to provide feedback. This consultation provides an opportunity for any further industry views on the proposed changes.

We have updated the Procurement Guidelines C16 Statement to give effect to this. The changes to the Statement are detailed in the Proposed Changes section of this consultation and will be effective by 30th August 2021 unless vetoed by the Authority.

Responses were requested to be provided by the close of play on the 19th July 2021. Followed by NGESO preparation of this Report to the Authority by the 26th July 2021. NGESO invite the Authority to review this Report for approval, or veto, on/before 23rd August 2021. If the Authority chooses to exercise their powers of veto for these proposed changes to the C16 statements, the existing versions will remain in place. Alternatively, the proposed changes will become effective from 30th August 2021.

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:

Nicky White
Markets, National Grid Electricity System Operator

Tel: +44 (0) 7768537317 Email: balancingservices@nationalgrideso.com

Expected Dates:

Consultation Release:
21st June 2021

Consultation Deadline:
19th July 2021

Documents sent to Ofgem:
26th July 2021

Ofgem Veto/Direction:
on/before 23rd August 2021

Revised C16 Statement go live:
30th August 2021



Jon Wisdom
Commercial Codes Manager

Background

In accordance with Standard Condition 16 (C16) of its Transmission Licence, NGESO has concluded its annual review of all licence statements, the updated statements have been approved by the Authority (Ofgem) and are effective 1st April 2021. This consultation is an additional consultation to the annual process and is due to further changes being made to the Procurement Guidelines C16 Statement after the annual industry consultation had closed.

Earlier this year NGESO ran a consultation (the Net Transfer Capacity (NTC) Commercial Compensation Methodology consultation) seeking views on our proposed methodology for NTC. NTC is a tool for managing interconnector capacity restriction which covers intraday and day ahead timescales for both allocated and unallocated capacity. The NTC Commercial Compensation Methodology consultation closed on 2nd June 2021. Please see an updated version of the document using the link below:

<https://www.nationalgrideso.com/document/203726/download>

NGESO are preparing to publish responses to the consultation. Please review at the link below:

<https://www.nationalgrideso.com/industry-information/codes/european-network-codes/other-enc-documents>

An associated C28 derogation request was made to the Authority (Ofgem) on 18th June 2021. Standard License Condition C28 obligates Transmission System Operators (TSOs) to procure non-frequency ancillary services using market-based procedures. NTC payments are not market based and therefore require a derogation to be approved.

Timelines for the C28 derogation and Procurement Guidelines C16 Statement consultations have been aligned to ensure that the Authority (Ofgem) can review concurrently.

Proposed Changes

Additional principles have been included within Procurement Guidelines C16 Statement under Part B 'General Principles', section 3 'Taking Actions Outside the Balancing Mechanism'.

We previously proposed to also list the service under Part C 'Balancing Services Required', section 1, 'Types of Balancing Services' as a 'Commercial Ancillary Service' within the 'Thermal Constraints' group. A stakeholder raised concerns that that this may create confusion of the primary driver behind the need to manage interconnector flows. As the primary driver is to help manage system issues such as stability or import/export constraints as stated within Part B of the Procurement Guidelines we agree with this view and have decided to remove this change within Part C of the Procurement Guidelines.

The details of these changes can be found within the 'Procurement Guidelines Statement track changed for consultation' document and 'Procurement Guidelines Statement track changed for Report to Authority July 2021'. Both documents can be found at the link below.

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

The changes will be effective on 30th August 2021 unless vetoed by the Authority.

The Consultation

The Questions

We invited industry to provide further feedback on the changes proposed to the Procurement Guidelines C16 Statement. The consultation questions are summarised below.

Procurement Guidelines C16 Statement

- 1) Do you agree with the proposed changes to the Procurement Guidelines C16 Statement relating to the Net Transfer Capacity (NTC) Commercial Compensation Methodology? Please provide any rationale.
- 2) Do you have any additional comments in relation to the NTC changes proposed to the Procurement Guidelines?

Responses to Consultation

NGESO received 3 responses to the Consultation. Please see detailed responses to the consultation questions from industry with National Grid ESO's view on responses below:

1. Industry Response: **Nemo Link**

Do you agree with the proposed changes to the Procurement Guidelines C16 Statement relating to the Net Transfer Capacity (NTC) Commercial Compensation Methodology? Please provide any rationale.

Nemo Link supports the proposed changes to the Procurement Guidelines to include reference to interconnector compensation for interconnector capacity management.

Nemo Link requests NGESO ensure any wording on the terms of use and reasons for capacity restrictions in the Procurement Guidelines are consistent with NGESO's application from Ofgem for the derogation request to use this as a non-competitively tendered non-frequency ancillary service.

NGESO's View:

NGESO thank Nemo Link for your support.

We confirm that wording contained within the Procurement Guidelines is consistent with the associated C28 derogation request which was made to the Authority (Ofgem) on 18th June 2021.

Do you have any additional comments in relation to the NTC changes proposed to the Procurement Guidelines?

No

2. Industry Response: **Moyle Interconnector Ltd**

Do you agree with the proposed changes to the Procurement Guidelines C16 Statement relating to the Net Transfer Capacity (NTC) Commercial Compensation Methodology? Please provide any rationale.

We note that this is the second time that NGESO has consulted on changes to the C16 statement associated with interconnector capacity restriction. Whilst the previous proposals that did not proceed had gaps, this proposed drafting is thinner again.

In part B on page 13 of the 'change tracked' document published as part of the consultation; the proposed service is described only at a very high level. There is no real detail provided of how and when this service could be used. For example, the previously proposed C16 drafting stated:

"To manage interconnector flows, if other market-based solutions are anticipated to be insufficient, or ineffective, for managing operational security on the transmission system, NGESO may need to limit changes to the interconnector scheduled flow occurring during the day ahead or intraday market..."

Post-Brexit, obligations to maximise the level of interconnector capacity made available to the market still exist through the TCA so we suggest that the C16 statement should include similar text to the above to provide some clarity on the limited circumstances in which these restrictions could be used.

ITLs and the proposed NTC restrictions are very different tools and they warrant being described separately (as was attempted with previously consulted drafting). ITLs prevent the unwinding of a previously established position whereas NTC restrictions prevent a flow being established in the first place. As well as being new and requiring a regulatory approved coordinated capacity calculation to implement, NTC restrictions are clearly much more commercially material to the interconnector owner and the market so should be accurately called out. The current drafting states that "NGESO may need to limit changes to the interconnector scheduled flow". This is accurate for ITLs only – if an NTC restriction is used at day ahead (or IDA1 in the case of SEM-GB interconnectors) then NGESO would be limiting the flow that can be scheduled in the first place rather than changes to the scheduled flow.

In the same section of the drafting, it should be clear than any bilateral/trilateral agreement will include arrangements for compensating interconnector owners where NGESO limits the amount of capacity released into the day ahead or intraday auctions. The commercial arrangements for compensating capacity restrictions have been under discussion for over 18

months so it is surprising that they are currently only mentioned in the version control table.

In part C on page 17 of the 'change tracked' document the proposed insertion seems unnecessary and confusing. Insertion of the reference to ITLs/NTC below thermal constraints (but not stability) implies that they will be used primarily/solely for that type of constraint, but page 13 refers to managing interconnector flows "to help manage system issues such as stability or import/export constraints". Indeed, at various workshops on the commercial arrangements for NTC restrictions NGESO representatives have stated that stability and ROCOF issues are the drivers for needing to restrict interconnector flows so the reasoning for this piece of text in this location is unclear. Whilst NGESO has stated that these tools will rarely be used due to implementation of its 'Frequency Risk and Control Report' recommendations, if there is now an emphasis on thermal constraints that does not seem to be the case. This is particularly concerning for Moyle given that its TEC is due to increase significantly in April 2022 - this proposal gives rise to uncertainty over how firm that TEC will actually be in practice – it is therefore critical that NGESO is transparent about how and when these tools may be used.

NGESO's View:

Thank you Moyle Interconnector Ltd, NGESO appreciate your comments. The Procurement Guidelines provide a high-level overview of the services that NGESO procure, and that the detail of those services (both commercial and operational) are included in other documents. In order to ensure consistency across the Procurement Guidelines, we would suggest keeping the wording as is.

For more detail, please refer to methodology for commercial arrangements for payments relating to interconnector (IC) capacity restrictions resulting from NTC limits set by NGESO: <https://www.nationalgrideso.com/industry-information/codes/european-network-codes/other-enc-documents> and published in the "Terms and Conditions or Methodologies" section. The Methodology document will be updated once approved and can be accessed via this link.

The precise circumstances where NTC will be used should be included in the Capacity Calculation Technical Procedure which is currently being developed as part of the work within the TCA. We do not believe that the Procurement Guidelines are a suitable place for this to be included.

The points made about ITL, NTC and IDA1 are addressed within the Commercial Methodology and within responses to your previous comments with regard to the Commercial Consultation.

NGESO agree to remove the proposed insertion within Part C of the Procurement Guidelines to avoid confusion of the driver behind the need to manage interconnector flows. NGESO agree that the primary driver is to help manage system issues such as stability or import/export constraints as stated within Part B of the Procurement Guidelines.

Do you have any additional comments in relation to the NTC changes proposed to the Procurement Guidelines?

We have consistently stated the view that any NTC restriction should be fully compensated and only occur as a consequence of interconnector capacity calculation performed in a coordinated and transparent manner, and subject to regulatory approval. Whilst the proposed C16 drafting doesn't preclude this, we are concerned that the sequencing of the work suggests NGESO will not wait until post-Brexit capacity calculation arrangements are developed before restricting interconnector capacity.

Cross zonal interconnector capacity brings significant benefits to UK consumers, including:

- *Enabling energy market integration and more competitive energy pricing;*
- *Avoiding significant costs of building new peak generation capacity;*
- *Increased security of supply associated with a more diversified energy mix; and*
- *Enabling higher levels of renewables by tackling the challenge of intermittency.*

Uncoordinated and frequent cross border capacity restrictions will lead to under-utilised assets with significant costs in terms of UK socio-economic welfare. We therefore believe that the implementation of cost-reflective and fair capacity calculation and compensation arrangements are essential to ensuring that the optimal capacity is made available to the market at all times and this should be formally recognised in the C16 statement.

NGESO's View:

NGESO thank Moyle Interconnector Ltd for your comments. Procurement Guidelines state the mechanism through which we pay rather than how we pay. By including the NTC process within the Procurement Guidelines, it is implicit that the service is compensated. The detail of how this is achieved is shown within the Commercial Arrangements

Methodology Documentation:

<https://www.nationalgrideso.com/industry-information/codes/european-network-codes/other-enc-documents>

The Methodology document will be updated once approved and can be accessed via this link.

We agree with the need for implementation of cost-reflective and fair capacity calculation and compensation arrangements.

We agree that a co-ordinated agreement Europe-wide would be most optimal for this process. We are working towards co-ordinating this agreement through a less formal approach. We recognise that each TSO will continue to use its own process until this is in place.

3. Industry Response: National Grid Ventures

Do you agree with the proposed changes to the Procurement Guidelines C16 Statement relating to the Net Transfer Capacity (NTC) Commercial Compensation Methodology? Please provide any rationale.

We agree with the aim of the amendment to formalise the introduction of an agreed NTC compensation methodology into the procurement guidelines. We support, in particular, the clarification about the use of day ahead ITL/NTC restrictions only where an intraday market does not exist. This is in line with the extensive discussions in the NTC working group on this issue.

We believe that the changes to the Procurement Guidelines could be further improved to reflect our understanding of the overall regulatory framework in which the NTC methodology is being developed.

Our understanding from previous NGENSO discussions at working group is that together with the changes to the Procurement Guidelines and the finalisation of the NTC Methodology, NGENSO will also be requesting a derogation from Ofgem for the use of an NTC restriction as a "non-frequency ancillary service" not subject to competitive tender. The Procurement Guidelines exist to contextualise the procurement of services by NGENSO.

We have extracted the relevant text from the proposed changes to the Procurement Guidelines below. We would propose that the yellow highlighted text should be updated to bring it in line with the derogation being sought by NGENSO from Ofgem. The additional context is important to give both interconnector operators and other market participants a clear idea of the precise circumstances when this service is to be used.

"To manage interconnector flows to help manage system issues such as stability or import/export constraints, NGENSO may need to limit changes to the interconnector scheduled flow occurring during the intraday market, or in the day ahead market where an intraday market does not exist. We achieve this by using the following mechanism..."

NGESO's View:

NGESO thank National Grid Ventures for taking the time to submit a response. The Procurement Guidelines provide a high-level overview of the services that NGENSO procure, and that the detail of those services (both commercial and operational) are included in other documents. In order to ensure consistency across the Procurement Guidelines, we would suggest keeping the wording as is.

NGESO intend that the precise circumstances where NTC will be used should be included in the Capacity Calculation Technical Procedure which is currently being developed as part of the work within the TCA. The Technical Procedure will be agreed with appropriate parties as per the TCA and consulted upon with industry participants. We do not believe that the Procurement Guidelines are a suitable place for this to be included.

Do you have any additional comments in relation to the NTC changes proposed to the Procurement Guidelines?

No

Next Steps

- Following industry consultation, NGESO now presents to The Authority for consideration the revised version of the Procurement Guidelines C16 Statement supporting the changes outlined in this report.
- Two versions of the Procurement Guidelines C16 Statement are provided. One shows the revisions originally proposed by NGESO in the C16 Consultation. The second shows the changes to these revisions as a result of the C16 consultation process.
- The Authority is invited to review this Report for approval, or veto, on/before 23rd August 2021. If the Authority chooses to exercise their powers of veto for these proposed changes to the C16 statements, the existing versions will remain in place. Alternatively, the proposed changes will become effective from 30th August 2021.