

Procurement

Guidelines

Made in accordance with Condition C16 of National Grid Electricity Transmission plc's electricity transmission licence

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Version Control

Date	Version No.	Notes
20.03.01	<u>1.0</u>	Initial version
<u>21.09.01</u>	<u>1.1</u>	Revision to initial version to incorporate new intentions on the procurement of Fast Reserve
<u>01.05.02</u>	<u>2.0</u>	Annual revision incorporating updates to information provision and Licence Condition references
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<u>28.11.03</u>	<u>3.1</u>	RevisiontoincorporateintroductionofMaximumGenerationService,POT,andthedevelopmentofdemandsideservices.
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<u>04.10.04</u>	<u>4.1</u>	Revisions to incorporate changes as a result of CAP071: the development of Maximum Generation Service
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02.09.05	<u>5.0</u>	Revisions to incorporate changes relating to the provision of warming data; and the informal annual review
06.04.06	<u>6.0</u>	Revision following annual review
<u>01.11.06</u>	<u>7.0</u>	Revisions to incorporate the replacement of the Warming & Hot Standby service with BM Start Up service

<u>01.04.07</u>	<u>8.0</u>	Revisions to incorporate Short Term Operating Reserve (STOR)			
<u>01.04.09</u>	<u>9.0</u>	Revisions following annual review and implementation of 'plain English'			

<u>We have developed The these G</u>guidelines have been developed in consultation with the Authority. They Guidelines maycan only be changed in line -modified in accordance with the processes set out in Standard Condition C16 of National Grid'sour Electricity Transmission Licence. We will continuously monitor the validity of the Gguidelines to make sure they are valid, and we aim and intend, in discussion with the Authority, to regularly periodically to review and, if necessary, amend the form of them Guidelines and, where appropriate, make such revisions as are necessary.

<u>If we need to change in the event that it is necessary to modify these</u> Guidelines guidelines before we in advance of issueing the yearly annual updated version of this document, we then this will be do this ne in accordance with Standard Condition C16.

The latest version of this document, is available, together with and the relevant changeamended marked version (if this applies any), is available electronically from our website at http://www.nationalgrid.com/uk/Electricity/Balancing/transmissionlicens estatements/.

<u>Copies are also available from the Regulatory Frameworks Manager.</u> Alternatively a copy may be requested from the Regulatory Frameworks Manager. Full contact details are set out in Part E of this document.

Contents

Part A	Intro	oduction
	1.	Purpose of Document
Part B	Gen	eral Principles
1	1.	Balancing Services
	2.	Procurement Principles
	3.	Balancing Services Relationships
	4.	Taking Actions Outside the Balancing Mechanism
Part C	Bala	ncing Services Required
	1.	Types of Balancing Services
	2.	Description of Balancing Services
	3.	Demand Side Providers and Small Generators
Part D	Proc	curement Mechanisms
I	1.	Procurement Process
	2.	Procurement Communication Media
	3.	Procurement Summary
Part E	Infor	rmation Provision
	1.	General Provisions
	2.	Information Provision Contact
	3.	Information Provision Detail
	4.	Volumes of Balancing Services
	5.	Information Provision Summary
	6.	Future Developments
		•

Part A:-__Introduction

1. Purpose of this Documentdocument

This document sets out the <u>Procurement_procurement_Guidelines</u> <u>guidelines ("</u>the Guidelines") <u>that we which National Grid Electricity</u> <u>Transmission plc is required tomust establish set out in line accordance</u> with Standard Condition C16 of <u>National Grid'sour</u> <u>Electricity</u> <u>Transmission-Licence</u>. The purpose of these <u>Guidelines guidelines</u> is to set out the kinds of Balancing Services which we may be interested in purchasingbuying, together with the <u>methods we expect to use to buy</u> <u>those mechanisms by which we envisage purchasing such Balancing</u> <u>Ss</u>ervices.

The Guidelines are not <u>a full representation prescriptive</u> of every possible situation that we are likely to encounter, but rather represent a generalie statement of the procurement principles we expect to follow.

The rest mainder of this document is structured in four parts-:

- Part B sets out the broad definitions of Balancing Services, the general principles we expect to follow to buy those in procuring such services, the relationship between various Balancing Services and a description of actions that we will be taken outside of the Balancing Mechanism (BM).
- Part C describes the kinds of Balancing Services we expect to buy;
- procure and Part D sets out the procurement mechanisms methods we expect to use tilise into procuring suchbuy the Balancing Services-; and
- Part E contains <u>historicalpast</u> Balancing Services volumes and describes other information we will provide to <u>make</u> <u>-en</u>sure

that appropriate signals are available to market participants and other interested parties.

If we need to change these guidelines before we issue the yearly updated version of this document, we will do this in line with Standard Condition C16.

In the event that it is necessary to modify the Guidelines in advance of issuing the annual updated version of this document, then this will be done in accordance with Standard Condition C16 of the Electricity Transmission Licence.

We have developed these guidelines in consultation with the Authority. They can only be changed in line with the processes set out in Standard Condition C16 of our Electricity Transmission Licence. We will continuously monitor the guidelines to make sure they are valid, and we aim to regularly review and, if necessary, amend them.

The Guidelines have been developed in consultation with the Authority and Industry Participants. The Guidelines may only be modified in accordance with the processes set out in Standard Condition C16 of National Grid's Electricity Transmission Licence. We will continuously monitor the validity of the Guidelines and intend, in discussion with the Authority, to periodically review the form of the Guidelines and, where appropriate, make such revisions as are necessary.

The Guidelines make reference to a number of definitions contained set out in the Grid Code and Balancing and Settlement Code. In the eventIf that any of the relevant provisions terms in these Grid Codes or Balancing and Settlement Code are amended, we it may need become necessary for us to change modify these Guidelines in order that they remain consistent with the Grid Code and/or Balancing and Settlement Code to reflect those amendments.

In any event, where If our legal responsibilities, or the statutory obligations or the provisions terms of the Grid Code, are considered inconsistent with contradict any part of these Guidelines, then the relevant statutory obligation and/or term of the Grid Code provision will take priority eccedence.

Unless defined in the Guidelines, <u>the</u>terms <u>we</u>used herein <u>sha</u> <u>will</u> have the same meanings <u>given to themas those that they have</u> in the <u>Electricity Transmission</u> Licence, the Grid Code and/or the Balancing and Settlement Code (<u>whichever applies</u>) as the case may be.

The latest version of this document is available electronically from our website. <u>Or, you can ask the -Commercial Frameworks Manager for</u> Alternatively a copy may be requested from Commercial Frameworks Manager. Full contact details are set out in Part E of this document.

In this document, 'we' refers to National Grid Electricity Transmission plc and the "Licence" refers to our Electricity Transmission Licence.

Part B:____General principles

1. Balancing Services

The services that we need to <u>buy ('procure')</u> procure in order to operate the transmission system <u>make up the constitute</u> Balancing Services.

The Transmission Licence defines Balancing Services as:

- (a) Ancillary Services;
- (b) Offers and Bids made in the balancing mechanism; and
- (c) other services available to the licenseeus which serve to assist <u>help the licensee in us</u>

co-ordinateing and directing the flow of electricity onto and over the GB transmission system (in accordance with the Act or the standard conditions) and/or in doing so efficiently and economically.

<u>'Balancing Services' does</u>, but shall not include anything provided by another transmission licensee pursuant toin accordance with the STC.

Ancillary Services:

These services are described in Connection Condition 8 of the Grid Code, and are services <u>we buy procured</u> from Authorised Electricity Operators (AEOs) or people <u>rsons thatwho</u> make interconnector transfers. These services can be mandatory or commercial in nature. <u>We do They are not buy them procured</u> from electricity consumers.

Balancing Mechanism Offers and Bids:

These are commercial services offered by generators and suppliers and <u>bought procured</u> through arrangements set out in Paragraph 5.1, Section Q of the Balancing and Settlement Code. They represent a willingness to increase or <u>reduce_decrease</u> the energy output from Balancing Mechanism Units (BMUs) in exchange for payment. Accepted services are used to control the national and local balance of generation and demand.

"Other Services"

These are <u>any other</u> commercial services that <u>we</u> can be entered into with any party, which are classified neither as Ancillary Services nor as BM Offers and Bids. These services can be provided by parties who are not AEOs. This category would include any service provided by parties that <u>are have not signed up atories</u> to the Balancing and Settlement Code. <u>'Other Services services'</u> may also include the procurement of buying energy for balancing purposes. <u>For more</u> Further details on 'Other <u>'other Services' services'</u>, see can be found in Part C.

2. Procurement Principles

When procuring buying Balancing Services, we will apply the following principles set out below-:

- Without prejudice to the factors below and after having taken relevant price and technical differences into account, we shall will <u>award contracts</u> for Balancing Services. (We will do this in a nondiscriminatory manner).
- <u>When we award In contracts ing</u> for the providing sion of Balancing Services, we will <u>buy purchase</u> from the <u>sources that offer the</u> most <u>value for money</u>, <u>economical sources available to us having</u> <u>regardand take account of to</u> the quality, quantity and nature of <u>those such</u> services at th<u>eat</u> time <u>we buy themavailable for</u> <u>purchase</u>.

The types of issues <u>we</u> considered <u>in relation</u> with regards to <u>the</u> quality and nature <u>of services</u> are best explained <u>via through</u> an example. When <u>we</u> considering a requirement for frequency response from two potential providers, we will <u>consider</u> have regard to the quality, <u>amount</u> quantity and nature of frequency response available <u>to buy</u> for purchase. When we <u>In</u> assessing the quality of the service, we will consider, for example, the <u>provider's</u> <u>past</u> historical performance of the provider. When we <u>In</u> assessing the nature of the service, we will consider, for example, whether the nature of the provider's frequency response service is dynamic or static.

- If Where there is, or is likely to be, a number of providers sufficient competing to tion in provide the provision of a Balancing Service, we will aim seek to buy procure that service through via an appropriate competitive process (see identified in Table 1) or market methodehanism, as described in Part D of this document. In these cases, such instances we shall will provide a statement¹ to show indicating the processes and terms under which we will award contracts will be awarded. Copies of these statements are available from the Information Provision Contact listed in Part E of this document.
- If we consider that there is are not enough providers competing to provide insufficient competition in the provision of a Balancing Service (for example, e.g. whereif there is some form of local monopoly), we shall will award contracts for that service such provision through on a negotiationed bilateral basis.
- If <u>we need</u> Balancing Services are required over a <u>fairly relatively</u> long-term <u>period</u>, we <u>shall will</u> advertise this at requirement as

¹ "statement" will be a hyperlink to an appropriate index page on our web-site.

appropriate through the communication media set out in Part D of this document.

 If a third party <u>requires needs</u> Balancing Services, and if we <u>make</u> <u>arrangements on their behalf for the services to be</u> <u>secure</u> providedsion of such services on their behalf, <u>we will charge</u> the <u>associated</u> costs of <u>the services</u> provision will be fully recharged to the <u>third</u> party-requiring such services.

3. Balancing Services Relationships

<u>We will buy Both both</u> Ancillary Services and <u>"Other Services"</u> in line <u>with will be procured against</u> the principles set out in this statement. It should be recognised that tThe <u>number volume</u> of services we buy procured will be <u>restricted constrained</u> by <u>financial economic</u> and technical factors, including the level and nature of services delivered through BM Offers and Bids.

<u>We will accept</u> Offers and Bids within the Balancing Mechanism will be accepted in price order, after taking account of <u>the system's</u> system technical limitations and dynamic parameters associated with the Offers and Bids. Taking account of these constraints, when <u>we have</u> <u>accepted</u> all available Offers and Bids <u>wethat</u> can, <u>we may need</u> <u>be</u> <u>accepted</u> have been exhausted, to begin emergency action may need to be initiated. _Ancillary Services and <u>"Other Services"</u> can be considered <u>collectively together</u> as services <u>bought procured</u> outside the <u>BMBalancing Mechanism</u>. _-We will need to <u>procure buy</u> Ancillary Services and <u>"Other Services"</u> for if: :

System Security - Services may be procured outside the BM if we consider that there will <u>not</u> be <u>enough insufficient Oo</u>ffers and <u>Bids</u> <u>bids</u> available within the <u>BM-Balancing Mechanism</u> to balance the system and maintain <u>the</u> security of supply-;

- Cost Services may be procured outside the BM if we consider that it would provide an <u>a financially beneficial economic</u> alternative to <u>buying purchasing</u> services through the <u>BM</u>-<u>Balancing Mechanism</u>; <u>or</u>.
- Differentiation Services may be procured outside the BM if the required technical characteristics we need are not available through BM Balancing Mechanism Offers and Bids.

4. <u>Taking Actions Outside the Balancing Mechanism</u>

Our consideration of whether to <u>undertake actions</u> within or outside the <u>BM-Balancing Mechanism</u> will be based on a forecast of the level and cost of services expected to be available within the <u>BM-Balancing</u> <u>Mechanism</u>. We will enter into <u>Contracts-contracts</u> will be entered into outside the <u>Balancing Mechanism</u> We when we <u>anticipate expect</u> a shortage of appropriate Offers and Bids in the <u>Balancing</u> <u>Mechanism</u> <u>BM</u> —to meet system security requirements, or if we consider that <u>such-those</u> contracts will lead to a reduction in overall cost or provide technical characteristics that are not available through <u>Balancing Mechanism</u> <u>BM</u>. Offers and Bids. The principles <u>relating to</u> <u>by whichhow</u> we will forecast <u>whether there are enough</u> <u>the</u> <u>sufficiency or otherwise of</u> Offers and Bids in the <u>Balancing</u> <u>Mechanism</u> <u>BM</u>, and <u>to the</u> technical characteristics <u>mentioned above</u>, are set out in the Balancing Principles Statement.

When considering what actions will be undertaken outside the BM Balancing Mechanism, or what actions will be taken before Gate Closure, it is useful to examine energy-related products separately from Other Services, as well as from in addition to Ancillary Services.

- We normally enter into Ancillary Service Agreements <u>are normally</u> entered into priorbefore to Gate Closure such so that prices and service capability are agreed well before<u>hand they are exercised</u>. <u>UsuallyTypically</u>, <u>under the</u> Ancillary Service Agreements, <u>provide</u> for the services <u>must be provided to be exercised</u> within Gate Closure timescales and for payments <u>must to be</u> made on top of in addition to those made within the <u>BMBalancing Mechanism</u>. -An example of this type of payment is the Frequency Response capability payment, which is contracted for in advance and then made when a provider is placed in a state where it is capable of <u>changes deviations</u> in its output as a result of deviations in system frequency.
- In the case of Balancing Services not provided by <u>Authorised</u> <u>Electricity Operators (AEOs)</u>, <u>we normally enter into</u> agreements are again normally entered into prior tobefore Gate Closure. These services are exercised within Gate Closure timescales, but the providers will often not be a Trading Party within the Balancing and Settlement Code. An example of this is the <u>Frequency</u> <u>Response services</u> provided sion of Frequency Response services fromby the demand side. This results in the contract being entirely outside the <u>BMBalancing Mechanism</u>.
- For energy, we will trade, subject to any restrictions set out in the Transmission Licence, using the same instruments as other traders (depending on any restrictions set out in the Transmission Licence). For example, we will enter into agreements before prior to-Gate Closure to pay a provider an option fee to ensure make sure that energy is available in the BMBalancing Mechanism. We may then exerciseThis this option may then be exercised prior tobefore or after Gate Closure.

<u>If Where</u>-standard energy-_related products do not provide for our specific requirements, we will <u>aim_seek</u>-to amend the standard trading instrument by agreement. For example, for <u>providing_the</u> provision of a MW profile from a specific BMU provider, we may choose to use a Pre Gate Closure BMU Transaction (PGB Transaction) or a Grid Trade Master Agreement Schedule 7A transaction to <u>ensure-make sure</u> that energy is delivered according to that MW profile. This could be used to synchronise or desynchronise BMUs with dynamics that extend outside the <u>BMBalancing Mechanism</u>.

Part C:____Balancing services requiredneeded

1. Types of Balancing Services

We are interested in <u>buying procuring</u> the following types of Balancing Services:

Ancillary Services

- System Ancillary Services (Part 1), the mandatory services that must required to be provided by all licensed generators, of:
 - •____Reactive Power; and
 - •____Frequency Response.
- System Ancillary Services (Part 2), the necessary services that need to be provided (if an agreement is reached) by required from some generators and provided if agreement is reached, of:
 - Black Start Capability;
 - Fast Start Capability; and
 - System-_to-_Generator Operational Intertripping
- Commercial Ancillary Services. The following services <u>need to</u> <u>be provided (if an agreement is reached)</u>, <u>required fromby</u> some generators <u>and provided if agreement is reached</u>, of:
 - Enhanced Reactive Service;
 - Commercial Frequency Response Service;
 - Reserve Services; comprising:
 - Fast Reserve;
 - Short Term Operating Reserve; and
 - BM Start--up-;
 - Commercial Intertrips;
 - System-to-System Services (including Emergency Assistance);

- Maximum Generation Service; and
- Transmission Related Agreements.

Other Services

Other<u>S</u>-Services<u>ervices other than those</u>, other than those provided as an Ancillary Service, made up of the following.comprise:

- Reactive Power;
- Frequency Response;
- Short Term Operating Reserve;
- Fast Reserve; and
- Demand Intertrip.

Energy Related Products, made up comprising of:

- Forward Energy Trades;
- Power Exchange Trades; and
- Energy Balancing Contracts.

A number of services are listed under both Ancillary Services and Other Services. This distinction arises from the definition of Ancillary Services in the Transmission Licence, which defines Ancillary Services as being provided by AEOs or interconnector parties. <u>So, Thus</u> where parties that are not AEOs provide a service (,-such as frequency response), then it is classified as an <u>'Other Service'</u> rather than an Ancillary Service.

2. <u>Description of Balancing Services</u>

2.1 Ancillary Services

There are two <u>general broad</u> types of Ancillary Service, as defined in the Grid Code.

System Ancillary Services, which are divided into two parts, comprise are made up of Part 1 System Ancillary Services that are mandatory services required from all licensed generators and Part 2 System Ancillary Services. Part 1 services are mandatory and must be provided by all licensed generators. Part 2 services are not mandatory, but that are provided are necessary services provided by some generators, on a site—_by—_site basis, to meet specific system requirements if where agreement is reached. Any Ancillary Service which is not a System Ancillary Service <u>but and which is provided by an</u> AEO is <u>known as termed a '</u>Commercial Ancillary Service'.

System Ancillary Services <u>make up comprise</u> the services as set out in and described in Connection Condition 8.1 of the Grid Code <u>are set out</u> <u>below</u>:

- All licensed generators are required to<u>must</u> provide Part 1 System Ancillary Services to <u>make en</u>sure they providesion of a minimum technical capability to deliver voltage and Frequency Response services.
- Some generators <u>need are required</u> to provide the Part 2 System Ancillary Services of Black Start Capability and/or Fast Start Capability (or both). Our <u>extra additional</u> requirements for these services depend on <u>how the existing providers</u> actually provide, or <u>are -and expected to provide, these provision of such services by</u> <u>existing providers</u>.
- <u>Additionally, sS</u>ome generators will <u>also need be required</u> to provide System-<u>to-</u>Generator Operational Intertripping Schemes as a condition of connection.

Future Requirements

We are interested in discussing arrangements with po<u>ssible</u> tential new providers of the Black Start Capability service. However, there is no requirement for any additional <u>extra</u> Fast Start Capability beyond the current provision <u>service</u> provided by from all existing providers. <u>The need Requirement</u> for System to Generator Operational Intertripping Schemes will be dependent up on how the system is developed in the future system development and <u>any</u> new connections to the Transmission System.

Commercial Ancillary Services, described in Connection Condition 8.2 of the Grid Code, are agreed by <u>negotiation</u> ilaterally and set out in an <u>Ancillary Services Agreement (as long as</u>, <u>subject to</u> satisfactory commercial terms <u>are agreed</u>), in an Ancillary Services Agreement. The Commercial Ancillary Services we expect to <u>buy procure</u> are: <u>as</u> <u>follows.</u>

- Enhanced Reactive Power Service which exceeds the minimum technical requirement set out in Connection Condition 6.3.2 of the Grid Code. We will contract for such these services as described in the relevant Reactive Power market arrangements (see Part D) and in accordance with Schedule 3 of the CUSC.
- Commercial Frequency Response Service which provides for combinations of different technical characteristics (compared to mandatory frequency response services), together withand alternative other pricing arrangements. We contract for such these services when the expected anticipated cost is lower than the alternative service providedsion.
- Reserve Services these are instructed services <u>needed</u> required over a variety of time-frames to <u>deal with the matching</u> of generation <u>with and demand</u>. The services we expect to

procure <u>buy</u> can be broken down into the following components parts set out below:

- Fast Reserve which is _a fast_-acting, reliable, flexible service, provided by plant capable of increasing energy production or reducing energy consumption, at defined set rates and within a defined set time period. The details of this service will be described in the detailed statements associated with its procurement viathe tender (see Part D).
- Short Term Operating Reserve (STOR) which is provided by either increasing generation to the system, reducing demand or a combination of both, within set defined timescales. -The details of this service will be described in the detailed statements associated with its procurement viathe tender (see Part D).
- BM Start-up <u>-- Which is</u> a service that allows <u>us</u> <u>National Grid</u> to access MW from BM-Units that would not otherwise have run, and <u>that</u> are unable to start-up within <u>BM-Balancing</u> <u>Mechanism</u> timescales on the day. Firm payments for this service are made on a <u>pound-per-hour</u> <u>£/h</u>-basis, to remunerate the costs of preparing a BMU to start up and synchronise within <u>BM-Balancing Mechanism</u> timescales.
- Commercial Intertrip this service is <u>needed required</u> to <u>limit</u> minimise the pre-_transmission line fault output restrictions that may apply to Power Stations. This service is the same as a normal intertrip, with the except <u>that ion of</u> the generator <u>does</u> not <u>have being obliged</u> to provide the service as part of its connection conditions. There is a very limited and localised requirement for <u>such athis</u> service.

- System-to-System Services (including Emergency Assistance)

 these services provide for mutual support between of the transmission system and with other interconnected systems.
 These services are only required viaprovided through interconnectors.
- Maximum Generation Service this service is <u>needed_required</u> to provide <u>extra_additional_short-_term</u> generation output during periods of system stress for system balancing. This service allows access to unused capacity outside of the Generator's normal operating range. This service <u>begins_will be initiated by</u> the issuing_whenof an Emergency Instruction is issued_in line with the Grid Code BC2.9.2, Section 4 of the CUSC² and the Maximum Generation Service Agreement.
- Transmission Related Agreements where <u>if</u> connection arrangements result in a <u>requirement need</u> for the output of a generator to be constrained due to events on the transmission system, <u>we manage</u> the commercial process <u>is managed via</u> <u>through</u> a Transmission Related Agreement.

2.2 Other Services

As <u>set out indicated in Part B</u>, <u>"Other Services</u>" include services which are not classified as <u>"Ancillary Services</u>", but technically can provide the same effect from different service providers. An example of <u>"Other</u> Services" would be Frequency Response provided by an electricity consumer (a party that is not an AEO).

Other Services may also include the purchases/sales of energy bought and sold in connection with operating the transmission system and/or doing so economically and efficiently. Purchases or /sales through via

² The Connection and Use of System Code

bilateral forward contracts or through a recognised exchange will fall within this category. This includes <u>Pre-Gate closure PGBMU</u> Transactions. <u>We will include The the</u> levels of procured energy we buy will be included in the Balancing Services Adjustment Data (BSAD) we provide which is submitted to the Balancing Mechanism Reporting Agent, in line with the BSAD Methodology Statement. We will then use the data for inclusion in the calculation of System Sell Price and System Buy Price, in accordance with the Balancing and Settlement Code.

2.3 **Prohibited Activities**

We have been given discretion with regard to the procurement of Balancing Services, subject to a licence obligation to operate the transmission system in an efficient, economic and co-ordinated manner and under the umbrella of an incentive scheme.

We should be able to make the best use of the range of tools available to us, including (but not limited to) energy contracts and option contracts called both inside and outside of the BMBalancing Mechanism.

In addition to the licence obligation to operate the transmission system in an efficient, economic and co-ordinated manner, wWe are also prohibited from purchasing or otherwise acquiring electricity for resale or other disposal to third parties except pursuant to the procurement or use of Balancing Services in connection with operating the transmission system and doing so economically and efficiently (or with the consent of the Authority) with the result that we are prohibited from speculative trading.

In addition wWe must also are required to publish a range of information to market participants in relation to how we envisage procuringexpect to buy Balancing Services and energy purchases. For Full_full_details of the range of information that we will publish, and

details o<u>f</u>n where <u>you can find</u> this information<u>, see can be found on</u> our web-site<u>at</u>

http://www.nationalgrid.com/uk/Electricity/Balancing/services/.

2.4 Buying Energy or Selling Energy Related Contracts Reasons why wWe may buy or sell energy or energy-related contracts

forward include for the following reasons.:

- <u>+t</u>o meet our mean forecast requirement for balancing energy.
- <u>T</u>to provide options to meet potential <u>differences variations</u> from the mean forecast. The Reserve Services described above may <u>meet fulfil</u> this requirement.;
- <u>T</u>to reduce the total cost of balancing the transmission system using the <u>BMBalancing Mechanism</u>. <u>For for</u> example, if a certain volume of Offers are forecast to be <u>needed required</u> in the <u>BMBalancing Mechanism</u> (such as <u>e.g.</u> for the purposes of establishing spinning reserve), it may be more economic to <u>buy purchase</u> a volume of <u>forward</u> energy forward souch that <u>we a</u>-reduce thed volume of Offers and Bids <u>we need</u>)are required.; or
- <u>for Direct direct Arbitrage arbitrage</u> between different balancing instruments in order to <u>gain yield</u> a lower overall balancing cost. In order to comply with the <u>Transmission</u> Licence, this would only be valid if <u>we could make</u> an immediate <u>cost</u> saving <u>can be</u> obtained by directly replacing one balancing instrument to <u>fulfil meet</u> a specific requirement with another which replaces the same requirement. An example of <u>such</u> a direct arbitrage could

be to sell a 12-month contract and replace it with <u>2-two</u> consecutive <u>6</u>six-month contracts to run one after the other.

Demand Side Providers and Small Generators

We are interested in <u>buying procuring</u>-Balancing Services from demand side providers, <u>depending on</u> <u>subject to</u> technical and dynamic considerations (where demand side providers, include demand reducers, demand increasers and small generators embedded on-site).

Demand side providers provide 'Other Services' as defined in section 2.2 above. _The types of Balancing Services that-we are interested in procuring buying from demand side providers are the same as shown in the list of 'Other Services' provided in Part C, section 1.

<u>We encourage Demand demand side providers are encouraged to take</u> participate in the standard market tender process we use to procure buy the following services (as long as they subject to meeting the minimum technical criteria):).

- Reactive Power;
- Fast Reserve;
- Short-Term Operating Reserve (STOR); and
- Firm Frequency Response.

We are also interested in entering into bilateral contracts with demand side providers for the following services (again, <u>as long as they</u> <u>subject to</u> meeting the minimum technical criteria):).

- Frequency Response provision of non-dynamic response via frequency relay initiated response;
- Fast Reserve for demand side providers who are unable to participate in the standard market tender arrangements;

- Demand Intertrip used to assist in maintaining local system security;
- Balancing Mechanism Offers and Bids; and
- Energy Related Products.

<u>We Bilateral negotiate</u> contracts with demand side providers in the same way as with are procured by the same means as for any other provider.

We are always interested in entering into bilateral discussions with demand side providers fotor the provide sion of specialised services, if where demand side characteristics prevent the provider from taking clude part_icipation in our standard market tender processes, or if there are enhanced services that can be provided.

We are interested in entering into discussions with the demand side about developing new services or market processes. <u>TypicallyUsually</u>, we would develop new services <u>by using through the use of contract trials in order</u> to assess the service requirement, <u>dimensions</u>. Once proven, and <u>where if</u> appropriate, <u>we will amend these guidelines to reflect the details of the service details and the method we will use to buy themprocurement mechanism will be reflected in a modification to these Guidelines. Examples of those services that may potentially be developed further are:</u>

- Fast Reserve by Tele switch control of meters; and
- Demand Management.

Part D:____Procurement methodschanisms

1. Procurement Process

As <u>set out</u> <u>indicated</u> in Part B of these Guidelines, where <u>enough</u> <u>sufficient</u> competition exists, we will <u>aim_seek</u> to contract for Balancing Services <u>via_through</u> some form of market mechanism. In other circumstances, <u>we will enter into</u> bilateral contracts <u>will be entered into</u> with the service providers. In all <u>such_these</u> circumstances, we will <u>consider be mindful of</u> our Licence <u>duties</u> <u>obligations</u> when <u>we</u> entering into these agreements.

Market mechanism

This will normally be a tender<u>-</u>based process for <u>choosing</u> the <u>selection</u> and award<u>ing</u> <u>of</u> service contracts. In each case, the <u>market</u> mechanism will include:

- a statement of our service requirements;
- the issuing <u>anof</u> invitation to <u>put forward</u> tender document<u>sation</u>, providing <u>enough sufficient</u> information-<u>(including standard</u> <u>contract terms and conditions)</u> to allow <u>us to make an the</u> provision of a service offer to be made, including standard <u>contract terms and conditions</u>;
- arrangements for <u>how governance of the process will be</u> <u>managed;</u>
- a statement of principles and criteria that we will consider when assessing who to evaluating the award ing of contracts to; and
- a report providing information on previous tenders.

Schedule 3 of CUSC contains the market mechanism arrangements for Reactive Power. You can get <u>This this</u> information is supplemented by other information available on from our web-site or <u>. The information</u> noted above may be requested from the Regulatory Frameworks Manager. Full contact details are set out in Part E of this document.

Bilateral Contracts

<u>We may need Bilateral bilateral contracts may be if there is only</u> required where limited competition exists inbetween the providers supply of a service (taking into account locational factors, if where necessary). This may be due to special technical requirements of the desired service, where the existence of some form of monopoly exist, s or the unique characteristics of certain individual providers.

Where <u>If</u> we consider there to be a limited degree of competition, we will:

- contact those service providers we believe to be capable of providing the required service or who have expressed an interest in providing the service, in order to find outestablish whether they want ish to enter into a contract to provide for the service in question; and
- offer non-discriminatory terms for <u>buying the acquisition of the</u> service.

However, if there is <u>not enough insufficient</u> time to identify and contact other providers, we reserve the right to <u>award a</u> contract as appropriate to meet system security requirements.

Where <u>If</u> we consider that <u>there is</u> no competition exists (such as the provision of a locational service), we will offer non-discriminatory terms for the acquisition of <u>buying</u> the required service.

2. Procurement Communication Media

We shall will communicate any service requirement by contacting those providers parties that we believe may be interested in providing the

service, including any existing or past service providers, and anyone that who has <u>already</u> expressed an <u>prior</u> interest in providing <u>the such</u> services in the future. <u>We will also In addition, notification of tenders</u> will normally be advertise <u>ourd invitation for tenders</u> in <u>the appropriate</u> trade magazines as appropriate and via our web-site.

3. <u>Procurement Summary</u>

Theis summary in Table 1 sets out the Balancing Services we expect or plan intend to buy procure and the methods chanisms by which we expect to use to buy procure them. It also sets out the timescales over which we intend to procure for when we plan to buy those Balancing Services set out in Part C, section 1 of these Guidelines guidelines.

Ancillary services	MEANS OF Procurement method	Timescales
Part 1 Services		
Reactive Power	Mandatory Services Agreement in	Evergreen
	accordance with pursuant to the	
	CUSC	
Frequency Response		
	Mandatory Services Agreement	Evergreen
	pursuant toin accordance with the	
	CUSC	
Part 2 Services		
Black Start		
Fast Start		Up to life of asset
System to Generator	Bilateral contracts	Up to life of asset
Operational Intertripping	Bilateral contracts	Up to life of asset
	Entered into in accordance with	
Commercial Ancillary Services	pursuant_to the CUSC	
Enhanced Reactive Services		
	Contracts derived from Market	

Table 1:-Balancing services summary table

Ancillary services	MEANS OF Procurement method	Timescales
Frequency Response	market tenders or bilateral	Min AnnualAt least
	contracts	each year
	Bilateral contracts or contracts	At least each Min
Reserve	derived from market tenders	month <u>, through ly</u>
Fast Reserve		viaa bilateral
		contract or tender
		process
	Bilateral contracts or contracts	
	derived from market tenders	At least each Min
STOR	denved nom market tenders	month, through a ly
		via bilateral
		contract or tender
BM Start Up	Contracts derived from Market	process
Commercial Intertrip	market tenders.	P
 Systemtosystem 		-As <u>necessary</u>
services (including		through a required
Emergency Assistance		via-tender process
Maximum Generation Service	Bilateral contracts	
· Maximum Generation Service	Bilateral contracts	
	Bilateral contracts	Evergreen
Balancing mechanism offers		As
and bids		requirednecessary
	Bilateral contracts entered into	Evergreen
	pursuant u nder CUSC	
Other services		
Reactive Power	Services are procured bought	As
	under the <u>terms provisions of the</u>	requirednecessary
	Balancing and Settlement Code	
Frequency Response		
		N/A-Does not apply
STOR	Contracts derived from Market	
	market tenders or bilateral	
Fast Reserve	contracts	
	Bilateral contracts	At least each
		<u>year</u> Min Annual

Ancillary services	MEANS OF Procurement method	Timescales
Ancillary services Demand <u>i</u> Intertrip EnergyRrelated Productsproducts	Contracts derived from Market <u>market</u> tenders Bilateral contracts or contracts derived from market tenders	Min Seasonal -As <u>necessary</u> required
	MEANS OF PROCUREMENT Bilateral contracts Procured via Markets/B <u>or b</u> ilateral contracts	<u>At least each</u> month, through a bilateral contract or tender process Min monthly via bilateral contract or tender process
		TIMESCALES As required <u>necessary</u> As required <u>necessary</u>

Part E: <u>Providing</u> <u>-linformation</u> <u>provision</u>

1. <u>General Provisions</u>

We <u>wshaill</u> publish information on the Balancing Services <u>we plan to</u> <u>buythat we intend to procure</u>. <u>When In doing so</u>, we will <u>aim seek</u> to provide <u>market participants and other interested parties with</u> <u>sufficientenough</u> information without compromising the commercial position of any <u>party to whom we may award a</u> contracting party.

As part of the process vision of providing information, we will provide BSAD (Balancing Services Adjustment Data). The calculation method we ology used for BSAD is set out in a separate document entitled "BSAD Methodology Statement'" which we produce established by The National Grid Electricity Transmission plc under the Transmission Licence.

2. Information Provision Contacts

If you want to ask about All queries regarding the provision of the Balancing Services we plan to buy intend to procure should be made, you should first contact the following. in the first instance, to:

Regulatory Frameworks Manager National Grid National Grid House Warwick Technology Park Gallows Hill Warwick CV34 6DA E-mail: BalancingServices@uk.ngrid.com

3. Information <u>about the outcome of the tendering process</u>Provision Detail

In the circumstances where <u>we hold</u> tenders, <u>are held</u> we publish information on the outcome of these processes <u>via through</u> market reports, which are available on our web-site. This is currently the case for Reactive Power (every six months), STOR (as <u>necessary</u>required), Fast Reserve (<u>every</u> monthly) and Firm Frequency Response (<u>every</u> monthly). <u>We In addition information</u> will <u>also be</u> publish <u>information on</u> <u>the ed for</u> Maximum Generation Service <u>separately</u> on a disaggregated <u>basis</u>.

4. Costs and Volumes of Balancing Services

<u>For information on the</u> <u>Cc</u>ost and <u>Volumes_volume</u> of Balancing Services <u>we buy, see procured can be found in</u> the Annual Procurement Report at the following link.

https://ng.corpwww.net/uk/Electricity/Balancing/pg/. http://www.nationalgrid.com/uk/Electricity/Balancing/pg/

5. <u>Summary of the Information information we Provision provide</u> <u>Summary</u>

Table –2 sets out the information on Balancing Services that we will make available to market participants and other interested parties. A number of services set out in Table 1 have <u>also</u> been <u>included</u> aggregated in Table 2 to <u>make en</u>sure that we provide market participants and other interested parties with sufficientenough information without compromising the commercial position of any party we plan to award a contracting to party.

Table -2 sets out the volume and <u>cost of the services</u>, price information we are able to make available and the timescales for when over which we will update this the information, and where the information is available will be updated. In many cases, we will provide the information in line with will be provided pursuant to the BSAD Methodology Statement. In addition Table 2 sets out the source of the information, For Hard hard copies of this information, ask may be requested from the Regulatory Frameworks Manager. Full contact details are set out in section 2 above.

6. Future Developments

<u>The</u> Information information we provide sion in the future will be <u>vital</u> integral to the process of developing ment of new services and will keep to follow the following principles set out below :.

- We will provide Information information in relation to balancing activities we carry out undertaken by National Grid Electricity Transmission plc will be made available if it will helps the wider market to work more efficiently operation of the wider market;
- <u>We will provide</u> <u>Ee</u>x-ante information will be made available if it helps the market to be in a position to balance without <u>intervention</u> <u>from System Operator</u>SO intervention; and.
- We will provide Information information will be made available to all parties at the same time, on an equal basis without favouring or discriminating against on or favouranyone.

In conjunction, National Grid Electricity Transmission plcWe will also aim to make ensure that:

- <u>providing the Information information transparency</u> does not undermine an individual party's commercial confidentiality;
- Provision providing of information does not result in the <u>System Operator</u>SO becoming a 'distressed buyer';

- <u>the</u><u>Information_information</u>will not highlight where the <u>SOSystem Operator</u> has a location<u>al</u>_specific constraint_; and
- any benefit to the wider industry from the providing sion of the increased information should justifiesy the costs of providing its provision.

7. Disclaimer

All information published or otherwise made<u>we make</u> available to market participants and other interested parties <u>pursuant tounder</u> these <u>Procurement</u>-Guidelines is <u>done sopublished</u> in good faith. However, <u>we do not make any guarantees no warranty or representation is given</u> by National Grid Electricity Transmission plc, its officers, employees or agents as to<u>that</u> the <u>information is</u> accuratecy or completeness of any such information, nor is any warranty or representation given that there are no matters material to any such information not contained or referred to therein. <u>As a result, we cannot accept</u> <u>Accordingly, no</u> liability <u>can be accepted</u> for any <u>mistakeserror in the information</u> <u>published</u>, or information which is missing from the published information, misstatement or omission in respect thereof, save except</u> in respect of a misrepresentation made fraudulently.

	provide Frovision Summary					
Balancing Service	Volume information	Price-information	Timescale	Where the Information information is available		
Reactive Power	Past Historical utilisation	Standard Default	Invitation To <u>to</u> Tender	Invitation To to Tender tender		
	figures set out in Reactive Power Market Report.	utilisation prices set out in CUSC Schedule 3, Part 1.	tender issued every 6-six months.	available on our website.		
	Utilisation volumes per BM Unit in the Reactive Power Market Report.	Full successful tender details by BM-U nit in Reactive Power Market Report.	Market Report published every 6-six months after each tender round (as set out in CUSC).	Market Report available on our website.		
	Utilisation data on a lead and lag basis per-<u>for</u> <u>each</u>BM-Units.	Contractual information, including price, capability, commencement and term.	Information updated in line with <u>the</u> Market Report.	Utilisation and contractual information to be a <u>A</u> vailable on our website.		
	Reactive Power capability requirement index.		Index published from <u>Tender tender Round</u> <u>round</u> 9 (<u>i.e. e.g.</u> contracts starting <u>on 1</u> April 2002, tender pack issued <u>in September and</u> <u>4October 2001).</u>	Index <u>set out contained</u> in the Reactive Power Invitation To Tender, which is available on our website.		

Table -2:—_<u>Summary of the Balancing balancing Services s</u>ervices Information information we will provide Provision Summary

Balancing Service	Volume information	Price information	Timescale	Where the Information
Frequency Response	Primary, secondary and highfrequency response volume requirement curves and tables to indicate show the needs of the system need.	Part 1 System Ancillary Service – Holding rates for primary, secondary and highfrequency response. Tendered Commercial Frequency Response - Price of tendered primary, secondary, and high_frequency response.	Part 1 System Ancillary Service we will publish pPrices will be published every monthly. Tendered Commercial Frequency Response we will publish Prices prices will be published when we have received tenders are received. We will publish System system response volume requirement tables will be published every monthlymonth. We will update Requirement requirement curves will be updated every yearannually.	Primary, secondary and highfrequency response prices, requirement curves, and tables are available on our website.
	MWh of Primary, Secondary and High Frequency Response held in each day of the <u>Utilisation Mm</u> onth <u>.</u>	The volume of response held –will be broken down on a BMU basis <u>.</u>	We will publish Response volumes will be published <u>every</u> month ly .	Primary, secondary and high- <u>-</u> frequency response volumes are available on our website.

Balancing Service	Volume information	Price information	Timescale	Where the Information information is available
	Assumed <u>u</u> Utilisation volumes (<u>combined</u> summed for all BM Units).	Total Imbalance imbalance Compensation compensation (payment to all generators across the month).	We will publish Assumed assumed utilisation and total imbalance compensation prices will be publishedevery monthly.	We will publish Assumed assumed utilisation and total imbalance compensation prices will be published on our website.
STOR	Tendered volume and contracted volume from the latest tender round. <u>We will publish System</u> <u>system Reserve reserve</u> <u>Requirementsrequireme</u> <u>nts</u> , and contracted volume from previous tender rounds in the year, <u>will be published in</u> <u>advance of before the</u> next tender rounds.	Tender price information <u>.</u>	STOR <u>Market-market</u> <u>Information information</u> <u>Report-report</u> updated after each tender round.	All Information information will be set out contained within the Market market Information information Report report, available on National Grid'sour Industry-industry Information information website.

Balancing Service	Volume	Price	Timescale	Where the information is available
Fast Reserve	Indicative volume requirement by Settlement Period <u>Past Historic</u> utilisation by day and <u>average</u> by <u>average Settlement</u> Period.	Total historic past volume reported by three price bands (Bids and Offers).	We will publish Requirements requirements each published monthly in advance.	We will publish This this information will be published on our website.

Balancing Service	Volume	Price	Timescale	Where the information is available
BM Start Up	Estimated Capacity <u>capacity</u> <u>Level</u> (MW) <u>.</u>	Hourly BM Start Up Payment_payment Raterate.	-As soon as <u>is practical</u> after the issueing of a new BM Start Up instruction, or <u>if there are</u> change <u>s to in status of</u> an existing BM Start Up instruction.	<u>We will publish This-this</u> information will be published via<u>through</u> our website<u>whenever</u> <u>we can on a reasonable</u> endeavours basis<u></u>.
Maximum Generation Service	We will provide Contracted contracted and available volumes to be provided on an ex ante basis, including the volume that is automatically guaranteed payment. We will publish Delivered delivered volumes once we have the to be published on a ex post basi actual datas.	Price submitted in £/MWh as set out per in the Maximum Generation Service Agreement	We will publish Information information to be published at the time the of contract is signed, ature and update it when d as necessary. We will also provide Information information also to be provided on an ex post basis when we have it, which will give detailsing of aspects surrounding the utilisation of the service, including instruction times, the volume delivered and payments.	We will publish t will be published on our website.

Balancing Service	Volume	Price	Timescale	Where the information is available
Energy Products	Total MW contracted (buy and sell) pre-gate closure for <u>Each-each Settlement</u> <u>pP</u> eriod.	Total cost (buy and sell) is set out contained within the BSAD.	We will publish the BSAD will be published at 5pm <u>day ahead </u> P-1. Also, we will publish BSAD <u>every</u> will be published half hourly at Gate Closure.	We will publish A-a version of the BSAD on our website will be published at 5pm day ahead D-1 on our website This version shows energyrelated costs and volumes (buy and sell). We will calculate the BSAD calculated in line accordance with the BSAD Methodology Statement , and make it will be made available to the BMRA for publication everyach half hour.
Pre Gate Closure BMU Transaction	For each Pre Gate Closure <u>publish</u> the specific BMU, published .	e BMU Transaction, <u>we will</u> volumes and price- will be	We will enter an Accepted accepted offer will be entered on the BMRS warning screen at the time we agree the transaction-is agreed. We will publish All-all offers will be published as soon as we can practicable but, in any case, at any event on a reasonable endeavours basis before the end of D+1.	The accepted offer will be displayed on the BMRS warning screen. <u>We will publish All-all</u> offers will be published on the National Gridour web-site.