

Amendment proposal:	Connection and Use of System Code (CUSC) Amendment Proposal 158: Provision of interim response volume information		
Decision:	The Authority ¹ directs that the original proposal be made ²		
Target audience:	National Grid Electricity Transmission, Parties to the CUSC and other interested parties		
Date of publication:	14 January 2008	Implementation Date:	28 January 2008

Background to the amendment proposal

National Grid Electricity Transmission (NGET) as GB System Operator (SO) has a statutory obligation to maintain system frequency within 1% of 50Hz³. In order to fulfil this obligation, NGET pays users for the provision of frequency response services. These services are either mandatory⁴ or commercial⁵. The mandatory Frequency Response market works on a "sealed-bid" auction basis. On the 15th Business Day of each month all generators must submit to NGET their prices for service provision in the following month⁶. Currently, mandatory Frequency Response utilisation volume data for previous months is published on the 9th Business Day of each month.

The Amendment Proposal

CUSC Amendment Proposal 158

CUSC Amendment Proposal 158 "Provision of interim response volume information" (CAP158) was proposed by NGET and submitted to the Amendment Panel on 31 August 2007. CAP158 proposes to require NGET to use reasonable endeavours to publish the interim non-validated mandatory Frequency Response utilisation volume data by the end of the 3rd Business Day of the month.

In the Amendment Proposal the Proposer set out its view that this amendment will better facilitate the achievement of CUSC objective (b), "*facilitating effective competition in the generation and supply of electricity and (so far as it is consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity*". The Proposer believes that CAP158 will provide improved information to the market and hence improve the market's ability to respond to market signals.

CUSC Alternative Amendment Proposal 158

CUSC Alternative Amendment Proposal 158 (CAA1) raised by EDF Energy (published on 26 October 2007) proposes that in addition to the data outlined in CAP158, NGET would

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ Under normal circumstances.

⁴ The Grid Code requires all generators to provide mandatory frequency response services unless they have been granted a derogation from the requirement to provide this service.

⁵ Commercial Frequency Response is a collection of services that can be provided by demand side participants and generation plant. The technical characteristics of these services are different to those required under mandatory service arrangements, and they are secured by NGET via bilateral contracts with users. NGET currently publishes monthly amalgamated data on its total spending on holding volumes and response costs for Commercial Frequency Response Services.

⁶ Submitted prices are published by NGET on the 16th Business Day of the month.

publish data covering the volumes of response provided by BM units under a commercial response service agreement. Under the proposal, volume data for such BM unit provided commercial frequency response would be published by NGET on the 3rd Business Day of each month. Validated commercial frequency response data would be published on the 9th Business Day of each month.

The Proposer believes that CAA1 is preferable to CAP158 as it will better facilitate the achievement of CUSC objective (b) *“facilitating effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity”*.

The Proposer believes that the alternative amendment will better meet this objective by providing improved information to the market and hence improving its ability to respond to market signals. The Proposer is of the view that providing commercial holding volumes in addition to mandatory holding volumes will assist mandatory providers in setting holding prices for the following month.

CUSC Panel⁷ recommendation

The CUSC Panel undertook a vote on 30 November 2007 on CAP158 and CAA1 compared to the CUSC baseline, then a vote on which amendment they considered best facilitated the applicable CUSC objectives. The CUSC Panel unanimously considered that the original proposal (CAP158) better facilitated the applicable CUSC objectives. Concerning the alternative proposal, the majority of the CUSC Panel voted that CAA1 did not better facilitate the applicable objectives. The CUSC Panel voted, by a majority of eight, that CAP158 was better than CAA1.

The Authority’s decision

The Authority has considered the issues raised by both proposals and the Amendment Report dated 18 December 2007. The Authority has also considered and taken into account the views of respondents to the consultations and those of the CUSC Panel.

The Authority is of the view that:

1. implementing CAP158 would better facilitate the applicable CUSC objectives; and
2. directing that CAP158 be made is consistent with the Authority’s principal objective and statutory duties.⁸

Reasons for the Authority’s decision

CAP158

The Authority considers that CAP158 impacts on the facilitation of applicable CUSC objective (b) most significantly. We have set out below why we believe CAP158 would better achieve this objective.

⁷ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

⁸ The Authority’s statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

(b) Facilitating effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

The Authority agrees with the view expressed in the Amendment Proposal that CAP158 will give market participants more time to analyse volume data before submitting holding prices for providing mandatory frequency response services for the following month. This will allow market participants to respond to the published data with more flexibility, potentially increasing the likelihood of market participants changing their holding prices month-on-month and thereby potentially increasing competition between providers. Increased competition between providers of mandatory frequency response services should lead to better market signals. These may signal scarcity and hence the need for new providers or potentially result in lower holding prices and hence lower costs to NGET and ultimately electricity consumers.

CAA1

CAA1 proposes the publication of commercial frequency response volume data which is not currently published under the terms of the CUSC. This proposal is therefore substantively different from CAP158 which simply proposes an amendment to the time at which certain data is published.

As noted above, the Authority considers that transparency in the provision of information on frequency response services can improve the efficiency in how these services are provided. Greater information transparency can also increase participation in the market and therefore increase competition. However, when it is proposed that new information be released to the market, the impact of the release of this information must be thoroughly assessed before such a proposal can be accepted.

In this instance sufficient information has not been provided in the Amendment Report to allow the Authority to understand how CAA1, and the provision of commercial frequency response volume data, will assist the market and whether its adoption will facilitate the achievement of the applicable CUSC objectives. In particular, the possible risks associated with the release of commercial frequency response volume data have not been identified or considered. For example, in its consultation response EON highlighted that implementation of CAA1 would show the market whether a generator has a commercial agreement with NGET. The impact of the release of previously undisclosed commercial information is something that therefore requires comprehensive analysis against the relevant CUSC objectives. Such an analysis would include the consideration of confidentiality concerns (to the extent that these are relevant), the current arrangements for the provision of such data and, more generally, the costs and benefits of the proposal.

It is the role of the CUSC Panel through the amendment process to properly identify how any change to the CUSC will facilitate the applicable CUSC objectives. In the case of the CAA1, we do not believe that the Amendment Report has adequately reviewed the impact that the release of commercial frequency response volume data, as outlined in the proposal, will have upon the market.

If parties consider that the methodology for publication of commercial frequency response volume data should be further discussed then we note the view of NGET and a respondent that a working group should be set up to review this proposal. Alternatively, this could be achieved by CAA1 being raised as a separate amendment proposal.

Given the lack of information and analysis, the Authority has been unable to conclude that implementation of CAA1 will better facilitate the achievement of the applicable CUSC objectives.

Decision Notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority, hereby directs that amendment proposal CAP158 "Provision of interim response volume information" be made.

Philip Davies
Director, GB Markets

Signed on behalf of the Authority and authorised for that purpose.