APPENDIX G

Procurement Guidelines

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

~~Effective~~ Applies from~~:~~ 1 April 2009

Version Control

Date	Version No.	Notes
20.03.01	1.0	Initial version
21.09.01	1.1	Revision to initial version to incorporate new intentions on the procurement of Fast Reserve
01.05.02	2.0	Annual revision incorporating updates to information provision and Licence Condition references
01.05.03	3.0	Revision following annual review
28.11.03	3.1	Revision to incorporate introduction of Maximum Generation Service, POT, and the development of demand side services.
01.05.04	4.0	Revision following annual review
04.10.04	4.1	Revisions to incorporate changes as a result of CAP071: the development of Maximum Generation Service
01.01.05	4.2	Revisions to incorporate changes relating to BETTA
15.07.05	4.3	Revisions to incorporate changes as a result of CAP076: Treatment of System to Generating Intertripping Schemes
02.09.05	5.0	Revisions to incorporate changes relating to the provision of warming data; and the informal annual review
06.04.06	6.0	Revision following annual review
01.11.06	7.0	Revisions to incorporate the replacement of the Warming & Hot Standby service with BM Start Up service

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

We have developed ~~The~~ these ~~G~~guidelines ~~have been developed~~ in consultation with the Authority. They ~~Guidelines may~~can only be changed in line ~~modified in accordance~~ with the processes set out in Standard Condition C16 of ~~National Grid's~~our ~~Electricity Transmission~~ Licence. We will continuously monitor the ~~validity of the G~~guidelines 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~~.

If we need to change ~~In the event that it is necessary to modify~~ these ~~Guidelines~~ guidelines before we ~~in advance of~~ issue~~ing~~ the yearly ~~annual~~ updated version of this document, we ~~then this~~ will ~~be~~ do this ~~no~~ in accordance with Standard Condition C16.

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

Copies are also available from the Regulatory Frameworks Manager. ~~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: Introduction

1. Purpose of this document

This document sets out the procurement guidelines ("the Guidelines") that we must establish in accordance with Standard Condition C16 of our Electricity Transmission Licence. The purpose of these guidelines is to set out the kinds of Balancing Services we may be interested in buying, together with the methods we expect to use to buy those services.

The Guidelines are not a full representation of every possible situation that we are likely to encounter, but rather a general statement of the procurement principles we expect to follow.

The rest 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 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;
- Part D sets out the procurement methods we expect to use to buy the Balancing Services; and
- Part E contains past Balancing Services volumes and describes other information we will provide to make 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~~ refer~~ence~~ to a number of definitions ~~contained~~ set out in the Grid Code and Balancing and Settlement Code. ~~In the event~~If ~~that~~ any of the relevant ~~provisions~~ terms in these ~~Grid C~~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 pri~~ority~~~~ecedence~~.

Unless defined in the Guidelines, the terms we use~~d~~ here~~in sha~~ will have the same meanings ~~given to them~~as those that they have in the ~~Electricity Transmission~~ Licence, the Grid Code and/or the Balancing and Settlement Code (whichever applies)~~as the case may be~~.

The latest version of this document is available ~~electronically~~ from our website. Or, you can ask the ~~-~~Commercial Frameworks Manager for ~~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 buy ('procure') procure in order to operate the transmission system make up the constitute 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 help the licensee in us 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.

'Balancing Services' does , 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 we buy procured from Authorised Electricity Operators (AEOs) or people rsons thatwho make interconnector transfers. These services can be mandatory or commercial in nature. We do They are not buy them procured from electricity consumers.

Balancing Mechanism Offers and Bids:

These are commercial services offered by generators and suppliers and bought procured through arrangements set out in Paragraph 5.1, Section Q of the Balancing and Settlement Code. They represent a

willingness to increase or reduce ~~decrease~~ 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 any other commercial services that we can ~~be~~ enter~~ed~~ 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 ~~are~~ have not signed up ~~atories~~ to the Balancing and Settlement Code. 'Other ~~Services~~ services' may also include ~~the procurement of~~buying energy for balancing purposes. For more ~~Further~~ details on ~~'Other~~ 'other ~~Services'~~ services', 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 award contracts for Balancing Services. (We will do this in a non-discriminatory manner).

- When we award ~~In~~ contracts ~~ing~~ for ~~the~~ providing ~~sion of~~ Balancing Services, we will buy ~~purchase~~ from the sources that offer the most value for money, ~~economical sources available to us having regard~~and take account of ~~to~~ the quality, quantity and nature of those ~~such~~ services at the~~at~~ time we buy them~~available for purchase~~.

The types of issues we considered in relation with regards to the quality and nature of services are best explained via through an example. When we considering a requirement for frequency response from two potential providers, we will consider have regard to the quality, amount quantity and nature of frequency response available to buyfor purchase. When we In assessing the quality of the service, we will consider, for example, the provider's past historical performance of the provider. When we In 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 methodchanism, as described in Part D of this document. In these cases, such instances we shall will provide a statement[1] 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 we need Balancing Services are required over a fairly relatively long- -term period, we shall will 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 ~~requires~~ needs Balancing Services, and if we make arrangements on their behalf for the services to be ~~secure~~ provided~~sion of such services on their behalf~~, we will charge the ~~associated~~ costs of the services ~~provision will be fully recharged~~ to the third party ~~requiring such services~~.

3. Balancing Services Relationships

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

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

- ~~System Security - Services may be procured outside the BM if~~ we consider that there will not be enough ~~insufficient O~~offers and ~~Bids~~ bids available within the ~~BM~~ Balancing Mechanism to balance the system and maintain the security of supply~~.~~;

- ~~Cost - Services may be procured outside the BM if~~ we consider that it would provide ~~an~~ a financially beneficial ~~economic~~ alternative to buying ~~purchasing~~ services through the ~~BM~~ Balancing Mechanism; or~~.~~

- ~~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.~~ Taking Actions Outside the Balancing Mechanism

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

When considering what action~~s~~ will be ~~under~~taken outside the ~~BM~~ Balancing Mechanism, or what action~~s~~ 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 ~~are normally entered into prior~~before ~~to~~ Gate Closure ~~such~~ so that prices and service capability are agreed well beforehand ~~they are exercised~~. Usually~~Typically~~, under the Ancillary Service Agreements, ~~provide for~~ the services must be provided ~~to be exercised~~ within Gate Closure timescales and ~~for~~ payments must ~~to~~ be made on top of ~~in addition to~~ those made within the ~~BM~~Balancing Mechanism. ~~-~~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 changes ~~deviations~~ in its output as a result of deviations in system frequency.

- In the case of Balancing Services not provided by Authorised Electricity Operators (AEOs), we normally enter into agreements ~~are again normally entered into prior to~~before 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 Frequency Response services provided~~sion of Frequency Response services from~~by the demand side. This results in the contract being entirely outside the ~~BM~~Balancing Mechanism.

- 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 ~~BM~~Balancing Mechanism. We may then exercise~~This~~ this option ~~may then be exercised prior to~~before or after Gate Closure.

- If ~~Where~~ standard energy ~~-~~-related products do not provide for our specific requirements, we will aim ~~seek~~ to amend the standard trading instrument by agreement. For example, for providing ~~the 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 ~~ensure~~ make sure that energy is delivered according to that MW profile. This could be used to synchronise or desynchronise BMUs with dynamics that extend outside the ~~BM~~Balancing Mechanism.

Part C: Balancing services ~~required~~needed

1. Types of Balancing Services

We are interested in buying ~~procuring~~ 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 need to be provided (if an agreement is reached) ~~, required from~~by some generators ~~and provided if agreement is reached,~~ 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~~S ~~Services~~ervices other than those ~~, 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. So, ~~Thus~~ where parties that are not AEOs provide a service (~~,~~ such as frequency response), ~~then~~ it is classified as an 'Other Service' rather than an Ancillary Service.

2. Description of Balancing Services

2.1 Ancillary Services

There are two general ~~broad~~ 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 but ~~and which~~ is provided by an AEO is known as ~~termed~~ a 'Commercial Ancillary Service'.

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

- All licensed generators ~~are required to~~must provide Part 1 System Ancillary Services to make ~~en~~sure they provide~~sion of~~ a minimum technical capability to deliver voltage and Frequency Response services.

- Some generators need ~~are required~~ to provide the Part 2 System Ancillary Services of Black Start Capability and/or Fast Start Capability (or both). Our extra ~~additional~~ requirements for these services depend on how ~~the~~ existing providers actually provide, or are ~~and~~ expected to provide, these ~~provision of such~~ services ~~by existing providers~~.

- ~~Additionally, s~~Some generators will also need ~~be required~~ to provide System~~ -~~to~~ -~~Generator Operational Intertripping Schemes as a condition of connection.

Future Requirements

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

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

- 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 with~~and ~~alternative~~ other pricing arrangements. We contract for ~~such~~ these services when the expected ~~anticipated~~ cost is lower than the alternative service provided~~sion~~.

- Reserve Services ~~-~~ these are instructed services needed ~~required~~ over a variety of time ~~-~~frames to ~~deal with the~~ match~~ing of~~ generation ~~with~~ and demand. The services we expect to

~~procure~~ buy 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 via~~the 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 via~~the tender (see Part D).

- BM Start-up – ~~Which is~~ a service that allows us ~~National Grid~~ to access MW from BM-U~~nit~~s that would not otherwise have run, and that are unable to start-up within ~~BM~~ Balancing Mechanism timescales on the day. Firm payments for this service are made on a pound-per-hour ~~£/h~~ basis, to remunerate the costs of preparing a BMU to start up and synchronise within ~~BM~~ Balancing Mechanism timescales.

- Commercial Intertrip - this service is needed ~~required~~ to limit ~~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 that ~~ion of~~ the generator does not have ~~being obliged~~ to provide the service as part of its connection conditions. There is a very limited and localised requirement for ~~such a~~this 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 via~~provided through interconnectors.

- Maximum Generation Service – this service is needed ~~required~~ to provide extra ~~additional~~ short ~~-~~-term 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 begins ~~will be initiated by the issuing~~ when~~of~~ an Emergency Instruction is issued in line with the Grid Code BC2.9.2, Section 4 of the CUSC[2] and the Maximum Generation Service Agreement.

- Transmission Related Agreements - ~~where~~ if connection arrangements result in a ~~requirement~~ need for the output of a generator to be constrained due to events on the transmission system, we manage the commercial process ~~is managed via~~ through a Transmission Related Agreement.

2.2 Other Services

As set out ~~indicated~~ in Part B, ~~"~~"Other Services"~~"~~ include services which are not classified as ~~"~~"Ancillary Services"~~"~~, but technically can provide the same effect from different service providers. An example of ~~"~~Other 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 Pre-Gate closure ~~PG~~BMU Transactions. We will include ~~The~~ the 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 ~~BM~~Balancing Mechanism.

~~In addition to the licence obligation to operate the transmission system in an efficient, economic and co-ordinated manner, w~~We 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 w~~We must also ~~are required to~~ publish a range of information ~~to market participants~~ in relation to how we ~~envisage procuring~~expect to buy Balancing Services and energy ~~purchases~~. For ~~Full~~ full details of the range of information that we will publish, and

details ofn where you can find this information, see can be found on our web-site at 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.:

- Tto meet our mean forecast requirement for balancing energy.

- Tto provide options to meet potential differences variations from the mean forecast. The Reserve Services described above may meet fulfil this requirement.;

- Tto reduce the total cost of balancing the transmission system using the BMBalancing Mechanism .– For for example, if a certain volume of Offers are forecast to be needed required in the BM Balancing Mechanism (such as e.g. for the purposes of establishing spinning reserve), it may be more economic to buy purchase a volume of forward energy forward such that we a reduce thed volume of Offers and Bids we need)are required.; or

- for Direct direct Arbitrage arbitrage between different balancing instruments in order to gain yield a lower overall balancing cost. In order to comply with the Transmission Licence, this would only be valid if we could make an immediate cost saving can be obtained by directly replacing one balancing instrument to fulfil meet a specific requirement with another which replaces the same requirement. An example of such a direct arbitrage could

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

Demand Side Providers and Small Generators

We are interested in buying ~~procuring~~ Balancing Services from demand side providers, depending on ~~subject to~~ 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.

We encourage ~~Demand~~ demand side providers ~~are encouraged~~ to take part~~icipate~~ in the standard market tender process we use to ~~procure~~ buy the following services (as long as they ~~subject to~~ meet~~ing~~ 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, as long as they ~~subject to~~ meet~~ing~~ 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.

We ~~Bilateral~~ negotiate 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 ~~fo~~to~~r~~ ~~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. ~~Typically~~Usually, we would develop new services by using ~~through the use of~~ contract trials ~~in order~~ to assess the service requirement~~, dimensions~~. Once proven, and ~~where~~ if appropriate, we will amend these guidelines to reflect the details of the service ~~details~~ and the method we will use to buy them~~procurement mechanism will be reflected in a modification to these Guidelines~~. Examples of those services that may potentially be developed further are:

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

Part D: Procurement methods

1. Procurement Process

As set out in Part B of these Guidelines, where enough competition exists, we will aim to contract for Balancing Services through some form of market mechanism. In other circumstances, we will enter into bilateral contracts with the service providers. In all these circumstances, we will consider our Licence duties when entering into these agreements.

Market mechanism

This will normally be a tender-based process for choosing and awarding service contracts. In each case, the market mechanism will include:

- a statement of our service requirements;
- issuing an invitation to put forward tender documentsation, providing enough information (including standard contract terms and conditions) to allow us to make an offer;
- arrangements for how the process will be managed;
- a statement of principles and criteria that we will consider when assessing who to award 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 this information from our web-site or .

~~noted above may be requested~~ from the Regulatory Frameworks Manager. Full contact details are set out in Part E of this document.

Bilateral Contracts

We may need ~~Bilateral~~ bilateral contracts ~~may be~~ if there is only ~~required where~~ limited competition ~~exists in~~between 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~~ If 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 out~~establish~~ whether they want ~~ish~~ to enter into a contract to provide ~~for~~ the service ~~in question~~; and
- offer non-discriminatory terms for buying ~~the acquisition of~~ the service.

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

~~Where~~ If we consider that there is no competition ~~exists~~ (such as in the provision of a locational service), we will offer non-discriminatory terms for ~~the acquisition of~~buying 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 already expressed an ~~prior~~ interest in providing the ~~such~~ services in the future. We will also ~~In addition, notification of tenders will normally be~~ advertise our~~d~~ invitation for tenders in the appropriate trade magazines ~~as appropriate~~ and ~~via~~ our web-site.

3. Procurement Summary

The~~is~~ 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.

Table 1: ~~Balancing services summary table~~

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

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

Ancillary services	~~MEANS OF~~ Procurement method	Timescales
~~Ancillary services~~ Demand i~~I~~ntertrip Energy~~ R~~related ~~Products~~products	Contracts ~~derived~~ from ~~Market~~ market tenders Bilateral contracts or contracts ~~derived~~ from market tenders ~~MEANS OF PROCUREMENT~~ Bilateral contracts ~~Procured via~~ Markets~~/B~~ or bilateral contracts	Min Seasonal ~~-~~As necessary~~required~~ At least each month, through a bilateral contract or tender process ~~Min monthly via bilateral contract or tender process~~ ~~TIMESCALES~~ As ~~required~~necessary As ~~required~~necessary

Part E: Providing ~~I~~information ~~provision~~

1. General Provisions

We ~~wsha~~ill publish information on the Balancing Services we plan to buy~~that we intend to procure~~. When ~~In~~ doing so, we will aim ~~seek~~ to provide ~~market participants and other interested parties with sufficient~~enough information without compromising the commercial position of any party to whom we may award a contract~~ing party~~.

As part of the process ~~vision~~ of providing information, we will provide BSAD (Balancing Services Adjustment Data). The calculation method we ~~ology~~ used ~~d~~ 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 about the outcome of the tendering process~~Provision Detail~~

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

4. Costs and Volumes of Balancing Services

For information on the ~~C~~cost and ~~Volumes~~ volume of Balancing Services we buy, see ~~procured can be found in~~ 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. Summary of the ~~Information~~ information we ~~Provision~~ provide ~~Summary~~

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 also been included ~~aggregated~~ in Table ~~-~~ 2 to make ~~en~~sure that we provide ~~market participants and other interested parties with sufficient~~enough information without compromising the commercial position of any party we plan to award a contract~~ing~~ to ~~party~~.

Table ~~-~~2 sets out the volume and cost of the services, ~~price information we are able to make available and~~ the timescales for when ~~over~~

whichwe 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

The Information information we provide sion in the future will be vital 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;.
- We will provide Eex-ante information will be made available if it helps the market to be in a position to balance without intervention from System OperatorSO 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:

- providing the Information information transparency does not undermine an individual party's commercial confidentiality;
- Provision providing of information does not result in the System OperatorSO becoming a 'distressed buyer';

- the ~~Information~~ information will not highlight where the ~~SO~~System Operator has a location~~al~~ -specific constraint~~–~~; and
- any benefit to the wider industry from ~~the~~ providing ~~sion of~~ the ~~increased~~ information ~~should~~ justifies~~y~~ the costs of providing its ~~provision~~.

7. Disclaimer

All information ~~published or otherwise made~~we make available to market participants and other interested parties ~~pursuant to~~under these ~~Procurement~~ Guidelines is ~~done so~~published in good faith. However, we do not make any guarantees ~~no warranty or representation is given by National Grid Electricity Transmission plc , its officers, employees or agents as to~~that the information is accurate~~cy~~ or complete~~ness 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~~. As a result, we cannot accept ~~Accordingly, no~~ liability ~~can be accepted~~ for any mistakes~~error~~ in the information published~~,~~ or information which is missing from the published information,~~misstatement or omission in respect thereof, save~~ except in respect of a misrepresentation made fraudulently.

Table 2: Summary of the balancing services information we will provide

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

Balancing Service	Volume ~~information~~	Price ~~information~~	Timescale	Where the ~~Information~~ information is available
Frequency Response	Primary, secondary and high-~~-~~frequency 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 high-~~-~~frequency response. Tendered Commercial Frequency Response - Price of tendered primary, secondary, and high-~~-~~frequency response.	Part 1 System Ancillary Service ~~–-~~ we will publish p~~P~~rices ~~will be published~~ every month~~ly~~. 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 ~~monthly~~month. We will update ~~Requirement~~ requirement curves ~~will be updated~~ every year~~annually~~.	Primary, secondary and high-~~-~~frequency 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 ~~Utilisation M~~month.	The volume of response held ~~–~~will be broken down on a BMU basis.	We will publish Response volumes ~~will be published~~every month~~ly~~.	Primary, secondary and high-~~-~~frequency response volumes are available on our website.

Balancing Service	Volume ~~information~~	Price ~~information~~	Timescale	Where the ~~Information~~ information is available
	Assumed u~~U~~tilisation volumes (combined ~~summed~~ for all BM U~~nit~~s).	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 published~~ every month~~ly~~.	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. We will publish ~~System~~ system ~~Reserve~~ reserve ~~Requirements~~requirements, and contracted volume from previous tender rounds in the year, ~~will be published in advance of~~ before the next tender rounds.	Tender price information.	STOR ~~Market~~ market ~~Information~~ information ~~Report~~ report updated after each tender round.	All ~~Information~~ information will be set out ~~contained with~~in the ~~Market~~ market ~~Information~~ information ~~Report~~ report, available on ~~National Grid's~~our ~~Industry~~ industry ~~Information~~ information website.

Balancing Service	Volume	Price	Timescale	Where the information is available
Fast Reserve	Indicative volume requirement by Settlement Period Past ~~Historic~~ utilisation by day and ~~average~~ by average Settlement Period.	Total ~~historic~~ past volume reported by three price bands (Bids and Offers).	We will publish ~~Requirements~~ requirements each ~~published~~ month~~ly~~ 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~~ capacity ~~Level~~ level (MW).	Hourly BM Start Up ~~Payment~~ payment ~~Rate~~rate.	~~–~~As soon as is practical after ~~the~~ issu~~e~~ing ~~of~~ a new BM Start Up instruction, or if there are change~~s~~ to ~~in status of~~ an existing BM Start Up instruction.	We will publish ~~This~~ this information ~~will be published via~~through our website whenever we can ~~on a reasonable endeavours basis~~.
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 data~~s~~.	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 sign~~ature~~ed, ~~d as~~ and update it when necessary. We will also provide ~~Information~~ information ~~also to be provided on an ex post basis~~when we have it, which will give details~~ing~~ of ~~aspects surrounding the~~ utilisation of the service, including instruction times, the volume delivered and payments.	We will publish t~~T~~his information ~~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 ~~Each~~ each ~~Settlement~~ pPeriod.	Total cost (buy and sell) is set out ~~contained within~~ the BSAD.	We will publish the BSAD ~~will be published~~ at 5pm day ahead ~~D~~-1. Also, we will publish BSAD every ~~will be published~~ half hour~~ly~~ 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 energy- related 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 every~~ach~~ half hour. ~~National Grid~~We will make half- hourly BSAD available to be published on the BMRS.
Pre Gate Closure BMU Transaction	For each Pre Gate Closure BMU Transaction, we will publish the specific BMU, volumes and price ~~will be published~~.		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. We will publish ~~All~~ all offers ~~will be published~~ on ~~the National Grid~~our web-site.