

August 02 2024

C16 Additional Review

Additional Industry consultation for proposed revisions to Procurement Guidelines, Balancing Principles Statement and ABSVD C16 Statements for 2024/25

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1. Executive Summary

This consultation has been produced under Condition C16 of the Transmission Licence to undertake a further review of National Grid Electricity System Operator's (ESO) C16 Statements.

There are five statements in place to meet our Condition C16 licence obligations:

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

We have proposed updates to the Procurement Guidelines, Balancing Principles Statement and ABSVD Methodology C16 Statements to seek to give effect to the changes to the Demand Flexibility Service, Local Constraint Market and GEMs services. The changes to the relevant statements are detailed in the Proposed Changes section of this consultation and will be effective by 04 October unless issued a direction by the Authority for statement changes to become effective earlier or vetoed.

ESO welcomes industry views on the proposed changes. Responses are required by 5pm on the 30 August. Details on how to make a response can be found in the Consultation Questions section.

Following receipt of responses to this consultation, ESO will prepare and submit a report to the Authority¹ by 06 September. .

The current versions of the C16, this consultation and the tracked changes statements showing proposed updates will be published at the link below:

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

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

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

Penny Garner

Market Frameworks Senior Manager

Indicative Dates:

Official Consultation Release: 02 August

Official Consultation Deadline: 30 August

Documents sent to Ofgem: 06 September

Ofgem Veto/Direction: 04 October

Revised C16 Statements go live: 04 October

¹ Where the ESO refers to the Authority throughout this document this is in reference to the Office of Gas and Electricity Markets (Ofgem)

2. Introduction & Process Overview

The Review

In accordance with Standard Condition C16 (C16) of its Transmission Licence, ESO completed its annual review of all licence statements, the updated statements have been approved by the Authority (Ofgem) and were effective as of 1st April 2024. However, as a result of further changes required after this annual process has concluded, ESO are now holding an additional consultation.

The purpose of ESO's review and consultation is to ensure that each of the applicable documents remains current by seeking industry views on any proposed changes. ESO invite the Authority to review the proposed changes. If the Authority chooses to exercise their powers of veto for these proposed changes to the C16 statements, the existing versions will remain in place. Alternatively, the proposed changes will become effective by 04 October unless the Authority issues a direction that statements changes should become effective earlier or vetoed.

The following statements are the focus of this review:

- Procurement Guidelines Statement (PGS)
- Balancing Principles Statement (BPS)
- Applicable Balancing Services Volume Methodology Statement (ABSVD)

Step 1 Issue Formal Consultation

This consultation will run for 28 days. This consultation will allow industry to review the recommended text changes in the statements. The consultation will be issued to industry on 02 August and will be open for responses until 30 August.

Step 2 Report to Authority

The second step in the review process is for ESO to document, in the form of a report, the ESO's final position on the proposed changes, along with the track changed versions of the statements. The report will also include all industry responses and ESO's view for each of these.

This report must be issued to the Authority (Ofgem) within 7 days (5 working) from the closure of the formal consultation. The report will be submitted to Ofgem by 06 September.

Step 3 Authority Decision and Statement go live

The third step in the review process is for the Authority (Ofgem) to review all the documents submitted to them from step 2.

As part of the Licence Condition, the Authority has 28 days to offer a direction or challenge the ESO's submission. If the Authority does not veto the proposed changes, then the revised statements will go live on the ESO website on the 12 September unless directed otherwise. If the Authority does veto any proposed revisions, then there are two different directions for the statements to go live. The Authority can either direct a change or they can request ESO to run a further consultation on the specific issues they have identified, which may push back the go live date or a statement might go live pending further changes.

3. Timelines

Step 1 Formal Consultation

The Consultation will be issued on the 02 August.

Responses are required by 5pm on the 30 August. Details on how to respond can be found in the Consultation Questions section.

Step 2 Report to Authority

To be issued by 06 September.

Step 3 Authority Decision and Statement go live

Ofgem Veto/Direction expected by/before 04 October.

Changes to statements are effective by 04 October, unless directed otherwise.

4. Review of Suggested Changes

For clarity we have provided some background information on the services involved in the statement updates that are being proposed as part of this review. Some of these services are undergoing additional consultations relating to changes outside of the scope of the C16 statements as detailed in the sections below. The ESO does not anticipate the need to make any additional C16 changes in respect to any of the services going through Electricity Balancing Regulation (EBR) Article 18 consultations. However, in the event feedback is received either through this C16 or the Article 18 consultations that results in further C16 updates being proposed, ESO will seek to find a swift and efficient resolution which may be inclusive of the requirement to consult further on proposed changes to the C16 statements.

Demand Flexibility Service (DFS):

The Demand Flexibility Service (DFS) was introduced during the winter of 22/23 as part of our winter contingency toolkit. Its purpose was to act as an enhanced action, in addition to the normal electricity market, to be used to access additional megawatts (MW) during times of high national demand, particularly on peak winter days when the system could have been placed under stress.

In September 2023, our Winter Outlook Report highlighted slightly higher base case margins for the upcoming winter, but also identified risks and uncertainties in the global energy markets. As a prudent system operator, we prepared for various scenarios to ensure the safe operation of the system and minimise the impact on electricity customers in Great Britain. To provide additional tools to maintain system margin during peak demand, we announced the continuation of the Demand Flexibility Service (DFS) as an enhanced action.

We believe that DFS can continue to play a crucial role in supporting system operations and providing additional margin during periods of high demand. We remain committed to improving and expanding the service to meet the growing needs of the energy market and ensure a reliable and secure electricity supply for Great Britain. Therefore, we will be evolving the DFS to a commercial merit-based margin tool that will continue to provide a route to market for flexibility. In line with this we have proposed updates to the Procurement Guidelines Statement to reflect our intentions for the service.

For the purpose of this C16 document the only changes to the statement is a minor amendment to the purpose of DFS going forward.

For useful context we will be seeking to make further developments to the service in the July 2024 EBR Article 18 consultation process. Some of the key development features are outlined below.

- Stacking – the restriction on participation in Capacity Market and DNO flexibility markets has been removed
- Closer to real time dispatch – the service will be utilised within day, removing the previous day ahead option.
- Asset metering – amendments to further facilitate asset meter participation.
- Automation – further API integration across the processes.

Local Constraint Market (LCM):

During the informal and formal consultations during the 2024/2025 Annual Review of the statements, ESO consulted with industry on a series of questions to seek various viewpoints on potential updates to the Local Constraints Market service. The questions focused on exploring a potential price adjustment mechanism which could act as an alternative to ABSVD for demand turn up and generation turn down providers.

Background

The Local Constraint Market is a thermal constraint management service which has been designed to provide an interim solution to help manage the high and rising costs at and above the England/Scotland boundary. Historically, we have only been able to use generation turn down from BM registered assets. The service is now live and used when B6 and or B4 boundaries require, and operational conditions permit. LCM has engaged new and existing flexibility providers and is an additional option wherever LCM Provider bids prove more cost effective than the BM. It is now available to generation turn down and demand turn up from Providers who are non-BM. Presently for LCM ESO applies the ABSVD process to Half-Hourly (HH) – settled volumes covering;

- (a) The Industrial and Commercial (I&C) consumers via P354 “Use of ABSVD for non-BM Balancing Services at the Metered (MPAN) level”;
- (b) and Domestic Consumers whose MPAN permits (is HH settled). Use of ABSVD benefits consumers in general because the service can access additional volumes from those providers who rely on their LCM imbalances being corrected via ABSVD, thereby enabling additional savings on constraint action costs met by the bill payer.

With regard to the wider enabling of increased participation from Providers (both for LCM and other services), ESO has solicited valued feedback from stakeholders including aggregators about refining ESO’s approach to adjusting (demand turn up and generation turn down) energy imbalances. Feedback from recent trials on the LCM service has highlighted that LCM Providers face problems in securing sufficient compensation for energy. In particular, there is a scenario where an energy customer is offering Demand Turn Up or Generation Turn Down volume within the LCM service via an Aggregator, the ABSVD process would pass the allocation to the registered BSC Supplier to correct their Energy Imbalance position. Where the flex action is via an Aggregator, not the Supplier, the resulting credit does not reach the direct LCM end customer or independent Aggregators unless they set up commercial agreements with their consumers’ Supplier(s).

Summary of the ESO’s Proposal for LCM.

As a result of this feedback and to overcome some of the present ABSVD challenges for LCM providers, ESO has reviewed our current approach to seek possible improvements, in order to better serve the wider market and enable more providers to participate.

One solution that was explored is a price adjustment mechanism which could act as an alternative to ABSVD for demand turn up and generation turn down providers in the short term while the more enduring solutions are evaluated as part of the BSC issues group.

Trial eligibility to be limited to (a) and (b) above and further limited to demand turn up and generation turn down providers and MPANs only. (Those where the LCM provider is also the BSC registered supplier may not opt out).

Also excluded will be MPANs party to a current agreement or other Supplier arrangement which relies on ABSVD.

Eligible LCM Providers would have the option to opt out qualifying and explicitly consenting MPAN LCM volumes from ABSVD. There will be requirements that have to be met for each MPAN; these requirements will be specified in the relevant Commercial Services Agreement.

This would have the net result that Suppliers who receive increased LCM energy payments would no longer also benefit from energy imbalance position correction via ABSVD. As a result, a credit would flow back to Residual Cashflow Reallocation Cashflow (RCRC) at a level determined using the system price in effect at the time of imbalance.

We have consulted with our stakeholders whether energy compensation can be made by ESO directly to qualifying providers who opt out eligible MPANs. The option would be for either demand turn up or generation turn down providers on a trial basis, using transparent prices such as EPEX day ahead to show the partial energy compensation. The payments would apply only to qualifying bid volumes from Elexon approved, eligible MPANs and would be reported openly to allow both the ESO and our wider stakeholders to monitor and review the scale and the providers involved. Requirements for bid volumes to qualify would also be specified in the relevant Commercial Services Agreement. To offset this cost, the resulting imbalance credits would be offset by ESO BSUoS charges. This approach aims to eliminate any net RCRC effects on the bill payer.

ESO Position on LCM

Following the previous consultation, the ESO withdrew the proposal on the LCM ABSVD Opt out solution, citing more time to consider the impacts based on industry feedback in addition to addressing some technical barriers for a timely delivery. During this time the ESO has now mitigated against all technical requirements and delivery timescales and can now offer confidence to market participants on the successful delivery of the solution for the remainder of the LCM service. Additionally, the ESO conducted some analysis of the impact to industry parties,

The calculation methodology

The analysis conducted has focused on the period from April 2023 – June 2024, we selected this period to show up to the point of go live, but specifically one that included a period where LCM was running.

1. A mathematical and economic model is developed to evaluate the economic impact of ABSVD opt-out on suppliers, aggregators, consumers, and system. We referred to credible database, including NED and EnAppSys, to collect all the relevant data, e.g., energy imbalance price, EPEX energy price, LCM capacity and volume, and LCM bidding information. NED is the National Grid Economic Data Warehouse, while EnAppSys is a comprehensive data and analytics service provider specializing in the energy sector, particularly focusing on electricity and gas markets. From the visualized results, it is concluded that:
 1. We can see a range of RCRC in the whole LCM market varying between -£150/month and £175/month over 15 months since Apr 2023, after applying Opt Out volumes. Due to the fact that in certain instances during the investigated time period, EPEX price is higher than the Imbalance price, the Residual Credit position is negative for 10 months over the investigated period.
 2. With ABSVD opted out, we can see its impact on all suppliers' cost in the whole LCM market varying from -£600/month (credit) to £200/month (debt). Over the investigated 15 months, the average monthly net cost for all suppliers is -£156.3 (credit).
 3. Taking one MPAN customer into account, we also used the load profile for average profile class 1 (domestic Unrestricted) customer to analyse the impact for suppliers per MPAN. Results reveal that with one typical MPAN customer opted out in ABSVD, its impact on

suppliers vary from -30p (credit) to 15p (debt) per month and from -£4 (credit) to £2(debt) per year. The averaged net impact per MPAN is -93.4p (credit) per year and -7.7 p (credit) per month.

We have also made some assumptions when parameterizing key factors:

1. Assumptions of 7 p/kwh: We used 7 p/kWh as the energy tariff for LCM end-consumers. We investigated the off-peak prices applied by key suppliers, including Octopus Energy, Good Energy, Axle Energy, and Equiwatt Energy, etc. The night off-peak rate is set as 7 - 14 p/kWh. To fully consider the risk exposure to suppliers, we selected 7 p/kWh to investigate the worst case.
2. Assumptions of 1.5%: We apply a percentage of 1.5% on the MPAN daily load volume to represent the LCM opt out volume for one MPAN customer. The rate was chosen by referring to the current proportion of BM action and LCM volumes.

The results

The analysis shows that when a customer is opted out of ABSVD through the LCM process the impact per MPAN is ranged between -£4 (credit) to £2 (debt) throughout the course of a year, this is based on the calculation detailed above, a range has been applied as the number will be based on system prices for the days instructed, so it can never be a static figure, however when we focused on the period used within the analysis the average total impact on an MPAN per year basis was -93.4p (credit)

The key takeaway is that providing the market prices remain as they have for the previous 15 months (April 2023 – June 2024) the impact to suppliers should be seen as marginal.

Pre Engagement

Before the release of this consultation the ESO conducted pre-engagement with a variety of impacted LCM parties including suppliers, aggregators and members groups where appropriate.

The feedback in general was positive towards the LCM, but there were reservations from suppliers on the Opt Out solution and they have asked for greater analysis and more transparency of the process in order to assess, provided above.

Conclusion

The ESO continues to believe that LCM can play a key role in learning about the potential future of flexibility markets, by enabling increased participation from energy resources, encouraging more competition to unlock new sources of demand side flexibility and increasing collaboration with DNOs and DSOs to enable distributed demand turn up and generation turn down.

Now that further analysis has been conducted on the original proposal, the ESO would now like to formally submit the proposal as the solution for the LCM service and is recommending that the ESO continues to monitor the impacts of the use in a live environment.

To further ensure transparency and understanding with this process the ESO Settlements team will be producing a short video that explains how the ABSVD Opt out solution will work in practice, this will be produced during the consultation window and will be distributed out via the normal C16 contact list.

Whilst the analysis highlights marginal supplier impacts, the ESO continues to agree with Energy UK and the ADE that coordinated solutions are needed across all markets and that discussions are

required with policy makers as to how best to move to take this issue forwards. LCM is a time limited service and the proposed Opt Out solution is trying to maximise further learning by removing a clear barrier. We are supportive of accelerated action in this area and are in agreement with our stakeholders that a holistic review of the current settlement arrangements is required to alleviate the concerns across all services, ESO are aiming to focus energy towards the up-and-coming Elexon led issue group² as we believe this is the right forum to start these discussions and make real progress towards a harmonised solution.

The ESO would like to make it clear to industry that the ABSVD Opt Out solution for LCM is not being considered for other services, and we do not see it as an enduring solution.

MW Dispatch Service:

MW Dispatch is a transmission constraint management service and the first product to be developed through our joint Regional Development Programmes with DNOs. This service, is initially only open to Distributed Energy Resource (DER) connected to specific Grid Supply Points in National Grid Electricity Distribution (Southwest) and UK Power Network (South East Coast region) DNO areas. This enables those DER with specific connection terms and conditions to fulfil these obligations and the ESO may well look to open this service up to more parties and geographies in the coming months, dependent upon needs case assessments.

The service, regardless of technology, requires providers to reduce real power output to zero ('turn to zero') when instructed by ESO under certain network conditions and when it is economic to do so. If instructed, and providing they comply with the instruction, MW Dispatch Service Providers will be paid for the volume of energy they have curtailed.

The introduction of this service will give the ESO Control Room teams a way to view and understand network conditions in the DNO network and therefore make informed real time decisions on DER Providers curtailment to manage pre fault thermal constraints. This is also expected to allow us to potentially provide earlier connection dates to more DER providers in particularly constrained areas of the network.

Generation Export Management Service (GEMS):

Following a review of GEMS, the delivery did not make the progress as initially expected in 2023-2024. This is due to combination of reasons including technical issues with our project partner, cyber security concerns and concerns over the implications for a transmission company of full compliance with Balancing and Settlement Code (BSC) (BM Dispatch Rules).

We evaluated other options with our project partner, after discussions with the Open Balancing Programme (OBP) it was determined that given the slower rate of generation connections, the needs case for securing this network now aligned with the roadmap and timescales of the OBP delivery schedule. This will deliver a more streamlined, lower risk and scalable solution for the consumer as well as provide consistency in approach GB wide, whilst not impeding new connections in this part of Southwest Scotland.

² [Issue 114 Settlement of ABSVD for ancillary services delivered through independent aggregators - Elexon BSC](#)

As a result of this, references to Generation Export Management Services have been removed from the C16 Statements during this review.

Proposals for additional Procurement Guidelines Statement review 2024

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

The amendments proposed to the Procurement Guidelines Statement are:

- Removal of references to Project TERRE as ESO is not eligible to participate in this service following EU-Exit.
- Following GC0156, we have updated references to “Black Start” within the statements, replacing them with “Electricity System Restoration”.
- Removal of references to Generation Export Management Services as the service is now discontinued.
- Updates to the wording related to Demand Flexibility reflecting the planned changes to the service for Winter 2024/2025 to a commercial in merit action service. This will be subject to a successful Article 18 consultation.
- Addition of UKPN to the distribution areas covered by the MW Dispatch Service.

Please see tracked change document for Procurement Guidelines Statement (PGS) for detail of changes below:

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

Proposals for additional ABSVD Statement review 2024

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

The amendments proposed to the ABSVD Methodology Statement are:

- Following feedback from users, we have updated the table showing BM ABSVD services, we hope this update provides clarity to users.
- Updated wording for Local Constraint Market reflecting the changes to the service – for more detail see the Local Constraint Market section above.
- We have added wording reflecting the potential for a change proposed under P412 to move from delivered volume to expected volume.
- We are proposing to remove wording relating the delivered volumes by MSID pair and by settlement period under the description in Part 2 ABSVD Calculation for Non-BM providers. This removal has been suggested to ensure the text is correct if the opt out process is followed for Local Constraint Market.

Please see tracked change document for Applicable Balancing Services Volume Data (ABSVD) statement for the detail of changes below:

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

Proposals for additional Balancing Principles Statement review 2024

The Balancing Principles Statement defines the broad principles and criteria (the Balancing Principles) used by NGET that will determine, at different times and in different circumstances, which Balancing Services it will use to assist in the efficient and economic operation of the transmission system, and also to define when NGET would resort to measures not involving the use of Balancing Services.

The amendments proposed to the BPS are:

- Following GC0156, we have updated references to “Black Start” within the statements, replacing them with “Electricity System Restoration”.
- Removal of references to Generation Export Management Services

Please see tracked change document for Balancing Principles statement for the detail of changes below:

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

Proposals for additional SMAF Methodology review 2024

The System Management Action Flagging Methodology Statement (SMAF) sets out the means which the licensee will use to identify (using reasonable endeavours) balancing services that are for system management reasons.

Although ESO are not proposing any changes to the SMAF Methodology in this review, we welcome feedback that industry may provide. If you have any changes you would like to suggest please note these on the pro forma.

Please see tracked change document for System Management Action Flagging (SMAF) Methodology for the detail of changes below:

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

Proposals for additional BSAD Methodology review 2024

The Balancing Services Adjustment Data Methodology Statement (BSAD) sets out the information on relevant balancing services that will be taken into account under the Balancing and Settlement code for the purposes of determining Imbalance Prices.

Although ESO are not proposing any changes to BSAD in this review, we welcome feedback that industry may provide. If you have any changes you would like to suggest please note these on the pro forma.

Please see tracked change document for Balancing Services Adjustment Data (BSAD) Methodology for the detail of changes below:

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

5. The Consultation

The Questions

We invite industry to provide further feedback on the changes proposed to the Procurement Guidelines and ABSVD 2023/2024 C16 Statements. The consultation questions summarised below are also within the response proforma in Appendix A.

Procurement Guidelines Statement (PGS)

1. Do you agree with the proposed suggestions to the Procurement Guidelines in relation to housekeeping updates, i.e. version control, link updates?
2. Do you agree with the removal of the wording relating to Project TERRE on P10?
3. Do you agree with the updated replacement of references to “Black Start” and the replacement with “Electricity System Restoration” on P15?
4. Do you agree with the deletion of the reference to “Black Start Capability” on P16?
5. Do you agree with the deletion of the wording for Generation Export Management Services (GEMS) on P25?
6. Do you agree with the updates to the wording for Demand Flexibility Service (DFS) on P26/P27?
7. Do you agree with the removal of the reference to GEMS in Table 2 on P37?
8. Do you agree with the addition of UKPN to the list of Tri-Party contracts for MW Dispatch on P37?
9. Do you agree with the removal of the reference to “Live” events for DFS in Table 2 Balancing Services Information Provision Summary on P44?
10. Do you have any other comments in relation to the changes proposed to the Procurement Guidelines Statement? Or any additional changes you would like to see?
11. Do you have any other comments in relation to the changes proposed to the Procurement Guidelines Statement? Or any additional feedback you would like to submit in relation to the statement?

Applicable Balancing Services Volume Data Methodology (ABSVD)

1. Do you agree with the proposed suggestions to the ABSVD Statement in relation to housekeeping updates, i.e., version control, link updates?
2. Do you agree with the updates to the BM ABSVD Applied table on P9/P10?
3. Do you agree with the updates to the wording for Local Constraint Market (LCM) on P12?
4. Do you agree with the clarification text added relating to P412 on P13?
5. Do you agree with the deletion of the wording relating to the application to all sites on P14?
6. Do you have any other comments in relation to the changes proposed to the ABSVD Statement? Or any additional feedback you would like to submit in relation to the statement?

Balancing Principles Statement (BPS)

1. Do you agree with the proposed suggestions to the Balancing Principles Statement in relation to housekeeping updates, i.e., version control, link updates?
2. Do you agree with the removal of the references to GEMS on P26/P27?
3. Do you agree with the updated replacement of references to “Black Start” and the replacement with “Electricity System Restoration” on P41?
4. Do you have any other comments in relation to the changes proposed to the Balancing Principles Statement? Or any additional feedback you would like to submit in relation to the statement?

Balancing Services Adjustment Data Methodology (BSAD)

1. ESO have not proposed updates to BSAD in this review. Do you have any comments in relation to BSAD? Or any additional feedback you would like to submit in relation to the statement?

System Management Action Flagging Methodology (SMAF)

2. ESO have not proposed updates to SMAF in this review. Do you have any comments in relation to SMAF? Or any additional feedback you would like to submit in relation to the statement?

6. How to respond

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

balancingservices@nationalgrideso.com

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

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

Responses should be returned no later than **5pm 30 August** .

Following the closure of the consultation, ESO will document, in the form of a report, the final position on the changes with the track change versions of the statements.

Appendix A: Response Proforma

The proforma can be found [here](#).