

Response to National Grid informal consultation on Demand Side Balancing Reserve and Supplemental Balancing Reserve

26 July 2013

Eggborough Power Limited (EPL) is an independent generator which owns and operates Eggborough Power Station (EPS), a 2,000 MW coal-fired power station situated in the Aire Valley in North Yorkshire. EPS was previously owned and operated by British Energy (and latterly EDF) to provide flexible and reliable mid merit support to the “baseload” nuclear portfolio. EPL is now owned by substantial private shareholders and is operating as an essentially merchant power plant in the wholesale market.

EPL appreciates the security of supply risk presented by low capacity margins in the middle of this decade and the desire to mitigate it. It may therefore be appropriate to consider mechanisms for promoting security of supply which can be delivered through National Grid’s balancing activities. It must be recognised that such interventions could dampen price signals which would otherwise encourage market participants to ensure that existing generation capacity remains available. Any new mechanism must therefore be very carefully designed to avoid distorting market incentives for the majority of plant.

This response focuses on the proposals for Supplemental Balancing Reserve (SBR) and we have answered only those questions in National Grid’s consultation related to this service.

SBR1: Do you agree with our basic product proposals?

SBR may be a broadly appropriate mechanism to address security of supply concerns in the middle of this decade, provided that it is designed in such a way as to minimise market distortion. National Grid’s proposal is lacking some key details which would allow us to assess the potential impact of SBR on the market. In particular, there is no indication of how much capacity National Grid would seek to procure under this mechanism. We consider that National Grid should publish an indicative target capacity for SBR as soon as possible.

Given the potential market impact of SBR, it is essential that any tender process is entirely transparent and open to all market participants, regardless of plant type, fuel, dynamics or location. There must be complete visibility around which plant is successful for SBR and under what terms, as well as clear signalling to the market as to when this plant will be tested and run.

SBR is intended to be an interim measure ahead of the introduction of the enduring capacity market in 2018. We note that National Grid would initially look to procure capacity under SBR to cover the winters of 2014/15 and 2015/16, but the consultation leaves open the possibility

that additional tenders could be held for future years if needed. National Grid should clearly specify now for how many years they would expect the SBR mechanism to operate. This is essential to allow generators to bid for multi-year SBR contracts that would provide greater value for money. As a minimum, we would expect 2 year contracts to be available, but longer term contracts could be more economically efficient. Specifying the lifetime of the mechanism would also help alleviate concerns that SBR might delay or otherwise interfere with the introduction of the enduring capacity market.

SBR2: Do you agree with our proposals on participation and our proposals to seek reasonably satisfactory evidence regarding additionality?

We agree that any plant contracted under SBR should be additional – ie. that it would not otherwise be operating during the availability period. This should include plant which is currently open but can demonstrate that it would not run in the availability period as well as plant which is currently mothballed.

To avoid artificial incentives to take plant out of the market, operators of plant participating in SBR should be able to demonstrate that they had identified prior to the announcement of the SBR proposals on 27 June 2013 that they might not run the plant in question from winter 2014/15. We would expect that operators could demonstrate this through the provision of analysis and business plans which assess that it would not be economic for the plant in question to run during the availability window.

It is not clear from National Grid's proposals for how long a plant participating in SBR would have to remain out the market. We can see no reason for SBR plant to be prevented from running in the energy or balancing markets outside of the availability window of November to February if market conditions make this viable at the time. If National Grid wishes to test plant in advance of the availability window, this should be from the beginning of October at the earliest. Plant should be handed back to operators on 1 March.

Furthermore, we do not consider that plant participating in the tender for SBR should be prevented from operating in the market during the availability period if it is unsuccessful in securing a contract under this service as operators should retain the option to respond to market conditions as they evolve.

For these reasons, there should be no requirement for plant participating in SBR to reduce or surrender its Transmission Entry Capacity. However, in order to ensure a level playing field between market participants in the SBR tender and prevent SBR from becoming a locational service, we consider that TNUoS charges should be suspended for an SBR plant for the duration of its contract.

SBR3: Do you have any comments on the proposals to infer outage rates by allowing service providers to choose their non-delivery charge? Views are also invited on the approach to creating the appropriate trade-off between non-delivery charges and de-rating factors.

Given the inability to trade SBR obligations on to other plant, we do not think that any operator would be willing to face unlimited exposure to non-delivery charges under SBR especially as plant will only be irregularly and infrequently despatched.

Once all available balancing tools have been exhausted, SBR plant should be despatched based on utilisation price. If an SBR plant is unable to run when called, in some cases other more costly SBR plant may be available to be despatched instead and emergency measures could still be avoided. In this case, the penalty imposed for non-delivery should only reflect the additional cost incurred by National Grid in despatching the other plant.

Where failure of an SBR plant to run resulted in emergency measures having to be taken, a fixed penalty should apply and operators should be able to choose this non-delivery charge based on outage rates. Penalties must be capped in an availability period in order to limit an operator's financial exposure.

SBR4: Do you agree with our verification proposals?

We agree that both National Grid and operators will want to test SBR plant to ensure that it can respond when instructed. Plant should be expected to exit the market and be made available to National Grid for testing no earlier than the October directly before the availability period. SBR plant should be paid warming and utilisation fees as appropriate for testing. As with despatch, it is essential that there is transparency around any testing and that it does not interfere with normal market operation and does not displace plant that would otherwise be able to generate. If this was to happen, National Grid should compensate any affected plant.

SBR5: Do you agree with our proposals to despatch SBR only after other non-emergency balancing services have been exhausted and do you have any views on whether SBR should be despatched through the Balancing Mechanism or outside it?

In order not to distort the market and to avoid displacing plant which would otherwise be economic to run, we agree that SBR plant should not be able to run unless instructed by National Grid and should only be despatched as a last resort after all other available balancing services have been exhausted.

We were concerned by comments made by National Grid at its stakeholder event that economics may be taken into account when determining whether to run SBR plant ahead of other capacity. The intention of SBR is that sufficient capacity should be held in reserve to ensure security of supply in the light of a systemic capacity shortage rather than to reduce the cost of despatch. It is therefore crucial that all generation and demand response available in the market should have been utilised before SBR plant is run, regardless of price.

Once all available balancing tools have been exhausted, SBR plant should be despatched based on utilisation price. We note that the dynamic characteristics of SBR plant may require them to be scheduled in advance of other plant in the market to ensure that they are available when required. This presents the risk that SBR plant might accidentally displace other plant in the market that might have been able to run. If this was to occur, National Grid should provide compensation to affected plant.

Given the complexities identified in the consultation as associated with dispatching SBR plant via the Balancing Mechanism, we consider that it would be preferable for SBR plant to be despatched outside of the Balancing Mechanism.

SBR6: Do you agree with our proposals for Settlement, and in particular, regarding the payment of 20% of the capacity payment up front?

Plant participating in SBR would not otherwise have planned to run in the availability period and operators are therefore likely to incur costs in advance of winter 2014/15 to bring this plant back into service or maintain it so that it remains available during the contract period. In light of this, the majority of the capacity payment should be paid to operators upfront. Plant will also have ongoing fixed operational costs throughout the availability period and any proportion of the capacity payments not received upfront should be therefore be paid in equal monthly instalments across the November to February availability window.

Utilisation and warming fees should be paid when plant runs. The infrequent running pattern under SBR will make it very difficult for operators to specify realistic utilisation costs up front or to fix these in advance. The utilisation fees paid should therefore be based on spot prices at the time of running.

SBR7: Do you agree that imbalance prices should not be affected by any SBR procurement ahead of Ofgem's Energy Balancing Significant Code Review?

Yes.

TAC4: Do you have any comments on our proposed assessment of Supplemental Balancing Reserve?

EPL broadly agrees with the proposed assessment methodology.

TAC5: Do you agree with our proposed call-off arrangements?

See our response to SBR5 above.

Contact

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