



Peter Bingham
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

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Dear Peter,

Demand Side Balancing Reserve and Supplemental Balancing Reserve – Final Proposals Consultation

Drax Power Limited (“Drax”) is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. Drax also owns an electricity supply business, Haven Power Limited (“Haven”), which supplies electricity to a range of business customers and provides an alternative route to market for some of Drax’s power output.

The comments in this letter are restricted to our views on the proposed Supplemental Balancing Reserve (SBR) product. We recognise that there is potentially a gap between now and the first capacity market delivery year (2018/19) where additional measure(s) may be required to ensure security of supply. Therefore we consider that an SBR product may assist National Grid in balancing the transmission system against an anticipated background of narrowing plant margins in the mid-decade period. However, we believe that the SBR product should only be implemented if it meets the following criteria noted below:

- SBR must be a time limited, transitional measure
- SBR must ensure that plant procured is ‘additional’ to what the market would have delivered in the absence of an SBR product
- SBR must be genuinely used as a last resort after all other commercial options have been exhausted by the System Operator (SO), except where plant dynamics and testing dictate otherwise

We discuss below how these three key criteria can be best met.

Time limited measure

We believe that the Capacity Market currently being finalised by DECC should be the enduring mechanism by which security of supply in the GB market is achieved. Therefore, it is important that the SBR product National Grid proposes to introduce does not permanently replace the Capacity Market. In our view, a market wide capacity market is better placed to meet the objectives of the SBR product i.e. to achieve security of supply, with fewer associated risks in terms of distorting related power markets. DECC share this view, for example stating in the Statutory Security of Supply Report 2013 that the balancing services will “not be a substitute for other policies aimed at improving security of supply such as DECC’s capacity market”.

As a result, we consider that the SBR product should be time limited, containing a sunset clause by which it will cease by the first delivery year of the proposed Capacity Market (2018/19). If National Grid wishes to continue procuring an SBR product after this date, it should be required to consult with stakeholders and seek Ofgem approval, as it has done over the past few months with its consultations on the two new balancing products (SBR and Demand Side Balancing Reserve).

Ensuring 'additionality'

In designing SBR it is essential that it is implemented in such a way as to minimise as best as possible distortions to the wholesale and balancing power markets. Distortions can be minimised by ensuring that plant procured would not otherwise be participating in the market and is therefore genuinely 'additional'.

As such, we agree that resources providing SBR should be prohibited from participating in the market for energy and other balancing services for the duration of the contract. We further support National Grid's proposal to require a signed declaration from the board of directors of the company that own the relevant power station. This would declare that the plant(s) will not be participating in the market for energy or other balancing services during the term of the SBR contract (being for the entire year or years and not just the availability windows) for which they are tendering, irrespective of the current status of the plant and whether or not a contract is secured. We also consider that an appropriate board minute should be provided. Once the board declarations have been received, National Grid should further cross reference the board declaration with submitted availability data via OC2/REMIT submissions to ensure that plant is genuinely additional.

Comments have been made by market participants that it will be too difficult for board directors to make such a declaration as there could be circumstances where market fundamentals could change to alter the profitability of plant. In our view, plant that is able to respond to short term changes in market fundamentals (essentially market spreads) should be considered to be in the market and thus not additional; The SBR product is not appropriate for such plant. The requirement for a board declaration ensures that parties act in good faith and help ensure market distortions are kept to a minimum.

Last resort

To further minimise distortions in wholesale and balancing markets, we agree with National Grid that SBR should be despatched exclusively by the SO as a last resort, only after all other balancing services have been exhausted, except to the extent that dynamics and other technical considerations, testing and warming require. Where slow SBR dynamics require plant to be despatched ahead of need (or for testing), we agree with National Grid that other generation which is constrained off must be compensated to preserve infra marginal rents.

To provide further confidence to the market that SBR will only be used as a last resort, it is crucial that National Grid is completely transparent both about its procurement and its utilisation. We therefore agree with National Grid that:

- The quantity of SBR required should be published ahead of the tender
- The results of the tender process should be published, including additionality declarations, quantities and costs of SBR procured, with any subsequent quantities and costs of utilisation, testing and warming

However, to provide further comfort to the market, we believe that National Grid should publish ex-post data demonstrating that all commercial options have been utilised ahead of SBR (in the event that SBR is used) and where commercial options have not been used provide reasonable justification for this. In addition, National Grid should notify the market in real time when it intends to warm SBR plant. This should allow the market to respond accordingly to any market tightening.

If you would like to discuss any of the views expressed in this response, please feel free to contact me.

Yours sincerely,

By email

Cem Suleyman
Regulatory Analyst
Regulation and Policy