

Consultation on Demand-Side Balancing Reserve and Supplemental Balancing Reserve

SSE Response

11 November 2013

Q3. Do you consider that the proposed amendments to the SBR product sufficiently address the issues raised in the consultation? Do you consider that the additionality provisions discussed in Section 5 are sufficiently robust, or whether these should be reinforced?

Imbalance price: SSE welcomes National Grid's acknowledgement that the cost of dispatching SBR should be factored into the imbalance price. However, given the timescales of Ofgem's Electricity Balancing Significant Code Review it is questionable as to whether cashout reform will be fully implemented in time for the 2014/15 SBR year. As such, SSE would encourage National Grid and Ofgem to find a way to reflect the cost of SBR in the calculation of imbalance prices in the intervening years.

Additionality: All market participants must have confidence in the additionality arrangements before they can be assured of a level playing field between all successful and unsuccessful tenderers. The Board of Directors declaration will go some way to prevent plant that do not wish to risk being kept outside the market from tendering for SBR. However, National Grid must ensure that this declaration is backed by solid legal or contractual obligations on which market participants can rely to truly restrict unsuccessful SBR tenderers from participating in the regular market.

SSE would encourage National Grid to consider whether there should be a requirement that, to enter the tender, plant should not have TEC. That means if plant has TEC, it surrenders it, and does not get it back, whether successful in the tender or not, for the duration of the contract period. Plant that does not have TEC in the first place is unaffected. In both cases, plant that has entered the tender cannot purchase TEC again through short term products etc. for the contract period, whether successful or unsuccessful in the tender process. All original rights to TEC would be reinstated at the end of the period.

Any lack of clarity around the strength of the additionality provisions will increase the risk of participating in SBR and for other market participants. If the simple TEC based solution we outline above is not possible and the declaration alone is found not to be legally or contractually enforceable then SSE would recommend imposing further additionality criteria on plant that wish to tender for SBR. In this case National Grid should consider indicators of whether the plant is likely to operate in the absence of an SBR contract, such as that plant's current operating status, i.e. it is mothballed / statements have been made about the status of the plan, to the Stock Market / shareholders etc, hours remaining under LCPD, TEC status etc.

Connection and Use of Service charges: SSE agrees that plant should not be required to hold TEC to participate in the SBR, in fact we argue that it should not have TEC in order to participate. For tenderers that already hold TEC, TNUoS charges (be that payments from or to power stations) would continue to be applied whether or not they are successful in the tender. Plant should be required to hold sufficient gas connection and gas exit capacity to be eligible to submit an SBR tender.

The SBR contract should specify that the SBR utilisation fee will cover all fuel costs and other variable costs, including the SBR participant's BSUoS and any non-delivery charges under the Balancing and Settlement Code.

Verification: SSE accepts that plant should be tested during the course of the SBR contract if there has not been a need for National Grid to dispatch that plant during the tendered period. These tests must not be allowed to interfere with the energy market, and National Grid should clarify the means by which they will restrict the impact on the rest of the market of these tests.

There should be a clear testing regime applied consistently by National Grid to all SBR plant. Plant should not have the ability to request more frequent tests than this regime in order that the market can accurately gauge the cost of the SBR testing regime. If a plant has carried out remedial works during the contract period then the self test(s) should be paid for by that party. However, to avoid the self test(s) being 'prolonged' each testing regime duration and timing should be agreed beforehand with the SBR contractual counter party; i.e. National Grid. For the avoidance of doubt, any test(s) initiated by the SBR plant (such as those for recommissioning) would be paid by the SBR party; whilst any test(s) required by National Grid as part of the SBR contract would be agreed with, and paid by, National Grid.

SSE recommends that any test instructed by National Grid should be dispatched via BOA or PGBT. The test volume should have a matching volume Bid off via a BOA or PGBT which is held to cover that test volume. This should maintain the Offer stack as was prior to the testing having been undertaken. The test itself should be paid the Short Run Marginal Cost including the 'start' and 'stop' costs for the plant associated with the test.

To allay concerns about the market distortion resulting from SBR test runs, National Grid could publish intention to test (or SBR plant's election to test) a minimum of a day ahead and allow market participants a window during which to register any opposition to the test. This would create transparency around any impact of testing on the market.

Contract period: It is unclear from the consultation document what contract periods National Grid is intending to offer in the first tender in early 2014. The most practical approach would be to allow plant to tender for either a one year contract for 2014/15 or a two year contract for 2014/15-2015/16. Two year contracts will facilitate participation of plant that must make longer than one year commitments, e.g. to come out of mothballing. One year contracts for 2015/16 can be tendered for at a later date (e.g. early 2015) when National Grid is more certain of the need for SBR for winter 2015/16.

Q4. Do you agree that procuring large volumes of extra STOR would be less economic and cause more distortion to the energy and balancing markets compared to SBR?

The proposed SBR and the existing STOR mechanism are two entirely different services. Procuring additional STOR in its current form would not be fit for purpose to solve the problem of additional capacity that National Grid is trying to address through SBR. Importantly, STOR in its current form is not always held back for last resort

dispatch and has in the past had impacts on the energy market resulting in a dampening of the cashout price.¹

The addition of SBR is meant to target a specific capacity issue and should not preclude National Grid from procuring additional STOR if necessary.

Q5. Do you support us taking forward the SBR product? If not, what would be your recommended course of action if margin outlook deteriorates over the next 12 months?

SSE believes there is a case for taking action to insure against generation inadequacy over the coming winters. In the absence of an early introduction of the capacity market SSE considers the SBR a prudent course of action to help secure generation to meet peak demand. As described above and throughout SSE's response to the July consultation, the SBR should be designed to minimise as far as possible distortions to the energy-only market.

It is also critical that the SBR is time limited in nature and that it does not interfere with the introduction of the capacity market, which is required as an enduring solution to tackle security of supply issues. SSE sees a firm sunset clause for the SBR as an imperative. This should be implemented through limiting National Grid's powers to procure SBR up until winter 2017/18 at the latest. This should be revised downward (to 2016/17) should the capacity market be brought forward earlier than winter 2018/19.

Q6. Do you agree that our cost estimates, and the underlying assumptions, are reasonable?

Without a more precise estimate of the volume of SBR and DSBR that National Grid intends to procure, it is difficult to assess whether the cost estimates are reasonable. Final decisions on the SBR product design and the associated risk premium (e.g. non-delivery charges, additionality etc.) will influence which plant come forward in the SBR tender and at what cost.

Q7. Do you agree that it would be inappropriate to include these costs in the Balancing Services Incentive Scheme until such time prices and volumes for these products are better understood?

Given the long lead times involved in bringing generating stations back into service (e.g. carry out testing, put in place staff), National Grid must set out a clear timetable for the SBR tender process. The timetable should describe when bids will be accepted, the process by which they will seek Ofgem approval of costs, when the contracts will be allocated, and whether there may be additional rounds of SBR tenders.

A view of costs is also required so that suppliers and generators² know the costs to be recovered through BSUoS.

SSE acknowledges it will be difficult for National Grid to be incentivised on the costs as these will be largely unknown until the tender is complete. In this regard the costs for the first round of SBR contracts will have to be simply passed through without an

¹ For example on 12th Dec 2012, Period 34, Littlebrook unit 1 and 2 running on a BOA at £775 and £725/MWh respectively. The system ran 588MWh short in this half hour, a variety of other plant was used to achieve balance including STOR, cash out was calculated at £190/MWh.

² pending an Ofgem decision on CMP201

incentive scheme in place. In this case the onus will be on Ofgem to ensure that the costs are efficiently incurred prior to the contracts being awarded by National Grid.

Although SBR will not be part of the BSIS, at least initially, National Grid should be incentivised in terms of how they use the SBR plant. The parameters outlining how the SBR plant can be used will be set out in the Balancing Principles Statement. These parameters should form the basis against which to measure National Grid's use of SBR plant in practice. National Grid states in the consultation document that

“To use particularly SBR ahead of existing balancing services in order to gain advantage under the incentive scheme would be counter to the Balancing Principles Statement, and would be immediately obvious to market participants. Hence, we do not believe that using these services would interact with the BSIS scheme such that we could gain commercially from their use.”

Therefore, it should be reasonable to create conditions that financially penalise National Grid, via BSIS, if they fail to comply with the SBR dispatch criteria described in the Balancing Principles Statement.

Q8. Do you agree with the proposed approach to the recovery incremental internal costs we would incur if we were to procure these additional balancing tools?

At the moment there is no transparency on what the full range of internal costs that National Grid will incur. Ofgem should scrutinise these internal costs, and the £1 million allowed per year for unforeseen costs should be deducted from National Grid's SBR set up costs.