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National Grid House
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11 November 2013

Energy UK response to National Grid DSBR and SBR Final Proposals Consultation

Dear Peter,

Energy UK welcomes the opportunity to respond to National Grid's final proposals for a Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR). This response focuses on our high level position rather than commenting on the specifics of the product, which we leave to our members.

Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members¹ that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes.

Energy UK is appreciative of the efforts made by National Grid to address the concerns expressed in our original response, both in the revised consultation and at the workshop held on 29th October. A number of questions remain which we detail below.

Supplemental Balancing Reserve

Energy UK agrees there could be credible scenarios whereby, mid-decade, electricity capacity margins are tight, due to the impact of several factors. We consider therefore that it is prudent for National Grid to take forward the SBR product provided it is done according to the following principles:

- ▶ Time-limited
As this is a short term measure, the license conditions to implement SBR should include a sunset clause so that it is removed at an appropriate point ahead of the introduction of the Capacity Market Payments in winter 2018/19.
- ▶ Strategic
SBR should be a last resort option in the unlikely worst case scenario.
- ▶ Held out of the market
Measures must be taken to ensure that the utilisation of SBR plant does not distort the energy market
- ▶ Subject to review
The effectiveness and impact on the market of SBR should be reviewed against a set of performance criteria. National Grid should also have an incentives scheme.

¹ NOTE: National Grid is a member of Energy UK but has not provided input to this consultation response.

Distortion mitigation and additionality

Concerns about SBR, particularly in regard to additionality and potential for unintended distortion of the energy market, have been addressed to some extent in the final proposals, although members still have some reservations about the effectiveness of the proposed mitigation measures.

Energy UK members recognise that there are significant challenges around ensuring that plant that tenders for SBR is truly additional. Requiring a declaration by the board of directors of participating companies that the plant will not be participating in the markets for energy or balancing services is a simple and effective measure but would not necessarily guarantee additionality. We agree with National Grid that plant cannot be forced to close. In light of this, there is not a viable alternative measure to evidence additionality which is supported by all of our members.

Unintended consequences

While plant participating in SBR must be truly additional, Energy UK cautions that market conditions could be impacted by the amount of SBR volumes tendered by National Grid. Plant operators with intentions to close or mothball that apply unsuccessfully for the SBR tender may take a different view of the market once it is known which plant has exited (although noting that, to some extent, firms need to take into account potential future changes to the supply side regardless of an SBR tender). If several plant which are unsuccessful in the SBR tender are subsequently not permitted to re-enter, there could be unintended consequences for security of supply depending on the volumes involved.

Demand Side Balancing Reserve

Energy UK is supportive of utilising demand side measures and believes that they are important as an additional source for System balancing. There are a number of demand side measures already being undertaken by suppliers and being utilised by the System Operator e.g. STOR.

While measures to ensure DSR can make further contribution to improve capacity margins in the short term, we maintain the belief that trial auctions in the Capacity Market will prove to be the most appropriate way to do so. DSR and DSR trial auctions could run alongside each other, provided they are both efficient services, provide different services and are used at different times.

If National Grid decides to proceed with DSR, it should be according to the following principles:

▶ Reliable performance

As per our previous response, we believe that contracted providers of any Demand Side Response must prove capability of delivery ahead of the commencement of any formal long term contract. An effective framework will include the monitoring of performance and with payments made only once National Grid is satisfied that the procured product has clearly been delivered. This will avoid the need for any claw back of payments post event if demand side reduction did not actually occur.

▶ Time limited

The longer term role of DSR is unclear, as National Grid has suggested that it could be an enduring product. There is expectation however, including within Government, that the service will be withdrawn once the Capacity Market trial DSR auctions have been proven success. Some Energy UK members see a role for DSR to be an enduring product in addition to DSR participation in the Capacity Market. However, other members are concerned that National Grid could be precluding a potential DSR market by tendering for these balancing services directly.

Impact on supplier accounts

Energy UK members are concerned about the impact that instructions from National Grid can have on suppliers' trading accounts if supplier positions are not corrected in the circumstances when customers they supply have been instructed to provide DSR services. There are existing solutions

that National Grid could use to deal with this problem. APX's settlement, clearing and nominations system which would automatically correct supplier positions using existing systems and contracts is one such example.

I trust you have found this response helpful to inform your final decision. Please do not hesitate to contact me via the details below if you have any further questions.

Yours sincerely,

[By email]

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