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Date: 11th November 2013

Final Proposals Consultation on Demand-Side Balancing Reserve and Supplemental Balancing Reserve

Dear Peter,

We responded to the previous consultation on the new balancing services and we welcome the opportunity to comment on how the proposals have evolved. Just as a reminder, SmartestEnergy is a non-domestic supplier (excluding micro-businesses and SMEs) and an aggregator of embedded generation.

We have three main comments we would like to highlight in this introductory section and then we answer the specific questions contained in the consultation document.

Firstly, SmartestEnergy do not believe it is in the best interests of consumers that demand-side providers could potentially receive a set-up payment and then subsequently not deliver in times of system stress. Therefore we are pleased to see that the ability to recover these payments has been added as, even if claw-back is costly to administer, we think that it should still be pursued on a matter of principle. Also, we think there should be an additional penalty (perhaps covering the cost of recovery) as taking on the contract with the set-up fee has potentially prevented another organisation the opportunity to gain from the contract and subsidy.

In the case of contracts without a set-up fee we would not be uncomfortable if participants were not penalised for non-delivery as we think this is consistent with the balancing market model in which providers are revenue neutral when they do not deliver as it just means that someone else is called upon.

Secondly, we agree with others that think the SBR product should be time limited as it is at odds with the Capacity Market but with regards to the DSBR product, we believe that it could work alongside demand in the capacity market and as such we do not feel it should be time-limited if it proves successful in attracting interest in demand-side provision.

Lastly, we understand that it would be complex to adjust suppliers' positions so that they are not affected by any demand-side actions taken by their customers when it comes to cash out. However, as demand-side response is set to increase (with the DSBR product and participation in the Capacity Market) alongside the potential for more marginal cash out prices, we believe that there should be a review of the impact that instructions from National Grid can have on suppliers' trading accounts once the demand-side market has become more developed.

Please note that our response is not confidential.

<u>DSBR Questions</u>

Q1 . Do you consider that the proposed amendments to the DSBR product sufficiently address the issues raised in the consultation?

> Page 12 in the consultation document states the following: "These proposals are broadly similar to our initial proposals, with the significant changes being: baselines to be determined on a rolling basis over the previous twelve months; establishing a minimum size of one MW for a DSBR Unit; dropping the lower utilisation prices; further detail on the application of the stepped payment schedule; the optional set-up fee at the upper end of the proposed range; confirmation of the inclusion of small embedded generation; and the ability to recover the set-up fee from resources that have not taken reasonable steps to deliver the declared demand reduction capability."
>
> We welcome the confirmation of the inclusion of small embedded generation (although this needs to be defined), and the ability to recover the set-up fee. However, on the recovery of the set-up fee we would also add recovery of the administration cost this action causes.

Q2 . Do you support us taking forward the DSBR product with these amendments?

> We support the DSBR product long-term if it is successful as we do not see it as conflicting with the Capacity Market. Also, as discussed in the introduction, there should be a review (potentially a year after the product is established) to ascertain whether cash out penalties are interfering with incentives for participants or are detrimental to suppliers and hence whether any correction of accounts should be sought.

<u>SBR Questions</u>

Q3 . Do you consider that the proposed the amendments to the SBR product sufficiently address the issues raised in the consultation? Do you consider that the additionality

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provisions discussed in Section 5 are sufficiently robust, or whether these should be reinforced?

Although the product has not been amended to fully align with our comments in the previous response we are not wholly uncomfortable with the product as currently defined.

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?

We did not argue for the extension of STOR in our previous response to the products although we originally supported the idea when discussions regarding the capacity market first took place. We understand that National Grid have considered this as an alternative.

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?

Although bringing forward the capacity market would be our preferred approach we are aware that this has been considered and therefore we support the product in the short-term until the capacity market is delivering.

Costs & Funding Questions

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

We do not have any evidence to support National Grid's assumptions nor to suggest alternative scenarios which would alter the expected 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?

Yes, we believe that National Grid has come to a sensible conclusion.

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?

The consultation document suggests recovering costs via BSUoS and we would be comfortable with this approach.

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If you have any questions, please do not hesitate to contact me.

Yours sincerely,

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