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25 July 2013

Peter Bingham  
Electricity Market Reform Project  
National Grid

## **Re. Demand Side Balancing Reserve and Supplemental Balancing Reserve Informal Consultation**

Dear Peter

Our response to the questions raised in the consultation are detailed below but we would like to start with an alternative proposal:

### **Alternative Proposal**

NBS suggests the current balancing services (namely STOR) could be amended to provide these services rather than the introduction of additional services. Whilst we recognize that STOR is a pre-emergency service designed to aid renewable generation, we feel that sufficient capacity is being rejected in each tender round that could be utilized to support the needs of the proposed services.

STOR is in principle a short notice reserve where the tendered capacity is assessed primarily on price and technical merit (speed of response). Whilst you have suggested DSBR and SBR are 'longer term' solutions the framework could still provide these services.

DSBR has a similar requirement to STOR, with less onerous monitoring and verification techniques, but may be required for longer events (2 hours plus) and has a proposed tranche payment structure. It would appear that events will occur less frequently than STOR.

SBR is likely to be used even less often and would have a longer response time.

A better proposal would be to integrate all of the packages into STOR but have different 'flavours' of capacity. For example, sites with relatively long response times but with sustainable capacity could bid the SBR element. Arguably tendered sites today with low availability but high utilization prices are suggesting a preference for infrequent calls. DSBR could be introduced via STOR simply by awarding more capacity in the winter seasons and simplifying the monitoring requirements as outlined in the proposal.

The proposed payment arrangements for DSBR could be introduced to a revised STOR package and assessments/bundles could be awarded on;

- Response time
- Min/Max events per season
- Min/Max runtimes per event
- Normal availability and utilization prices

Introducing the tranche approach and / or bands on response time would also increase the competitiveness of STOR.

The commercial viability of STOR is already under threat for aggregators and would benefit from additional work streams rather than introducing more competition and confusion.

### **Consultation Responses**

#### **DSBR1 - Do you agree with our proposed participation criteria?**

NBS agrees with the criteria and welcomes the approach that lowers the costs of despatch, enablement and ongoing monitoring. This provides the opportunity to introduce additional capacity to the market.

#### **DSBR2 - Do you agree with our proposed product definition?**

NBS agrees with the high level product definition but would like to see a solution for sites that cannot curtail for 2 hours or in the latter part of the window.

Also it is impractical to recruit sites for a service that may only run for 2 seasons. The acquisition and enablement costs may limit potential. Our preference would be to amend STOR as outlined in our opening comments.

#### **DSBR3 - Do you agree with our proposed payment arrangements? Do you have any views on the proposed level of set-up payment?**

NBS believes that modification to the existing STOR arrangements would be a better way forward as outlined in our opening comments. A simpler payment model that awarded tranches by response time, event time and maximum number of events / run-time could be blended with STOR and make use of the capacity that is currently being rejected.

NBS welcomes the simpler approach to qualification / verification and reduction in barriers to entry. The proposal delivers a much stronger incentive to deliver capacity when called.

**DSBR4 - Do you agree with our measurement and baseline proposals?**

The baseline proposals are not suitable. Potential sites may have changed output / size and may have deployed energy efficiency actions between winters. There are a number of reasons why the proposed baseline methodology could significantly over or understate demand. There may also be conflicts if a client is participating in a TRIAD avoidance programme.

If the preferred route for monitoring is to utilize the existing BSC arrangements (which we agree is a sensible step) then a simpler solution would be to use the same methods for baseline calculation. The Data Collector and Data Aggregators have a preset estimation procedure as agreed in the BSC. A simpler solution would be to measure the variance in 'actual' to an 'estimated calculation should demand reduction not have been called'. This ensures the baseline is current for that winter, follows settlement calculations and takes market normalization criteria into account.

**DSBR5 - Do you agree with the proposed arrangements for despatch?**

NBS is happy to work with any kind of secure despatch technique and welcomes low cost solutions. Our suggestions above, detailing STOR reform, could also mean despatch would be delivered on response time, period of sustained curtailment as well as economic merit.

**DSBR6 - Do you agree with our proposals on procurement?**

NBS agrees and believes the current procurement methods employed by National Grid are suitable.

**DSBR7 - Do you agree with our proposals on verification?**

NBS agrees with the verification proposals at tender stage but refers to DSBR4 for a more robust ongoing measuring and verification approach.

**DSBR8 - Do you agree with that there should be a de-minimis dispute threshold?**

NBS agrees with the concept of a threshold but that is largely dependent on the value that is set.

**DSBR9 - Do you agree with our proposed approach to contracting?**

NBS agrees with a simple, low cost to manage, approach to contracting.

**DSBR10 - Do you agree with our proposals on imbalance pricing?**

NBS agrees with the proposed approach.

**DSBR11 - Do you agree with our proposals on how the service should interact with triad demand reducers?**

It is not clear how this service and TRIAD avoidance can work together. It is also a concern that NG would be controlling demand / flattening peaks through these services and has a conflict with the TRIAD charging regime. The measurement suggestions outlined in DSBR4 pave a way for both services to work alongside one another but a broader review on the TRIAD charging mechanism should be considered.

**DSBR12 - Do you agree with our proposals in respect of Committed and Flexible STOR providers?**

**DSBR13 - Do you have any comments on our procurement options?**

NBS believes the existing arrangements should be amended to deliver these services as outlined in our opening comments.

**SBR1-7**

This proposed service falls outside of our core competencies so no responses have been provided.

It is still our belief that DSBR and SBR could be delivered by modifying existing balancing services.

**TAC1-5 Do you agree with the way in which we propose to assess Demand Side Balancing Reserve?**

NBS feels these approaches devalue the contribution of DSR services and almost imply that stated capacity will not be close to being delivered. Again, by modifying the existing STOR services NG would be in a much better position to access capacity using real market data and would have a matrix call-off system to meet the requirement.

Yours sincerely

Negawatt Business Solutions