

Reserve Review

Consultation feedback on development proposals

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Reserve Review

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 - ◆ Proposals

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Reserve Review

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Overview and Proposals

Review Timetable

23rd February	Reserve workshop
7th - 25th March	Bi-lateral meetings
13th April	Interim operational forum - Progress feedback
15th June	Extended Operational forum - Draft consultation content
9th September	Reserve consultation published - Outlining Background and proposals
5th October	Consultation responses requested

External Review Stage

12th October	Operational forum - Reserve consultation feedback summary
19th October	Summary of responses published
November	“Way Forward” Plan - Change timetable

Implementation Stage > September 2006

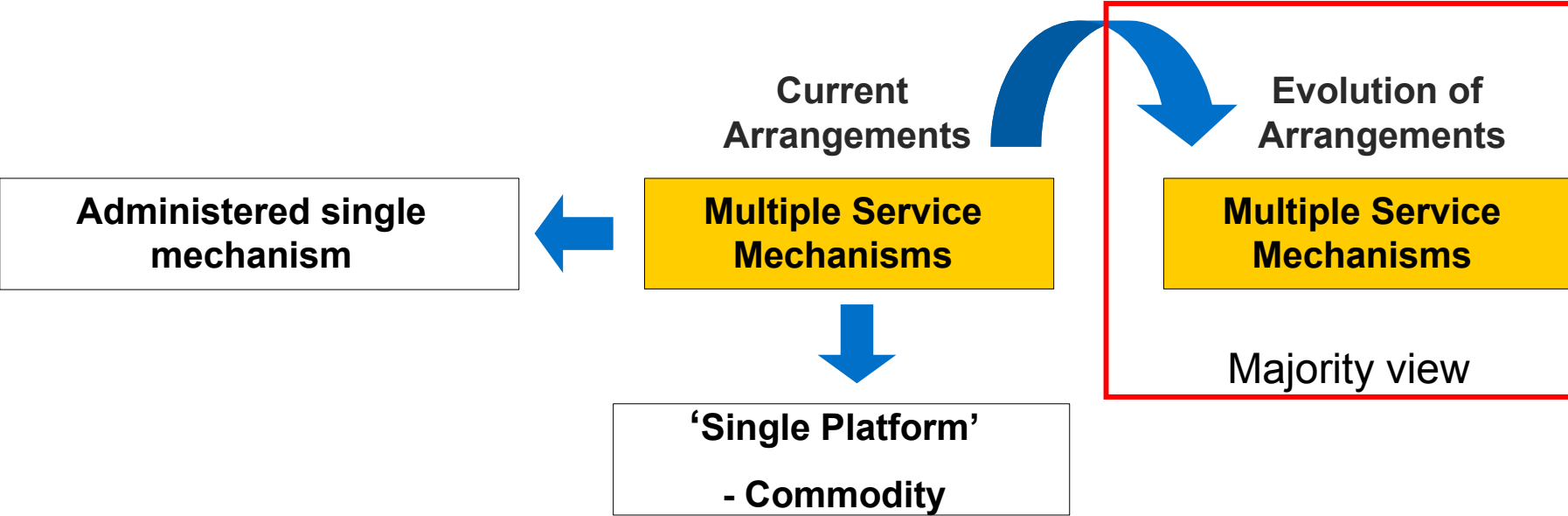
Review Areas

- Design of current products;
 - Development and assessment of potential new products;
 - Timescales for procurement;
 - Mechanisms for procurement; and
 - Information provision
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- Proposals in context to existing electricity market arrangements
 - One hour Gate Closure
 - System Operator driven procurement

Objectives

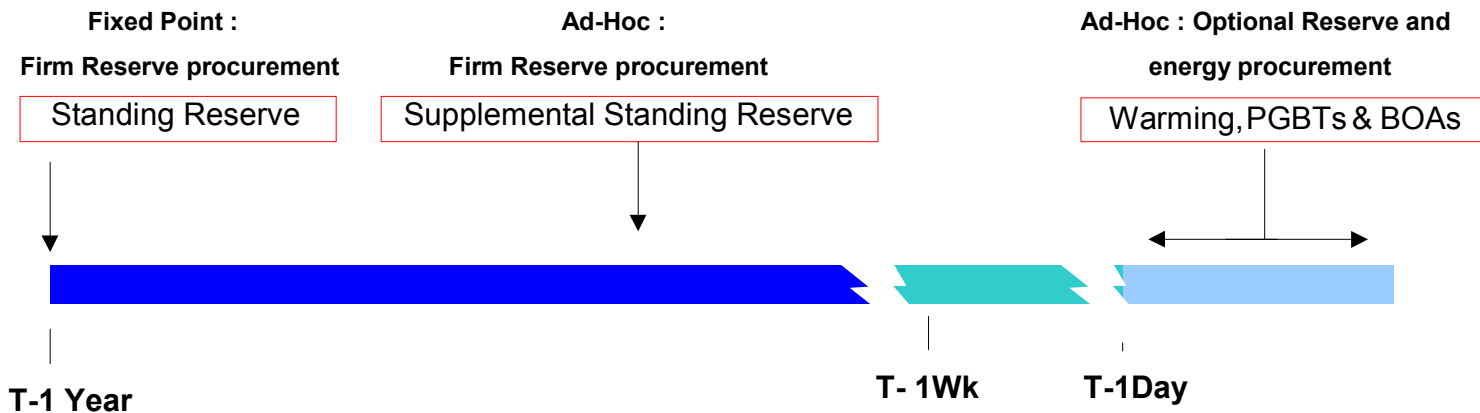
- To ensure that National Grid has an appropriate suite of Balancing Services which it can use to meet its operational reserve requirements;
- to ensure these Services are procured in an efficient and economic manner, via market based mechanisms where competition exists;
- to ensure parties are given equal opportunity to participate;
- to ensure that these Services are procured and used in a way which compliments the energy market; and
- to ensure Market Participants understand when and how these Services will be required, procured and used.

Main Reserve Procurement Products

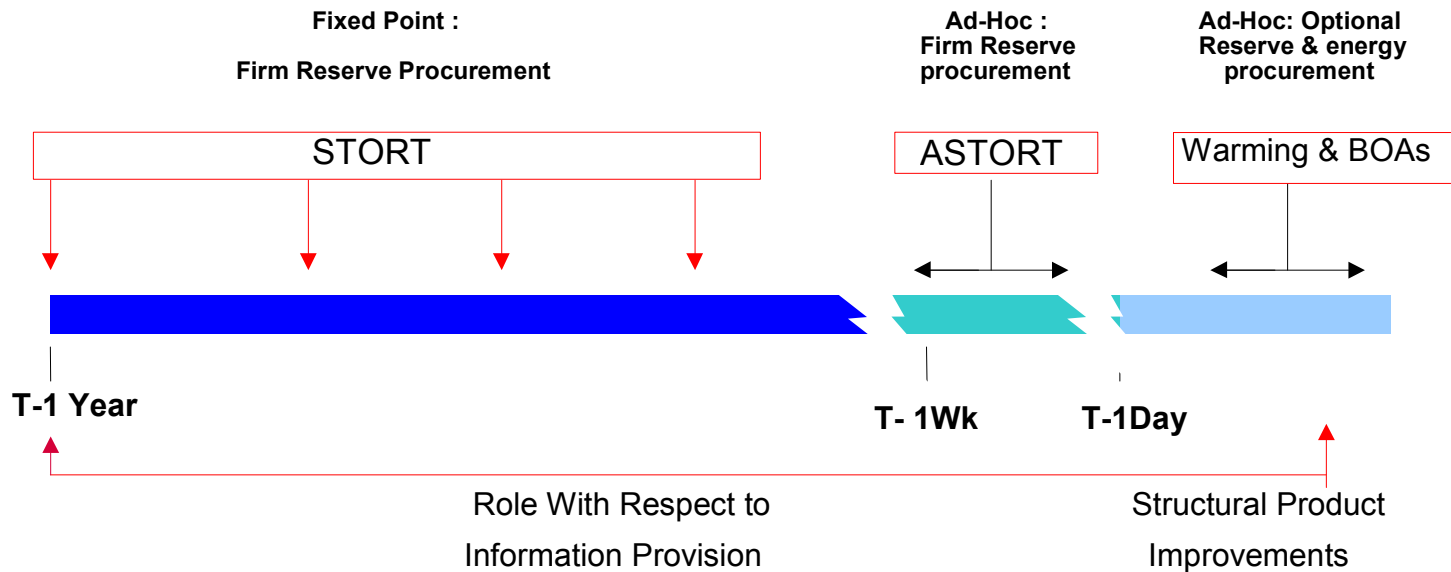


Main Reserve Procurement Proposals

As now



Proposed



Outline of Proposals

1. **STORT: Short-Term Operating Reserve Tender**

Represents the rationalisation and improvement of the Standing Reserve and Supplemental Standing Reserve services into a single firm availability contract for short-term operating reserves, tendered on a quarterly basis. Participants will be allowed to tender any quartile up to 24 months ahead.

2. **ASTORT: Additional Short-Term Operating Reserve Tender**

The development of a limited period variant of the STORT, to be initiated on an ad-hoc basis in week ahead timescales, in circumstances where it may prove economic and efficient to procure additional firm operating reserves ahead of the day.

3. **Warming & Hot Standby Modification**

Warming and Hot Standby contracts, currently used for Coal and Oil units, will be converted into a Firm Reserve option contract, which can be provided by any and all generation types with start-up lead-times outside Balancing Mechanism timescales on the day.

4. **Information Provision / Transparency**

Enhanced reserve information provision

Production of a Generic notice to tender for ASTORT

Real-time publication of the utilisation of W&HSB Contracts

(This has now gone live as of 2nd September 2005)

ARORA

- A review of Reserve Arrangements

Responses

Responses

- ◆ Thank you to all those who responded
- ◆ To date we have received 11 responses covering Generation companies, Demand side, Vertically Integrated, and consultants
- ◆ Overall the theme was simplification and standardisation of procurement process, contract forms and reporting
- ◆ The following represents a brief summary of the feedback on the specific proposals discussed as raised within the consultation

Responses seasonal : START

- ◆ Support for a longer contract period from generation and demand side participants, with project financing and provider certainty used as the supporting arguments
- ◆ View that additional within-year tenders would positively increase flexibility and provide an important signal to the market to make additional capacity (over and above that available in the balancing mechanism) available
- ◆ Emphasis that these changes would require a concurrent increase in frequency / content of information provision : Specifically covering Requirement methodology and Contracted volume duration

Seasonal : Detailed Considerations

- ◆ Timing of tenders
- ◆ Lead-time to acceptance
- ◆ Alignment of with access products
- ◆ Effect on reserve availability
- ◆ Fuel price indexing on second year prices
- ◆ Window Fixing - Timing / expected volatility
- ◆ Multiple tenders submission - Yearly / quarterly submission

Within-Season : ASTORT

- ◆ Vast majority of responses did not support the development of an additional short-term operating reserve tender with concerns over:
 - ◆ Frequency / Objective of tender
 - ◆ Effect on Forward Energy Market (Liquidity / Prices)
 - ◆ Effect on BM Prices and incentives to balance
 - ◆ Effect on STORT requirement
- ◆ These issues were recognised in the development of ASTORT and were considered against the exceptional and ad-hoc nature of the potential requirement - These views will be considered further

Within-Day : Firm Reserve Option

- ◆ Overall there was support that the proposal would better reflect the nature of a warming contract, with National Grid effectively procuring an option for availability in the balancing mechanism
- ◆ Firm warming element considered to improve overall transparency, whilst allowing treatment of energy component within cashout
- ◆ The majority of respondents emphasised the importance of the treatment within cashout of the firm option fees

Within-Day : Further considerations

- ◆ Participants raised further considerations / detailed questions on the proposals for consideration including:
 - ◆ Potential management of multishaft CCGTs
 - ◆ Dynamic parameter fixing : Timing / Variables
 - ◆ Treatment of 'Positional energy' in delivering reserve

Information Provision - DATA

- ◆ Proposals on Warming and OPMR enhancements welcomed
 - ◆ Warming instructions now available on SONAR, with OPMR developments to follow ahead of this winter
- ◆ Additional comments / clarifications received on:
 - ◆ Improving consistency in Market reports
 - ◆ Tender publication detail : Accepted/rejected - Prices and volumes
 - ◆ Increased transparency of BMU-Specific trades for margin
 - ◆ Warming contract pricing information

Recap

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1st November	"Way Forward" timetable

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