

New Balancing Services: Update

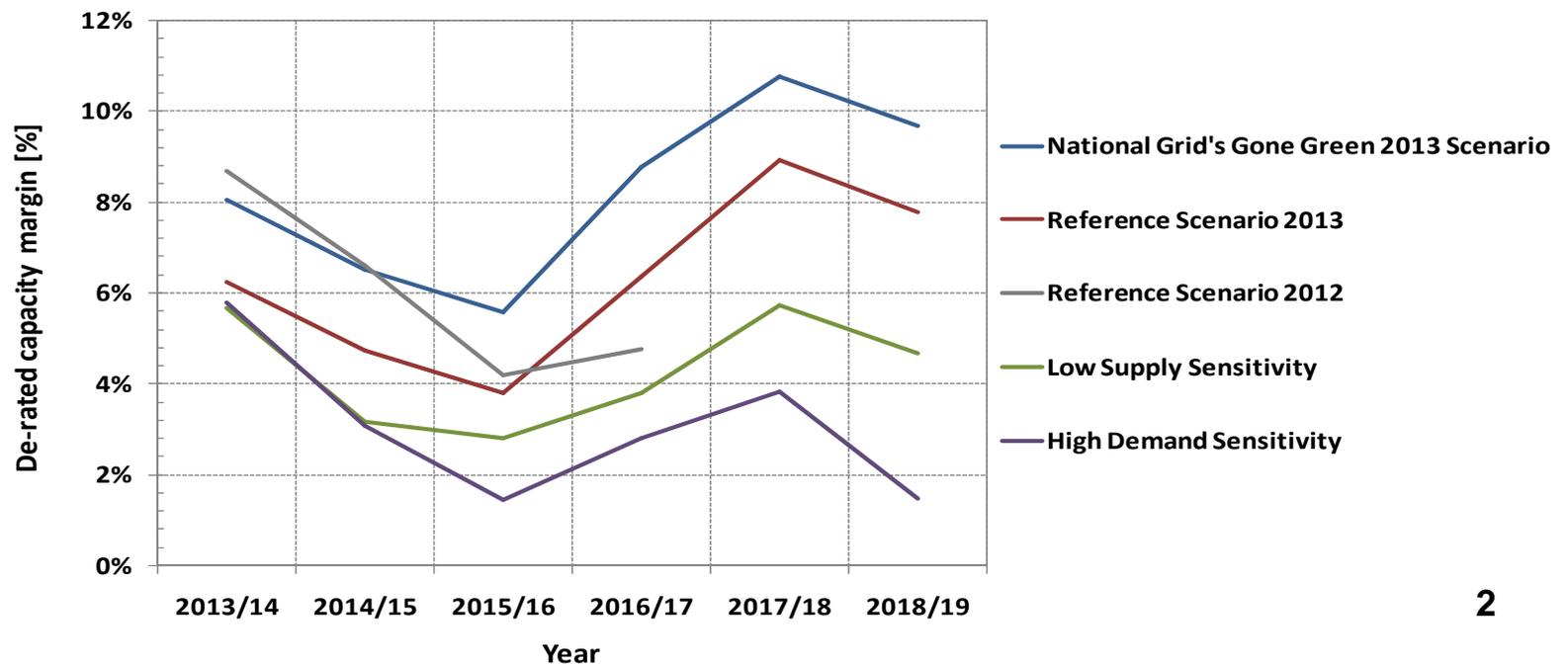


Demand-Side Balancing Reserve & Supplemental Balancing Reserve

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Capacity margins get tighter mid-decade

- Ofgem published their 2013 Capacity Assessment Report in June
- Tighter capacity margins are forecast during 2014/15 and 2015/16 increasing the risks to security of supply
- This is due to early plant closures/mothballing and limited investment
- There is a risk of further erosion of margins if market conditions do not improve



Background

- Agreed with DECC/Ofgem it would be prudent to develop new tools to support security of supply against narrowing plant margins mid-decade
- Two new Balancing Services are being developed that could be deployed to provide additional reserves if required:
- **Demand-Side Balancing Reserve (DSBR)**
 - Aimed at consumers who would be paid to reduce demand in response to an instruction from NG on winter weekday evenings
- **Supplemental Balancing Reserve (SBR)**
 - Aimed at generating plant that would otherwise be closed, held outside the market and only used by the system operator as a last resort in preference to Emergency Measures (i.e. a Safety Net)
- Initial consultation and industry workshop during July 2013

Key Issues Raised : DSR

- Limited Uptake : Short-duration / onset of DSR under the Capacity Market / other opportunities (e.g. triad, red band, peaking)
- Payment Structure : Small upfront payment / large delivery payment
- Lack of penalties make for an unreliable resource
- Embedded generation excluded
- Excludes Triad Avoiders (and other existing demand reduction services). Would make forecasting Triads more difficult
- Suppliers/Aggregators better placed to contract with consumers
- A new demand-side product would serve only to confuse a growing and active demand side market
- Efforts would be better focused on delivery of the DSR Transitional Arrangements under the Capacity Market (starting 16/17)

Key Issues Raised : SBR

- Bring forward the Capacity Market for delivery in 2015/16
- If not, buy more STOR instead
- Concerns over market distortion
- The concept of additionality and how this is demonstrated
- SBR > 50MW
- Concerns that we might despatch SBR plant at other times (i.e. not as a last resort)
- How much would we buy?
- For how long would this be needed?
- Concerns over the penalty regime

Next Steps

- Next consultation due early October
- A number of refinements made to both products in light of responses
- Accompanied by formal C16 Consultations
- Following these consultations we will:
 - Consider whether to put neither, one or both products forward to Ofgem for approval
- If approved, we will assess the need to procure and the volume required
- If we decide to procure
 - SBR will be tendered early in the new year (for 2014/15 and 2015/16)
 - DSBR will be tendered in the Spring, with contracts established in the Summer



Q&A

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