

Energy UK response to the Electricity System Operator Forward Plan

09 March 2018

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

Introduction

We appreciate the work that has gone into delivering this work plan and understand that this is the first work plan produced by the Electricity System Operator (ESO) as a new, stand-alone business within National Grid. Energy UK would like to continue to work closely with the ESO, as it has done throughout this process, in order to improve and challenge the ESO's deliverables. The key points that National Grid should consider in its Forward Work Plan are set out below:

- Energy UK is concerned that, generally, this work plan is not ambitious enough. We believe that National Grid could, and should go further in order to justify financial incentives. There are some specific examples in the work plan that are referenced in the body of this response.
- In terms of performance metrics and evaluation, members are unclear of what the baseline is. In a year's time when the ESO Performance Panel has to judge whether National Grid has satisfied its commitments, it is unclear what the baseline is. For example, no where do we see a plan on Electricity Balancing System (EBS), when it will be rolled out and what the milestones are.
- Energy UK members would like to see, in the immediate term, additional resource given to the code administrators. We are concerned that there is no strong link between code administrator duties and financial incentives in the immediate term which is a problem for industry and modifications that need to be progressed. Members might suggest that more work is done to separate out the code administrator function from the rest of the business in order to compete with other separate and independent code administration companies. Further to this point, industry is aware that there is a great many modifications being progressed and the code admin is extremely important to developing robust supporting work for these and yet there doesn't seem to be a will to allocate this resource. There isn't a clear principle under which this could be captured.
- Energy UK is also concerned with the evaluation of meeting the financial incentives. We have major reservations that it is the minded to position of Ofgem to have current industry participants

on the Performance Panel which may well present actual or perceived conflicts of interest. Non-obligated parties should be on the Performance Panel and Trade Associations used where industry input is required.

- Energy UK has noted that there is no reference to project TERRE or BM Access for small generators which is a concern for members. This should probably be noted in implementation projects and is not. This piece of work should be a priority area for National Grid given that it is, increasingly, an area where work is progressing through modifications and meeting timelines.

Energy UK welcomes the opportunity to further discuss the points raised within this consultation with National Grid. Should you require further information or clarity on the issues outlined in this paper then please contact:

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Energy UK response to Forward Work Plan

National Grid will be focusing on three deliverables in 2018 – getting the basics right, new approach to engagement and collaboration, new initiatives,

Getting the basic right

We are supportive of National Grid 'getting the basics right' and it is appropriate that National Grid should focus on delivering its licence obligations. National Grid has committed to transparency and therefore should be publishing more information. We would expect National Grid to be supportive of Grid Code modification proposals GC0105 and GC109 which have been raised by stakeholders to enhance information provision from National Grid. There have been concerns from National Grid that these modifications will increase the resources that National Grid has to commit, however, given the intentions set out in this Forward Work Plan, we would expect support from National Grid and cooperation in delivering these modifications.

Energy UK supports the commitment from National Grid to increase data provision for its trading activity, for example the recent publication of Schedule 7a trades. However, in addition to this, there ought to be a commitment from National Grid to also provide a narrative around the reason for these trades. Energy UK members would like to see an explanation from the National Grid control room to address why certain actions have been taken. It is important for industry to be able to make more efficient and more informed decisions. This potentially means that National Grid ought to re-evaluate the procurement guideline, in addition to publishing more explanation around actions taken.

There is currently no platform for publishing actions taken by National Grid when calling on smaller parties. All actions taken by National Grid that effects the BSC signatories is published on BMRS, however, actions taken using smaller parties is not published in the same way. While smaller parties have been developing a modification to address this in part. We also believe that greater transparency around dispatch will be useful to all parties.

Energy UK is very supportive of the focus on IT system changes being taken forward. It is proposed that National Grid establish an IT Forum that considers IT system changes that are being taken forward internally to National Grid. Energy UK considers that it is important to have commitment from National Grid that it will include other code administrators because there are cross code IT system changes that need to be managed effectively. In addition, Energy UK considers that the IT Forum may be more beneficial, and useful to industry if it addresses customers appropriately. If this is to discuss the milestones and issues occurring, you need people with a rounded knowledge of the impacts. It also needs to be, and should be pitched at a different level than forums in the past, for example the EBS forum.

Energy UK members would like to see some user interface issues improved. For example providing information on constraints and the accuracy of heat maps. Members suggested a project to roll out a nationwide heat map. There is also a lack of visibility around who at National Grid is responsible for delivering heat maps, or information about constraints. We believe that that the ESO should provide greater visibility on existing network constraints as well as where it believes constraints will develop in the future. National Grid should make it clear on these coordinated heat maps where there is a Statement of Works (SoW) in place and how long this is in place for. This additional level of transparency will focus the development of assets at the correct location on the network. The forecast of each of the identified five areas as well as their location should go some way to providing the appropriate signal to the market for the correct type of plant to come on to the system at the correct location.

Another objective could be to better coordinate outages with DNOs outages to minimise cumulative impacts on connections customers.

Smaller plant that connect to the distribution networks face undue barriers in providing services in the Balancing Mechanism. All providers of balancing services need a level playing field. The metering systems and the data exchange systems for Balancing Mechanism Units were set up historically to suit

large transmission connected power stations and suppliers. The costs of conforming would generally outweigh the commercial benefits for smaller scale generators. Unfortunately, promising work on a '[BM lite' regulatory Modification](#) to resolve this has been absorbed into [GB work on the Trans-European Replacement Reserves Exchange](#) (TERRE) initiative. This can only improve access to 'reserve services' and therefore 'BM Lite' needs to be looked at again in its own right. 'BM Lite' should enable the owners of distributed generation assets to aggregate sites and trade balancing services, as if they were a single larger transmission connected generator. Robust metering will be needed to be able to verify delivery of balancing services.

There is very little mention of the new TERRE product that will be introduced in Q4 2019 in GB. However, National Grid is partaking in parallel running from Q1 2019. The plan should include National Grid's plans to prepare its systems for this completely new product, along with how it will operationally deal with the interplay between TERRE and the Balancing Mechanism.

Network charging forecasts need to be improved with TNUoS forecasts seeing significant differences in quarterly forecasts which disrupts business planning efforts. Accuracy of forecast is as important as timeliness of publication. Whilst Energy UK welcomes the timely publication of BSUoS forecasts, it is essential that the quality of forecast is measured and improved. Due to its market position and depth of resource, the ESO is best placed to produce a robust BSUoS forecast. This ESO forecast would ensure market participants are able to make informed decisions, enabling them to commercially optimise and avoid incurring unnecessary high costs that they may be forced to pass through to end consumers. Longer term BSUoS forecast trends would also be valuable.

The changes that National Grid has made to the website has been useful and we are supportive of the increasing transparency that National Grid is providing or aiming to provide. We would also like to see all documents from the old website moved onto the new website to ensure past knowledge isn't lost.

New approach to engagement

National Grid has in depth understanding and technical expertise about system management which should be used to help advice the DNOs as they transition towards a DSO model. This should be coordinated through the ENA Open Networks project. National Grid needs to encourage as many stakeholders to engage as possible to the best proposals are explored. National Grid needs to support the ENA's Open Networks Project so that DNOs do not pursue differing DSO strategies that favour the DNO/DSO rather than cost-efficient outcomes. National Grid should, therefore, be actively contributing the debate regarding the roles and responsibilities of DSOs from a system management perspective.

New initiatives

National Grid's review of ancillary services was launched last year and progress was being made to simplify and standardise products. We welcomed the initial reforms. The drive to simplify in order get wider market access may come at the cost of subtlety of evaluation. The economic assessments need to be sufficiently rich and take account of all revenue streams received in the provision of balancing services.

The time scales to implement changes to how balancing services are procured and to expand the suite of providers are ambitious. ESO senior management attendance at various fora demonstrates that this a major focus for the ESO. We are concerned that this and the more general effort being put into this area may divert resources away from day to day activities of the ESO. The pace of change may also create anomalies when "learning by doing" which implies getting things wrong. The ESO must be adequately engaged to address this and alter its course if the approach is wrong. This could be included in the incentive scheme. Economic assessments should be impartial to ensure the most efficient solutions are realised.

The Forward Work Plan should look to emulate the initial drive of this project with the ambition of implementing the changes consulted on through the System Needs and Product Strategy (SNAPS) work. Additionally, while Power Responsive has been important in bringing together a large range of stakeholders we would also like to see dedicated workshops to developing the new ancillary services

framework. Ancillary services have no specific governance arrangement regarding the design of procurement or data provision, therefore, National Grid should ensure that the ESO makes the reform process as collaborative and open as possible.

At present, it is very opaque as to why National Grid procures a specific amount of ancillary services in a particular tender (e.g. what proportion of STOR for Q2 2019 is procured per tender). National Grid should be clear to industry, as the sole purchaser of these services, of its hedging strategy and why it procures a certain percentage of ancillary services in a particular tender round. Whilst we are cognisant of the fact that National Grid must ensure that transparency does not result in opportunities for gaming, we believe the reserve and response markets are liquid enough for this to be avoided. A useful comparison is the Capacity Market where BEIS announces the exact amount it will procure prior to the auction. National Grid has stated that there is the National Grid Procurement Guidelines which should provide guidance, however, this is not adequate as it doesn't provide anywhere near enough information.

We support that National Grid should be held accountable to move away from bilateral procurement & encourage the introduction of new providers in offering balancing services. However, the 'on target' measure for this action is to "deliver all rationalisation and simplification actions for response and reserve identified in the product roadmap" and their exceeding expectations is to "deliver an auction trial for response in 2018/19". It is unacceptable that the auction trial is not included within the 'on target' measure; considering that the rationalisation was completed Q4 2017 and most of the simplification actions are to be completed in H1 2018. The auction trial for response has already been reduced in its ambition from daily to weekly auctions (daily auctions is what most industry participants wanted & National Grid too) and has been promised to be delivered in Q4 2018 (almost 2 years after the SNaPS work was kicked off). Therefore, weekly auctions for response should be 'on target', whereas a daily auction trial for response should be included in 'exceeding'

We support the publication of the data "Right first time". This will give market participants the required reasoning about its tender rejection for an ancillary service so that it can assess these results to work towards being successful next time.

Comments on the Technical Annex

Some of the metrics in the incentive scheme are insufficiently specific.

Metric 2 (publication of BSUoS forecasts) and 4 (trade data transparency) require the ESO to publish data but there is no requirement for that data to be accurate Metric 13 (Whole system –optionality) can be achieved without the ESO actually doing anything.

On metric 5 (information provision), we question the benefit of providing carbon intensity at a DNO level whilst there is still substantial transmission connected generation. This information doesn't appear useful and will divert resources.

More generally, it is difficult to see how the ESO will lose money on its incentive scheme given the vagueness of some of these metrics. It should also be borne in mind that the ESO is paid £140m to carry out the role of being the ESO. Industry is already expecting a high level of service and the incentive scheme should push for excellence.