

All Interested Parties

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Dear Industry Colleagues

FLEXIBILITY WORKSTREAM UPDATE: RATIONALISATION OF PRODUCTS AND SHORT TERM ACTIONS IN THE FIRM FREQUENCY RESPONSE MARKET

This letter sets out the conclusions of National Grid Electricity Transmission's (NGET) review of the current suite of balancing services and products, known as Rationalisation, and the immediate next steps that are being taken to develop the Firm Frequency Response tendered market.

Background

National Grid, as the System Operator, is working collaboratively with interested parties to deliver access to markets for all technologies and providers in order to increase competition, create consumer value and take advantage of innovations in energy usage. In order to achieve this, the Flexibility workstream is undertaking a programme of simplification of the current suite of balancing services products in order to break down barriers to entry and encourage wider participation. The first stage of this programme is to review the current products to identify which can be removed from active procurement to simplify the product suite (Rationalisation). This will be followed by a more fundamental development programme for the remaining products, as described in the System Needs & Product Strategy consultation¹.

In parallel to the work being undertaken through the Flexibility workstream, we are continuing to progress improvements to our existing markets and are particularly focussed on Firm Frequency Response (FFR), as we are aware that this is currently the primary entry product for new providers of balancing services. Since January 2017 we have seen a 23-fold increase in the number of tenders received, with 206 tenders received in August alone. This makes interpreting the market very difficult, both for the SO and industry, due to the volume and variability of tenders. We have therefore set out a number of 'quick wins' in the FFR market, along with our aspirational timeline for delivery, with the intention of reducing some of the complexity currently experienced. This work will support the process of standardisation of the tendered markets that is being progressed by the Flexibility workstream. A document will be published in November to provide more information on these quick wins, with regular updates provided through the monthly Market Information Report and Pre-Tender Reports as work progresses.

¹ <https://www.nationalgrid.com/uk/electricity/balancing-services/future-balancing-services>

Products Being Removed from Active Procurement

We have assessed all of our products to understand if they are needed to meet an operability requirement, and if so whether there are other routes to market that are more active. If the products were judged to not be needed and there were alternative routes to market, then the SO will not procure any more volume of these products and will remove them from the list of actively procured products. Any existing contracts for the products detailed below will not be terminated with immediate effect, however discussions are being held with affected parties to identify other routes to market for their assets, where appropriate.

Product	Contract Type	Summary of the Rationale	Live Contracts
Enhanced Frequency Response	Tendered	The requirement for faster acting frequency response will be met through the improved frequency response product suite.	8
Rapid Frequency Response	Tendered	The requirement for faster acting frequency response will be met through the improved frequency response product suite in early 2018.	0
FFR Bridging	Bilateral	The existing FFR market is being developed to include the majority of the characteristics of Bridging.	7
Frequency Control by Demand Management	Bilateral	The existing FFR market is being developed to include the majority of the characteristics of FCDM. The IT platform and associated infrastructure is no longer supported and would require a system re-design and asset replacement programme.	4
Enhanced Optional STOR	Tendered	The requirement will be met through redesign of the existing STOR market.	0
STOR Runway	Bilateral	The existing STOR market is being developed to include the majority of the characteristics of Runway.	12
Max Gen	Bilateral	The product has not been used since 2006 as the requirement is met through reserve products, which are more economic and versatile.	11
Fast Start	Bilateral	The product is not used as the requirement is met through reserve products, which are more economic and versatile.	10

Discussions with affected providers have already begun, and the National Grid website and C16 Procurement Guidelines will be updated to reflect the removal of the products from active procurement. The information on the spend on the products by the SO will continue to be reported in the Monthly Balancing Services Statements² until such time as there are no contracts live to report on.

² <https://www.nationalgrid.com/uk/electricity/market-and-operational-data/report-explorer>

All the products listed above are either evergreen contracts or have a time limit built in as part of the contract design, except FCDM. The structure of our FCDM bilateral contracts means that they are reviewed and extended on an annual basis from the anniversary of their signing, and as we are removing FCDM from active procurement we will no longer be offering to extend these contracts as per the current terms. Therefore to allow all providers the same amount of time to transition to the equivalent market, we will be offering to extend all FCDM contracts for an additional period of time, with the intention that all FCDM contracts will be transitioned by 31st December 2018.

'Quick Wins' in the Firm Frequency Response Market

The existing information that we provide on requirements ahead of procurement, and results and explanation after procurement, does not provide parties with sufficient clarity to enable them to participate efficiently in the market. Parties have told us that it is not clear how the assessment process works, what services we value and when, and how we benchmark against the mandatory frequency response market. We are therefore setting out a number of short term actions which we believe will improve transparency around our requirements and decision-making.

What are we doing?	When are we doing it?
Include rejection reason codes in post-tender reports	Complete
Provide more feedback on decisions, arrange a results webinar for December tender	October
Clarify our requirements and align them with the Market Information Report	Q4
Publish guidance on how the mandatory frequency response market interacts with the assessment of the FFR market	Q4
Improve Market Information Report and publish value of services	Q4
Update the Assessment Principles document and publish	Q4
Trial alternating between full tenders and month ahead tenders every month, prior to standardisation rollout	Q4
Publish data in Excel	January 2018
Rollout of standardised timeframes	Q1 2018

Next Steps

For all counterparties impacted by the procurement changes outlined above, contact should already have been established via their account managers. If this is not the case, then please get in touch as soon as possible. Similarly if any other parties are concerned about these changes, please get in touch with your account manager.

In terms of the Flexibility workstream, a number of documents will be published over the next few months to provide updates on our Product Simplification work. This will include:

- A document in November providing more detail on the FFR quick wins outlined above
- A document published by the end of the year setting out our next steps for the Response and Reserve products and how we intend to work with interested parties to develop the markets

- A document published in Q1 2018 setting out our proposed next steps for the Reactive and System Services products and how we intend to work with interested parties to develop the markets.

Information and updates will continue to be made via the Power Responsive forums, Operational Forums and meetings on both a one to one basis and with trade associations and industry bodies. However for more information on specific products or for particular queries please contact your Account Manager or the Business Development Team at commercial.operation@nationalgrid.com.

Yours sincerely,

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