nationalgrid

National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

T +44 (0)1926 653000
F +44 (0)1926 654378
www.nationalgrid.com

Update on the next steps to be taken by National Grid regarding the treatment of pricing Supplementary Balancing Reserve and Demand Side Balancing Reserve Services into cash-out

20th August 2014

Dear Colleague

This letter announces our decision regarding proposed changes to the treatment of new balancing services into the cash-out price calculation following responses to our Open Letter dated 14th July 2014[1].

- We will not be proposing any changes to existing arrangements to include a price for accepted Demand Side Balancing Reserve actions into the cash-out price for winter 2014/15.

- We will raise a modification to the Balancing and Settlement Code (BSC) to price accepted Demand Side Balancing Reserve and Supplementary Balancing Reserve actions into the cash-out price calculations at the Value of Lost Load (VoLL); proposing implementation alongside BSC Mod P305 (currently anticipated for implementation winter 2015/16).

Background

In December 2013 Ofgem[2] approved our application to introduce two new balancing services: Supplementary Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR). In June 2014 we announced[3] that we would be inviting tenders for DSBR contracts only for 2014/15 and tenders for both SBR and DSBR contracts for our winter 2015/16 volume requirement.

Under existing arrangements, neither prices associated with accepted DSBR nor SBR actions will feed into the calculation of the cash-out price. As there are several potential options for the treatment of these services in the cash-out price calculation, an Issue was raised under the BSC change process[4] to engage with interested industry parties on the topic. The conclusion of the Issue Group discussions was that these services should be treated consistently with demand control actions and

[1] Open Letter to the UK Electricity Market Participants, Industry Stakeholders and Large Energy Consumers seeking views on the possible treatment of pricing new Balancing Services into cash-out

[2] https://www.ofgem.gov.uk/ofgem-publications/85278/decisiontoacceptngetapplicationtointroducetwonewbalancingservicesandsubsequentconsultationonfundingarrangements.pdf

[3] http://www.nationalgrid.com/NR/rdonlyres/D63DC28A-ACC9-496E-A39C-1682CF25EE08/63428/VolumeRequirementOpenLetter.pdf

[4] Issue 56

therefore priced into cash-out at the Value of Lost Load (VoLL) specified in the Electricity Balancing Significant Code Review (EBSCR) Final Policy Decision (initially £3000/MWh). Subsequently on 14th July 2014, we published an Open Letter to industry inviting views on this proposal.

Stakeholder Feedback

We received 14 responses to the Open Letter and would like to thank all those who took the time to consider the issue and provide us with your views.

Although not unanimous, the clear majority of responses were in agreement that the treatment of accepted actions for the new balancing services should be as follows:

Winter 2014/15

DSBR should not be priced into cash-out for this winter[5]. Broadly the rationale given in support of this view was:

- If the new balancing services are to be considered as proxy measures for demand control actions then consistent treatment requires that they be priced at the VoLL only once that price comes into effect for demand control actions (that is, on implementation of BSC Modification P305). Since there is no price associated with demand control actions for winter 2014/15, for consistency DSBR actions should not be priced into cash-out.
- The majority of industry parties are now likely to have largely hedged their positions for this winter without having factored in the imbalance risk associated with the proposed change. Therefore implementing the proposed change in such short timescales would not allow market participants sufficient time to react appropriately to the change.

Winter 2015/16

In principle, DSBR and SBR actions should be treated consistently with the prevailing arrangements for demand control actions in cash-out price calculations[6]. Therefore, in line with the timescales for implementation of BSC

[5] 10 respondents stated that DSBR should not be included in the cash-out price for winter 2014/15; 2 respondents supported pricing DSBR at VoLL; a further 2 respondents supported pricing DSBR at the utilisation price.

[6] DSBR for winter 2015/16: 11 respondents supported pricing DSBR actions at VoLL; 1 respondent supported pricing DSBR at the utilisation price; 1 respondent supported pricing DSBR at the utilisation price capped at VoLL; 1 respondent supported pricing DSBR consistently with the Reserve Scarcity Pricing approach under the EBSCR, to be implemented in P305.
SBR for winter 2015/16: 10 respondents supported pricing SBR actions at VoLL; 1 respondent supported pricing SBR at the utilisation price capped at VoLL; 2 respondents supported pricing SBR consistently with the Reserve Scarcity Pricing approach under the EBSCR, to be implemented in P305; 1 respondent supported pricing SBR at £1 + the highest accepted offer for that Settlement Period.

Modification P305, the new balancing services should be priced at VoLL. Since P305 is currently intended for implementation in time for winter 2015/16, implementation of arrangements to price accepted DSBR and SBR actions at VoLL should be synchronised to this (any delays to P305 should correspondingly delay this proposed change).

Our Proposed Way Forward

Having considered the responses received we will not be proposing any changes to introduce pricing for DSBR actions into the cash-out calculations for this winter 2014/15.

Since the majority of the respondents support the principle of VoLL pricing of the new balancing services aligning implementation with that of BSC Modification P305, we intend to raise a BSC modification proposing the necessary changes to cash-out arrangements to enable this. We consider that the BSC governance process is the most appropriate forum to take this proposal forwards since it provides an open process for interested industry parties to contribute to the solution through involvement in the modification workgroup and/or responding to the industry consultation(s). Pending this modification, consequential changes will then be proposed to the Condition 16 Methodology Statements required under the Transmission Licence which currently contain provisions for these services. Given the contingency of this modification on the P305 solution we will consider when will be the most appropriate timing for raising this modification proposal.

Once again, thank you for providing us your views on this issue. If you have any comments or questions on the content of this letter, please contact Sally Lewis in the first instance at Sally.Lewis@nationalgrid.com or by calling 01926 6656984.

Yours sincerely

Ian Pashley

Markets and Balancing Development Manager (Electricity), National Grid