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Electricity Industry Colleagues and Interested Parties

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12 December 2012

National Grid response to the open letter on BELLA participation in the Balancing Mechanism

Dear Industry Colleague,

I am writing in response to the comments received to the open letter on BELLA participation in the Balancing Mechanism[1] (BM) which was published on 08 August 2012. The intention of this letter is to set out our position on the contractual arrangements required to participate in the BM and to outline the process to achieve this.

Background

There are principally two forms of agreement that an embedded generator can enter into with National Grid: a Bilateral Embedded Generation Agreement (BEGA) and a Bilateral Embedded Licence-exemptable Large power station Agreement (BELLA). In our open letter consultation, we sought views on whether BELLAs should be able to participate in the BM and if so, whether the current industry framework[2] allows for this.

Open letter responses

A list of the parties responding to our open letter can be found in Annex 1. In total, 5 responses were received, with a majority from generating companies.

In summary, all respondents believed that BELLAs should be allowed to participate in the BM if they chose to do so; however respondents felt that BM participation should remain an option, rather than an obligation. In relation to the question on whether the current framework allowed BELLA participation, all respondents believed that it could be achieved through the existing industry codes, subject to the relevant technical obligations being in place for such generators. Two respondents stated that these obligations would have to be either captured in an "interface agreement" with National Grid or the BELLA would have to be amended to include any additional technical parameters.

Finally, no respondents believed that a BELLA should be required to hold explicit transmission access rights in order to participate in the BM. Firstly one respondent believed it is not clear that SVA registered small power stations could be subject to such a

[1] http://www.nationalgrid.com/uk/Electricity/Balancing/consultations/

[2] Namely the industry codes: Connection and Use of System Code (CUSC), Balancing and Settlement Code (BSC) and the Grid Code

requirement; therefore there would be inequitable treatment. Secondly, a respondent viewed BM participation as a method of providing flexibility to the system operator and this would not result in the BELLA gaining any additional rights and so access rights would not be required. Finally, two respondents felt that the requirement to hold access rights may lead to transmission charges being levied in future; with the potential loss of embedded benefits (which a BELLA would want to avoid).

National Grid response

In summary, we consider that generators that have signed up to a BELLA may participate in the BM, providing that the relevant technical obligations are met. Our reasons are set out below.

The majority of respondents stated that BELLA participation in the BM should be optional and not mandatory. We agree with this view, which aligns with current Grid Code provisions whereby participation in the BM is optional, regardless of contract type. However, it is worth noting that generators contracted with National Grid may still be instructed to alter their output during times of system stress regardless of whether they actively participate in the BM, but the payment mechanism will be different depending on whether they had submitted a price to apply to actions taken within the BM. For those generators who do not submit a price, they would generally not be included in the merit order of despatch until other economical bids and offers within the BM have been utilised.

We note that one respondent believes that the current framework was specifically intended to allow BM participation by embedded generators regardless of whether they registered their metering systems under Supplier Volume Allocation (SVA) or Central Volume Allocation (CVA). This is in line with our current understanding of meter registration whereby a generator may register an Additional BMU with ELEXON[3] in order to participate in the BM through their supplier, whilst remaining as SVA registered plant.

Whilst we recognise the political linkage between charging for access rights and participation in the BM, we are of the view that any interaction could be managed in parallel[4] and should not delay progress of allowing parties to participate in the BM. This should allow the timely support from participants in supporting the effective management of the system which is in the interest of all end consumers.

We note that the majority of respondents believe that the current framework does allow BELLAs to participate in the BM. Our view is that whilst the codes may be silent in this regard, to fully enable participation, the generator will have to modify their agreement with National Grid in order to reflect the additional equipment that is required for active participation in the BM. The exact technical requirements may differ for each party but the general requirements for this can be found in CUSC 6.8 – Balancing Mechanism Requirements.

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[3] ELEXON administer the Balancing and Settlement Code, which covers amongst other things, the requirements for the installation, commissioning, operation and maintenance of metering equipment for the measurement of energy.

[4] At the Transmission Charging Methodologies Forum (TCMF) National Grid has indicated the need to review the embedded charging arrangements:
http://www.nationalgrid.com/uk/Electricity/Charges/TCMF/

Next steps
Generators who would like to enable their BELLA registered generator for participation within the BM should contact their Customer Account Manager, who will be able to assist them in the process.

Finally, whilst we have adopted the policy of allowing generators that have signed up to a BELLA to participate in the BM, we would like to encourage greater BM participation from all generation. If you are interested in this route, then your customer account manager will be able to provide further guidance.

Yours sincerely

Ian Pashley

Electricity Codes Manager
National Grid

SENT BY EMAIL TO: balancingservices@nationalgrid.com

5 September 2012

Dear Ian,

ELEXON's response to Open letter on BELLA participation in the Balancing Mechanism

Thank you for the opportunity to respond to your open letter consultation on BELLA participation in the Balancing Mechanism. Our view on the questions raised (from our perspective as administrator of the BSC and operator of the Balancing Mechanism settlement process) is as follows. The views expressed in this response are those of ELEXON Limited alone, and do not seek to represent those of the Parties to the GB Balancing and Settlement Code (BSC).

Should BELLAs be able to participate in the BM?

The reason the BSC allows Suppliers to register Additional BM Units is to facilitate participation in the Balancing Mechanism (BM) by SVA-registered plant (whether Demand Side Response or Exemptable Generating Plant). While SVA participation in the BM has perhaps not taken off to the extent anticipated at NETA Go-Live, we nonetheless believe it remains an option.

For this reason we believe that Embedded Licence Exemptable Large Power Stations with BELLAs should be able to participate in the BM. Any restriction on them doing so would create an anomalous situation in which SVA-registered Small Power Stations and Demand Side Response were able to participate in the BM, but SVA-registered Large Power Stations were not.

Does the current framework allow BELLAs to participate in the BM?

The BSC does allow this, as it was specifically intended to facilitate BM participation by SVA-registered Plant and Apparatus (provided that they register an Additional BM Unit and submit Physical Notifications).

Should a BELLA be required to hold explicit access rights in order to participate in the BM?

We do not believe that SVA-registered Large Power Stations seeking to participate in the BM should be required to hold explicit access rights, because:

- Drawing a connection between access rights and participation in the BM (or provision of any other form of balancing services) appears arbitrary, and no

justification for doing so was provided in the open letter; and

- It is not clear that SVA-registered Demand Side Response or Small Power Station wishing to participate in the BM would be subject to such a requirement. Is there any reason for treating BELLAs differently?

What parts of the CUSC and/or BSC may be required to change?

No BSC changes would be required, as the provisions relating to Additional BM Units are specifically intended to permit BM participation by SVA-registered Plant and Apparatus (including Large Power Stations).

Further Information

Please do not hesitate to contact me if you wish to discuss any aspect of this response. I can be contacted on **020 7380 4345** or john.lucas@elexon.co.uk.

Yours sincerely

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12 September 2012

Re: Open Letter on BELLA participation in the Balancing Mechanism

Dear Ian,

Thank you for the opportunity to respond to the questions in National Grid's Open Letter, which follows on from the discussions within the Commercial Balancing Services Group. In the Open Letter National Grid highlights its desire for more visibility of licence exempt embedded generation in the Balancing Mechanism and as a company we are actively seeking how this can be achieved without potentially significant changes to our distribution connection arrangements and wider obligations.

We do not believe any changes are required to the industry codes and associated balancing arrangements in order for a generator with a BELLA to participate in the Balancing Mechanism. We think sections 6.7 and 6.8 of the CUSC, linking to CC.6.5.8 of the Grid Code and in turn Section L of the BSC are already sufficient. In addition clause 5.2 of the CUSC generic BELLA allows for this class of licence exempt generation to be a BM Participant, where it is reasonably required for the generator to comply with BC1 and BC2 of the Grid Code, which in our experience is often the case.

Whether a generator then chooses to actively participate and how is a matter for the generator. As is recognised in the Open Letter there are broadly two mechanisms for doing so, either in CVA, in which case the BELLA has to transfer to a BEGA, or through a Supplier in SVA as an Additional BMU to the Base BMU.

It is important to maintain these avenues for unlicensed embedded generation in order to maintain equal treatment and opportunity for all generators of this class. Whilst the BELLA primarily relates to Large Licence Exempt embedded generation in Scotland, it does not include Small or Medium power stations, which may also seek to participate in the BM through a Supplier.

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In our view the question of appropriate access rights is an entirely separate matter from the ability of a licence exempt embedded generator to actively participate in the BM.

Where a licence exempt embedded generator wants to actively participate in the BM, it is recognised that the User will need to meet relevant technical obligations, including provision of certain data to National Grid to enable the System Operator to make informed decisions about utilising the embedded generation in the BM. In order to do so it may be necessary for a User to enter in to an Interface Agreement with National Grid to cover the installation of equipment associated with EDL. This is perhaps already enabled through CUSC section 6.7.3.

We hope you find our response of help and we would be happy to discuss with you any aspect of our response further.

Yours sincerely

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Grid Interface Executive

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Commercial Asset Optimisation - UK

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Swindon, 10/10/2012

Re: Open Letter on BELLA participation in the Balancing Mechanism

Dear Ian,

Thank you for the invitation to provide comments on the above subject. The following response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Npower Renewables Limited and RWE Supply & Trading GmbH.

In response to the specific points raised in the letter, we make the following comments:

We believe that there should not be a prohibition (but clearly no obligation) on BELLAs participating in the Balancing Mechanism through the process described, namely as supplier registered BMUs, in order to increase the availability of flexible generation to the System Operator.

As outlined in the letter, it appears that the current framework does allow for BM participation subject to meeting the required technical requirements (EDT, EDL etc.).

We do not see a requirement for explicit access rights for a BELLA to participate in the BM to the extent of providing additional flexibility to the System Operator. In the event that bids or offers were accepted in relation to a BELLA in the BM, it would be for the SO to assess the system capacity at the time and there would be no additional rights gained by the BELLA and the only change would be the introduction of a mechanism to offer flexibility to the SO. However, a BELLA operating as a BM Unit would be treated differently from a non-BM BELLA in the event of, for example, an emergency instruction to disconnect. Without explicit access rights, this may not be an appropriate distinction and could result in significant additional costs being incurred by the System Operator.

It seems that BM participation is possible within the current framework, but it may be useful to explicitly state the technical requirements that would need to be met in order to participate. Also, thought needs to be given to whether the rules relat-

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...

ing to emergency actions are appropriate for a BELLA where access rights have not been otherwise secured.

As well as exploring BELLA participation in the BM, National Grid should introduce processes that would allow a simple way of transferring from a BELLA to a BEGA. If BELLAs were seeking to participate in the BM, then a simple process to transfer to a BEGA may be a preferred route.

Further to the specific points raised in the letter, we would add that in addition to encouraging participation in the BM, National Grid should continue to explore other commercial balancing services that BELLAs might offer such as commercial intertrips, constraint management services, forward location specific trading etc.. Such services may be more attractive to some BELLAs than BM participation and may therefore give access to more flexibility with which to manage the system. However, we believe that all such services should be subject to the same levels of transparency as the Balancing Mechanism as this will facilitate competition and encourage all parties to offer any flexibility that may be available.

Yours sincerely,

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Date : 5th September 2012

Dear Ian,

Open letter on BELLA participation in the Balancing Mechanism

Thank you for the opportunity to respond to this open letter consultation.

We recognise that to have more control over constraint costs, and for the benefit of industry and consumers, NG wish to enable greater participation in the BM from embedded generation. In principle, to the extent that embedded generation can be effectively used for constraint management, we believe that generators with BELLAs should be allowed to participate in the Balancing Mechanism (BM), should they wish to do so. However, there should be no compulsion on any BELLA generator to participate in the BM. There should be no mandatory change to BELLAs or compulsory transfer of BELLAs to BEGAs. In addition, it needs to be remembered that there are mechanisms outside of the BM to manage constraints without the need for the obligations required for participation in the BM.

At BETTA, it was clear that the purpose of the introduction of the BELLA was to provide a de-minimis set of arrangements whereby EELPS that did not want to enter into a BEGA could still be required to meet certain technical requirements set out in the GB Grid Code. It was also recognised at that time that it was a matter for the relevant User to choose which of these options was appropriate in relation to each EELPS. These de-minimis requirements are set out in the current BELLA (and replicated here in the consultation document). These requirements mean that generators as small as 10MW are obliged to meet de-minimis Grid Code technical and informational requirements.

We do not believe it would be appropriate to impose any further requirements on these generators simply as a result of the introduction of Connect and Manage or

associated constraint costs. Imposing further requirements would be discriminatory and create disparity between E&W and Scotland. Indeed, the constraint issue is transitory whilst reinforcement of the Transmission network is carried out. We believe that the underlying purpose of the BELLA, established at BETTA, has not changed, therefore that there that should be no mandatory change to the BELLA or the requirements on EELPS.

In relation to the current framework, it is our understanding that a BELLA generator is able to participate in the BM under the current arrangements, through the use of a Supplier Additional BM Unit. On the basis that additional equipment would be required for participation, e.g. communications links, it may be appropriate that modifications are made to the BELLA to codify those requirements, if voluntary participation in the BM is carried out. Other than these minor changes, we do not believe it necessary to make other changes to the market arrangements.

As an encouragement for BELLA generators to take part in the BM either through a modified BELLA or by changing to a BEGA, it is worth offering such a one-way transfer (or Mod App) for free.

Finally, with regard to access rights, we do not believe that a BELLA generator should be required to hold explicit access rights to participate in the BM. Such rights would impose an obligation to pay TNUoS charges and result in the loss of embedded benefits. If that was the case, it is not clear that this would not simply be operation under a BEGA.

I hope that you find these comments helpful.

Yours sincerely,

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12 September 2012

Dear Ian

BELLA participation in the Balancing Mechanism

Welsh Power Group (WPG) is a privately owned energy company with a strong track-record in development, in both conventional and renewable energy.

In January 2009 the company received planning consent for the construction of a 49.9MW biomass plant at Newport Docks, Wales through its wholly owned subsidiary Nevis Power Limited. As well as renewable energy, WPG submitted an application to develop Wyre Power, an 850MW CCGT (combined-cycle gas turbine) power plant near Fleetwood, Lancashire in August 2009. We also own and operate an OCGT, Leven Power, on a STOR contract to National Grid (NG) as well as Rhymney Power, a new build STOR project.

Welsh Power agrees that NG should use any plant in the BM that can meet the technical requirements of operating within the BSC BM rules. It has been apparent for some time that the rules that not in themselves that clear and the links between BSC systems and NG's contracts is historical rather than operational. The rules governing the BM should sit in the BSC and may require the registration of units into CVA systems, but that should not in itself be related into the parties' contracts with NG.

If a party is embedded in a DNO, with no impact on the transmission network, it should not be required to sign contracts with NG. It should be able to allocate its output to a supplier. However, the fact it is embedded should not preclude it offering BM services to NG if it is able to meet the BM requirements and can communicate effectively, i.e. with NG's control room as well as the BM systems. To not take advantage of the ability of embedded plants to play a role in system balancing is likely to result in a sub-optimal balancing outcome, with higher costs for customers.

Welsh Power

Your letter suggests that any plant that offers energy into the BM must also comply with the Grid Code. We are unclear why that should be a requirement, as the plants do not use the TO system to which the Grid Code relates. NG should outline what is in the Grid Code, rather than the BSC, which it feels is a necessary requirement for such embedded plants. Those rules could then possibly be captured in the BSC or alternative contract.

Likewise we do not see why embedded plants that do not impact the TO's systems should be required to hold access rights. That would appear to create a new product, no doubt with charges and potentially with liabilities for cancelling access, which is unnecessary. The "embedded benefits" that a plant provides does not alter just because contracts are altered. Plant owners may also want the option of leaving their supplier paying all the monopoly charges and the monopolies should facilitate that.

To develop BM participation, Grid should look at one example embedded plant and work out exactly what systems and rules are actually needed to allow it to be in the BM. The aim should be to keep barriers to entry low and regulation minimal.

Welsh Power notes that Grid talks about the role of renewables, but we believe there are other businesses for whom this could be an additional route to market. For example, STOR plant outside of STOR windows, smaller, controllable renewables plants or on-site generation may have the potential to provider BM services. We would not advocate such businesses being required to be BM participants, but we agree NG should encourage participation.

As well as giving the SO additional flexibility in balancing the system, these plants may also bring different plant dynamics to the market (smaller, but more flexible) which could help provide shape in the BM.

If you wish to discuss this matter further please do not hesitate to contact Lisa Waters or myself.

Yours sincerely

Alex Lambie
Chairman