

Report Phase Consultation Responses



Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P371 'Levelling the playing field - Inclusion of Spin-Gen, Non-BM Fast Reserve and Non-Tendered Fast Reserve actions into the calculation of the Imbalance Price and extension of the cash-out price arrangements to Fast Reserve'

This Report Phase Consultation was issued on 13 August 2019, with responses invited by 27 August 2019.

Consultation Respondents

Respondent	Role(s) Represented
Drax Group Plc	Generator, Supplier
Sembcorp Utilities (UK) Ltd	Generator, Supplier

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Question 1: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P371?

Summary

Yes	No	Neutral/No Comment	Other
2	0	0	0

Responses

Respondent	Response	Rationale
Drax Group Plc	Yes	We agree the redlined changes to the BSC deliver the intention of P371.
Sembcorp Utilities (UK) Ltd	Yes	<p>Yes, we agree that the legal text delivers the intention of P371. The inclusion of non-BM Fast Reserve (FR) into the calculation of cash out ensures that cash out price sends correct messages to the industry. So far, the lack of inclusion has been distorting the market signal. This lack of transparency is impacting the behaviour of market participants, effecting costs for end consumers. National Grid should therefore send the correct signal to the market to inform participants about the constraint and the required level of capacity.</p> <p>As Proposer, we believe that there is no reason for a different treatment of Reserve products, and Fast Reserve should have already been captured in the calculation of the Imbalance Price. National Grid should therefore send the correct signal to the market to inform about the constraint and the required level of capacity, by recognising all the taken actions.</p>

Question 2: Do you agree with the Panel's initial unanimous recommendation that P371 better facilitates applicable BSC Objectives (a), (b), and (c) and should therefore be approved?

Summary

Yes	No	Neutral/No Comment	Other
2	0	0	0

Responses

Respondent	Response	Rationale
Drax Group Plc	Yes	<p>We agree P371 does better facilitate the Applicable BSC Objectives.</p> <p>Applicable BSC Objective (b) – Positive The solution will make the cash-out price and Net Imbalance Volume (NIV) more reflective of market conditions, thus promoting the efficient and economic operation of the National Electricity Transmission System.</p> <p>Applicable BSC Objective (c) – Positive By including non-BM Fast Reserve actions in the Imbalance Price calculation, it would be more reflective of market conditions and guarantee consistent treatment of different balancing services. This will promote competition.</p>
Sembcorp Utilities (UK) Ltd	Yes	<p>In addition to agreeing with the Panel's recommendation on Objectives (b) and (c), we are particularly supportive of the Panel's unanimous agreement that P371 better facilitates Objective (a). As Proposer, we have been arguing since the beginning that it is National Grid ESO responsibility to provide accurate and transparent market data. Not sending non-BM FR information to ELEXON for Settlement purposes resulted in National Grid not being compliant with their licence obligations. A timely implementation of P371 will allow the correct price signal to determine the right market behaviour, as such favouring market participants to self-balance and, ultimately National Grid to fulfil their role as residual balancer.</p> <p>This will also help reduce balancing costs, which have recently been recognised as one of the major issues negatively impacting the ESO performance.</p> <p>In its direction on the Electricity System Operator's financial incentive for 2018-19, At page 8, Ofgem states "We remain concerned by the sizeable overspend of balancing costs above the performance metric benchmark." Accessible here: https://www.ofgem.gov.uk/system/files/docs/2019/08/eso_incentives_decision_for_2018-19_final-converted.pdf.</p>

Question 3: Do you agree with the Panel's initial view that P371 should not be treated as a Self-Governance Modification?

Summary

Yes	No	Neutral/No Comment	Other
2	0	0	0

Responses

Respondent	Response	Rationale
Drax Group Plc	Yes	Due to the impact on competition, P371 does not meet Self-Governance criteria a) ii.
Sembcorp Utilities (UK) Ltd	Yes	Yes, we agree that P371 is not a Self-Governance Modification. The impacts and implications are far reaching: if approved by Ofgem, it will guarantee fair and harmonised treatment of Reserve products and will capture the value provided by Fast Reserve to the system.

Question 4: Do you agree with the Panel's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
2	0	0	0

Responses

Respondent	Response	Rationale
Drax Group Plc	Yes	We support the proposed implementation date of June 2020.
Sembcorp Utilities (UK) Ltd	Yes	<p>As Proposer, we support this Modification to be implemented as soon as possible: we think the best implementation date is April 2020, for this Modification to be in line with P354 implementation date.</p> <p>Following discussions in the Workgroup, we acknowledge that it is sensible to set the implementation date as June 2020 to align with the BSC release date.</p> <p>We however share the Workgroup and Panel's comments and concern around the potential conditionality of this Modification on the implementation of TERRE.</p> <p>Should Ofgem approve the delay for the TERRE go-live, NGESO could request an extension to the Implementation Date of P371 providing a solid justification. However, we would encourage the Regulator to take into account the Panel's position that NETSO is still minded to delivering Wider Access to the BM by December 2019, regardless of the possible delay to TERRE. As TERRE and Wider Access are based on the same systems, we strongly believe that P371 could be built on the Wider Access solution rather than having to wait and be conditional to TERRE.</p> <p>Ultimately, P371 would require NGESO to send additional information to ELEXON, not to create any new data sets. This should be accomplished in a rapid and relatively cost-effective way.</p> <p>The implementation of this Modification would have an overall positive impact on end consumers as it will determine and influence the balancing behaviour of market participants, allowing then NGESO to fulfil their role as residual balancer. As such, we would expect lower costs of balancing the system.</p> <p>We strongly believe that it is of utmost importance to correct the price signal that determines balancing decisions of market participants: these have so far been based on</p>

Respondent	Response	Rationale
		<p>incomplete information, as the calculation of the imbalance price does not currently include non-BM Fast Reserve actions.</p> <p>There is also general agreement across Workgroup members that non-BM Fast Reserve information should already be sent to ELEXON. Although it is difficult to attribute a £ figure to the positive impact of P371 to end consumers, the unanimously approved solution would be sufficient to address the defect and send a cost reflective cash-out price.</p>

Question 5: Do you have any further comments on P371?

Responses

Respondent	Response
Drax Group Plc	<p>We note that a more comprehensive solution was considered by the Workgroup but not progressed due to the £1 million implementation cost quoted by NGESO in their impact assessment and the future uncertainty around balancing services. The more comprehensive solution included the Reserve Scarcity Price (RSP) methodology which would have inflated the cost of Fast Reserve actions where appropriate. We believe this solution did have some merit and would welcome additional clarity from NGESO on how the £1 million cost was derived.</p> <p>NGESO have stated they cannot implement P371 until 16 weeks after Project TERRE has been implemented. Should the one-year TERRE derogation be granted, the latest that NGESO could deliver TERRE would be December 2020. If this is the case, the earliest P371 could be implemented would be April 2021. This is a substantial delay, postponing the implementation of modifications due to other unrelated workstreams is not a precedent we support.</p>
Sembcorp Utilities (UK) Ltd	<p>We appreciate the Panel's views on the development of the Modification and particularly on the Workgroup recommended solution.</p> <p>As Proposer, we support the principle that similar reserve products should be treated uniformly. In this specific case, STOR is repriced via the Reserve Scarcity Price, when the latter is higher, in order to reflect the value of scarcity in the system.</p> <p>For a uniform and potentially more enduring solution, there is merit to consider repricing Fast Reserve actions as well. This would require a specific flag, which was part of the solution Option 2. The Workgroup unanimously chose instead to progress Option 1 (i.e. without the flag, hence no repricing mechanism) as it is deemed sufficient to address the defect, ensuring all energy balancing actions flow through into the Imbalance Price calculation.</p> <p>The additional benefits of Option 2 did not outweigh the estimated costs provided by NGESO. The Workgroup and the Panel expressed concerns on the high estimate to implement a solution that would replicate what is already in place for STOR. Yet, historically, Workgroup members and the Panel had to rely on the information provided by National Grid with no possibility to challenge estimated costs or implementation timelines.</p> <p>As such, as a breakdown of the costs was not provided, the Workgroup agreed that the change should be implemented as soon as possible to improve transparency and send the correct signal to the market and, as such, a pragmatic approach should be taken.</p> <p>Although some members of the Workgroup have raised concerns over the uncertainty in the use of non-BM balancing services in the medium to long term, we urge Ofgem to bear in mind that one of National Grid's main work streams is around expanding the capabilities of their platform</p>

Respondent	Response
	<p>for ancillary services (PAS) for non-BM providers. This platform is intended for both providers of non-BM FR and non-BM STOR. This sends the signal that NGESO is expecting non-BM balancing services to continue to exist in the medium-long term. Through PAS, non-BM STOR and non-BM FR providers will transition to a new IT system to enable more efficient dispatch of service providers through the national control room. This new platform is especially designed for smaller-scale reserve providers, who will continue to be non-BM as they would not be able to access the BM fairly and compete on a level playing field with other bigger and more established providers.</p> <p>The signal of NGESO still procuring non-BM services is also reinforced by the fact that the newly introduced Standard Contract Terms for Fast Reserve reduced the entry level from 50MW to 25MW. This entails that the service is more accessible to smaller scale providers.</p> <p>Furthermore, when looking at the Power Responsive Demand Side Flexibility Annual Report 2018, data shows that there has been a general move towards a greater capacity accepted from Demand Side Flexibility (DSF) providers compared to traditional Parties, across several balancing services.</p> <p>Furthermore, among the milestones indicated in the newly released Summer 2019 Operability Strategy Report, National Grid ESO has indicated that reserve services will only be reviewed after 2021. Therefore, we believe that a quick implementation of the agreed solution for P371 provides an appropriate solution to the defect. The solution would have an overall positive impact on the behaviour of market participants, who can respond to a corrected and more reflective price signal.</p>