

By e-mail to: commercial.operation@nationalgrid.com

26 October 2018

Review of Exclusivity Clauses within Balancing Services Contracts – ELEXON Response

We welcome the opportunity to respond to the above consultation.

As you are aware, ELEXON (as 'BSCCo') is the Code Manager for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC and systems that support the BSC. We also undertake the settlement activities for EMR Contracts for Difference and the Capacity Market on behalf of Low Carbon Contracts Company (LCCC) and Electricity Settlement Company (ESC).

We agree with the high-level principles of service and revenue stacking as outlined in this review. ELEXON supports innovations that increase the efficiency of the market and result in better value for end customers. We also fully support the Energy Networks Association (ENA) Open Networks project by providing relevant market expertise via our participation on the Open Networks Advisory Group. We believe that this project is vital in unlocking the value of flexibility, which will in turn drive significant benefits across the distribution and transmission networks.

We would highlight that the business case for flexible generation would be significantly bolstered by the availability of multiple revenue streams. For example, it would be inefficient and uneconomical if viable flexible generators were prohibited from participating in the Balancing Mechanism simply due to another contract stipulating that they cannot, if they have not been instructed under that contract. We should be able to, as an industry, invent clear and simple intelligent redress systems to mitigate the issues of exclusivity. Our full response is in the attachment to this letter.

Moreover, enabling service and revenue stacking will facilitate the emergence of local flexibility markets. This is an essential facet of an efficient, flexible energy system that ELEXON wholeheartedly supports; provided it is an open, transparent mechanism that is readily understandable by market participants.

The views expressed in this response are those of ELEXON Ltd alone, and do not seek to represent those of the BSC Panel or Parties to the BSC.

If you would like to discuss any aspects of our response, please don't hesitate to contact Craig.Murray@elxon.co.uk, 0207 380 4100.

Yours sincerely,

Craig Murray
Design Authority

ELEXON's response to the review of exclusivity clauses within balancing services contracts

Appropriate exclusivity arrangements (or lack thereof) in balancing services contracts will be key to unlocking competition in ancillary services markets and ensuring the availability of flexibility services to Distribution System Operators in the future. We therefore welcome this review. We would highlight that for the advantages to be fully realised the contracts put in place should be transparent and easy to understand by all market participants.

The primary advantage to consumers of allowing revenue stacking, where possible, is increased efficiencies in the overall energy system. This would particularly be the case where an asset is unused for a particular service due to an exclusivity clause in a contract, meaning the procurer of that service must pay additional flexibility to be available and/or deliver the service. If the first asset mentioned could have provided the service, the additional procurement is unnecessary and introduces additional costs to end customers in two ways.

The first is that additional flexibility must be procured, increasing costs. The second is that each unit of procured flexibility will be more expensive, as it must recover its costs from a smaller pool of potential revenue streams.

When considering whether revenue stacking is appropriate, there are a number of relevant considerations. These are whether contracts include availability payments, the purpose of the contract (i.e. frequency response or security of supply), the length of the contract, characteristics of the service to be provided, whether utilisation is based on fixed or variable prices, how services are selected from the pool of available services. There will be other considerations once the above ones have been addressed, see below.

There are also considerations to be made regarding the penalties for non-delivery. One potential solution to the issue of exclusivity is to introduce appropriate non-delivery penalties. The provider of the service can then make an assessment of the risks of non-delivery based on the characteristics of their asset and the other contracts they wish to enter into. This assessment can then be used to determine which contracts to participate in, and at what price. This approach is more likely to work for more frequently procured services, where there is less pressure to sign a contract by a specific deadline.