



Shell Energy Europe Limited

Shell Centre

London

SE1 7NA

Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

By email only to Robin.Dunne@ofgem.gov.uk

5<sup>th</sup> December 2022

Dear Robin

**Subject: Responding to high balancing costs in winter 2021: Update and proposal to introduce a new licence condition.**

Shell welcomes the opportunity to provide input into OFGEM's proposed changes to enhance the efficient operation of the Balancing Mechanism (BM). We have experience of participating in the BM for several years and have engaged in the review of the BM throughout 2022.

Whilst we are supportive of the proposed new licence condition, we believe that it does not address the main issues which contribute to the high prices seen in the BM. In particular, believe the main issues are:

- 1) **Lack of system automation:** Operation of the BM remains largely unautomated, relying on manual dispatch of assets. This is unlikely to change until the Balancing Capability Change Program is delivered which does not complete until 2025/26. It would be useful for OFGEM to track progress of the specific modules which enable efficient dispatch of smaller assets in the BM.
- 2) **Behavioural issues:** The National Grid (NG) Control Room are used to operating with a high degree of human intervention with set norms when determining which assets to dispatch. This will likely require a mindset shift as well as the system automation to enable participation of smaller assets.
- 3) **Lack of competition:** In addition to the drivers above, competition is reduced by the cumbersome and slow registration process required to participate in the BM. This coupled with a high likelihood of being 'skipped' does not foster a competitive

marketplace. Similarly, Interconnectors do not have a route for direct participation in the BM which would significantly increase competition.

- 4) **Lack of Reliability 'proof points':** As there is limited Distributed Energy Resource (DER) participation, the Control Room does not have sufficient experience of operating small DER which would help build up their understanding of reliability.
- 5) **Lack of timely and accurate data:** The de-rated margin at 12 hours ahead is not accurate as the interconnector flows are not available, which means that assets are deciding whether to run or not based on poor information which leads to inefficient dispatch. Similarly, the Control Room believes they don't have the necessary data (such as embedded generation) for optimal dispatch which should be reviewed as part of their systems and process rollout.

Looking at the other possible remedies discussed in the CFI, we agree with OFGEM's assessment that a price cap on BM Offer Prices would dampen price signals and adversely impact the Security of Supply. We agree that any changes to the bid and offer structures would require significant review which is unlikely to deliver in the short term. We agree that placing restrictions on amending PNs after day ahead, would be a departure from self-dispatch principles and would not work for intermittent generation.

We are supportive of clarifying 'good industry practice' in the Grid Code to provide examples of best practice. We agreed with the reform to introduce a new NG balancing service to procure firm reserve. We note that there is currently a consultation for a NG's 'Balancing Reserve', which will pay fast responding assets an availability payment as well as any BM instructions. Finally, we see the new licence condition as easy to rollout out and will prevent some behaviours, which are permitted within the current market design, but were called out as sub-optimal to NG when managing the BM.

We consider the specific questions in the CFI further below.

If you have any questions regarding our responses, we would be happy to discuss in more detail.

Yours sincerely,

Melanie Ellis  
Regulatory Affairs Manager

**Question 1: Do you agree that our preferred option will effectively prevent the behaviour that caused last winter's high balancing costs? Please provide reasons for your answer.**

As described above we believe the proposal will prevent generation from changing its FPN within day and thereby provide early running certainty for NG, but the proposed action will not address the 5 key issues highlighted which we believe are the main drivers of high prices and inefficiencies in the BM.

**Question 2: Is the proposed licence condition drafting in Annex 1 sufficiently clear? Are there any drafting edits or additions that you would encourage us to consider?**

As drafted, a generator would need to change its FPN to zero to fall within the remit of the licence condition. We therefore assume that it will be acceptable for a generator to change its FPN down to say its SEL, which will not be a breach of the license condition. If this is not the intended behaviour then the wording needs to be expanded.

We believe it is necessary to define what an 'excessive amount' is under section 2-part c. This could for example be linked to intra-day trading levels but it is important that it is clear for market participants.

**Question 3: Do you agree with the initial list of factors to consider when assessing excessive behaviour? Are there any other factors that would encourage us to consider?**

We agree with the proposed factors when assessing excessive behaviour. It would be useful to build in some examples of the criteria in your guidance document e.g., what level of forecast system margin will be deemed to be tight?

**Question 4: Is there any specific information you would like to see in the accompanying guidance related to interpretation and enforcement of the new licence condition?**

As per our response to question 2, we would like guidance on what an 'excessive amount' looks like. It would have been useful to include this guidance as part of the CFI as it is important to understanding what is acceptable. Please include examples of the calculation of an 'excessive amount' and how this will be monitored. Will compliance be monitored by OFGEM, and will this include all units which change their FPN on the same day as the Settlement Period to which the PN relates? Will all data be publicly available and how will OFGEM manage the required resource to review compliance?

The guidance should include a specific example of how the license condition will be applied for batteries e.g., a battery may have sold volume at day ahead and then buy back within day and then go into the BM. Will batteries be an exception to the licence condition?