

By email - Robin.Dunne@Ofgem.gov.uk

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Dear All

Responding to high balancing costs in winter 2021

The Flexible Generation Group (FGG) represents the owners of and investors in small scale, flexible generation and storage. These power stations are embedded in distribution networks and provide a variety of vital services to the system operator to help it deliver secure, economic supplies to electricity customers. Most of our members have participated in the Capacity Market (CM) since its inception and have made significant investment in new capacity on the back of CM agreements.

FGG members also provide considerable volumes of ancillary services to NGESO and some participate in the Balancing Mechanism (BM). The types of plants that the FGG members own are critical to managing the system today and will become increasingly vital as GB moves towards net zero. BEIS is right to acknowledge the ability to provide flexibility to manage intermittent generation will become increasingly important in a net zero world, and FGG wants to play an active role in helping to deliver the Government's goals. However, to do that will require not only consideration of the whole market design, but also the ability to invest while change is agreed and then notice to adapt to new arrangements.

Ofgem's questions:

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.

No.

Ofgem's document is very unclear as to the problem it is trying to resolve. NGESO's review of Winter 21 was clear that the parties acted within to the rules. If Ofgem believe the rules are the problem then they should change those. FGG notes that BSC Issues Group 98 looked at the BM's dynamic parameters and recommended changes to those. Sadly they were thwarted by NGESO claiming they could not alter their systems. It would clearly make more sense to address the parameters, making them more reflective of parties' plant dynamics and running requirements.

MZT may be a set number for a specific cold CCGT, but it is certainly not always the same for a warm plant or for peaking plants such as those owned by FGG members. MZT is a way to manage operations for other reasons, for example when a plant has running hours limited by environmental requirements, or needs to limit starts to manage statutory outages, or limit running for insurance purposes.

Ofgem has provided no evidence that the plant that was setting PNs to zero had not traded out its position, intended to run another site instead, etc. If the issue was the timing, then gate closure could be moved. While Ofgem mentions taking enforcement action, we have not seen any action being taken despite the actions being some months ago.

FGG also disagrees that NGESO had no other options. It could easily have bought more reserve and run those plants over the peaks. We have raised time and again with Ofgem that NGESO has access to far cheaper plant outside the BM on numerous occasions, but they fail to use these assets as an alternative to BM actions. This would not in itself be a problem, but given the time and difficulty of getting into the BM, the high costs of being a BMU, combined by the high skip rates seen on smaller assets, there is little incentive for these plants to be in the BM. It therefore has to be sensible for NGESO to access that power outside the BM.

Another issue that has become more pertinent is the time of trades via interconnectors. This works against the market, with NGESO taking expensive interconnector trades and then leaving cheaper plant undespached in the BM. Maybe it would be more sensible to review how ancillary services, interconnectors trades and the BM could be better aligned to provide a more liquid market at a different point in the day?

Of the options put forward, Ofgem should instead pursue option 3. Where NGESO can see that the process being offered in ancillary services markets are significantly lower than those in the BM it should buy more reserve and use it in the market to meet demand. The reason that lots of smaller plant (accounting for GW of available energy) are not in the BM is because NGESO has created so many barriers to entry. Where there are cheaper options via other markets then NGESO should be making the most of these. There is no reason the existing reserve products cannot be used to meet peak demand and the distinction that NGESO makes between “system” and “energy” actions needs to be revisited in light of the market changes we have seen.

We are extremely disappointed not to see increasing competition as an option Ofgem has considered. It is incredibly difficult for parties to abuse a highly competitive market. Because competition is key to driving down prices, Ofgem should also focus on increasing competition within the BM. There are many generators who could be in the BM but are not due to the barriers to entry. Ofgem could increase competition by:

- Ensure that NGESO is providing BEGAs in shorter timeframes;
- Require that NGESO redraft the BEGA so it is fit for purpose;
- Require NGESO to allow for quicker uploads of new BMUs into the BM systems; and

- Require NGESO to allow for aggregation of smaller sites into BMUs so they look like large plants in the BM and will be subject to lower skip rates and work within NGESO's systems (note new Balancing Reserve limited to 50MW sites due to systems).

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?

No.

There is no clear idea what "excessive" is in relation to scarcity pricing, which NGESO said was what they saw last winter. The fact we have seen NGESO accepting c£9k/MWh over the summer from interconnector trades suggests nothing that happened last winter was necessarily excessive.

Following Ofgem's letter to generators about dynamic parameters of 29 September 2020 the only way FGG members can indicate a desire not to run is through very high prices. As noted above, this may be for reasons saving running hours to meet capacity market obligations due to emissions limits. If the ESO then calls that plant under Ofgem's proposals we risk being investigated for "excessive benefit". Any investigations create increased regulatory risk and administration costs and thereby undermine investor confidence.

While the plant we own may not be the ones Ofgem's proposals are aimed at, we are effectively going to get caught by this where we hold licences. In our view this is excessive regulation of an issue that a number of reports found not be an issue, but actually evidence of markets working effectively, given the rules.

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

As noted above, unless the dynamic parameters can be altered to allow plant owners to indicate different operational requirements then there is always a risk that parties will have prices that are indicating they do not wish to run.

We also believe that this is unduly discriminatory as it does not address the behaviour of parties outside the GB market who sell into the market and who in July appeared to seek excessive benefit from GB customers. Ofgem need to look closely at interconnector trades as well as generators if it is not to skew the market in their favour.

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?

No.

As noted above, FFG believes that this is the wrong solution and the answer to a problem is rarely more regulation. Instead we would like to see Ofgem putting pressure on NGESO to

create a far more flexible and competitive market that accommodates all forms of generation and storage to the benefit of customers.

If you have any questions or wish to discuss any of the issues raised further please get in touch.

Yours sincerely



pp: Mark Draper
Chairman