

Rachel Fletcher  
Interim Senior Partner, Markets  
Ofgem

20 July 2013

Dear Rachel

## **CONSULTATION ON THE POTENTIAL REQUIREMENT FOR NEW BALANCING SERVICES BY NATIONAL GRID**

Thank you for the opportunity to respond to the consultation on the potential requirement for new balancing services by NGET.

Barking Power Station is a 1000MW Combined Cycle Gas Turbine power station located in Dagenham, Essex which was commissioned in 1995. It comprises two Blocks of 400MW and 600MW capacity; the larger of the two Blocks has been withdrawn from service since October 2012 as a consequence of market conditions. Based on the data and assumptions given in your Electricity Capacity Assessment, we estimate that whole station contributes between 1% – 1.5% of currently installed reliable capacity.

With regard to the questions posed in your letter, we would respond as follows:

### **Do you agree with our assessment regarding the risk to mid-decade electricity security of supply?**

We agree with the Ofgem assessment that capacity margins are likely to reduce significantly in the period up to the end of 2015/16.

In respect of supply, our judgement is that the risk is almost entirely that there will be less reliable capacity than assumed in the Reference Scenario rather than more. The assumptions concerning plant closures and mothballing appear to reflect information from market participants in the public domain at the time of publication but make little allowance for further announcements concerning the temporary or permanent withdrawal of capacity which if they were to occur would not be surprising or unforeseeable.

We note the deterioration in the projected capacity margin that has occurred since the previous Capacity Assessment in 2012 and can see no clear indicators, for example from the forward markets, which would lead us to conclude that the process of capacity withdrawal is necessarily at an end. The low supply sensitivity includes only a further 0.7GW of CCGT that is mothballed in 2016/17 compared to the Reference Scenario. We estimate that there is around 2.5GW of capacity originally commissioned as CCGT which is operating at a load factor of less than 10%, and a further 1.5GW that is operating at a load factor of less than 15%. Our perception is

that there is scope for further withdrawal of capacity from the market significantly in excess of that modelled in the Capacity Assessment analysis.

**If so, do you agree with our view that it is prudent to consider the development by NGET of additional balancing services, which NGET would procure and use if there is a need for them?**

We would agree that consideration of proposals which could reduce the risks to security of supply would seem sensible and consistent with Ofgem's remit.

Whilst the potential new balancing services described may be beneficial to that end, we would query whether the scope of the existing means of procuring reserve available to NGC, for example a STOR tender specifically aimed at increasing available capacity as opposed to providing flexible short-term day-to-day balancing tools, have yet been exhausted and whether any of these could be usefully deployed to enhance security of supply in a more timely manner.

We note that any tenders that may arise are unlikely to do so before the end of 2013/14. We suggest that it would be prudent for Ofgem to consider whether the potential scope for further deterioration in the security of supply outlook arising from commercial decisions by market participants to retire plant in the period until then warrants more urgent action.

**Do you agree with our assessment of the key factors we should have regard to when considering whether to approve any changes to NGET's Balancing Services Procurement Guidelines and associated documents?**


We would agree with the proposal in NGT's informal consultation that DSBR and SBR should only be used once all other balancing alternatives, including offers into the Balancing Mechanism, have been utilised irrespective of price. However, we note that it also suggests that the Supplemental Balancing Reserve (SBR) would only be called, irrespective of utilisation price, after the Demand Side Balancing Reserve (DSBR) has been exhausted. Some consideration should be given to whether procurement should be considered in a more holistic manner, or whether the current precedence of DSBR and SBR should be reversed.

Although we have no information on the potential fixed and utilisation costs at which potential DSBR may offer services, it seems plausible that potential SBR providers may have higher fixed costs but lower utilisation costs than DSBR providers and the implications of this on both procurement and utilisation of both services should be considered. There may therefore be times, at least hypothetically where NGC may take actions to balance the system in a manner that is not the most economic, which would give rise to additional costs which will ultimately be borne by the consumer.

Whilst we can understand the logic that the SBR is only called after all other generating plant is operational to minimise distortion of the energy market, it is less clear to us why utilisation of DSBR is intended to take precedence over SBR where it would otherwise be uneconomic to do so. It would appear from NGC's draft

document that, on the basis that DSBR will be used first, it will also assume preference in being procured. Given the need for the procurement of any services to be consistent with both Ofgem's statutory duties and NGC's licence conditions as you have described, we would expect this aspect of the draft proposals to be the subject of careful consideration and rigorous justification.



 Mike Jones  
Director  
Barking Power Limited