NEAS ENERGY

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October 21, 2013

Dear Andreas Flamm and Dominic Scott,

We would like to thank you for the opportunity to respond to the Electricity Balancing Significant Code Review. We welcomed the large amount of engagement that Ofgem had and continues to have with market participants through both personal discussions as well as workshops.

Please find attached our written response to the consultation questions as written in the Draft Policy Decision. We hope that our input can provide additional substance to the discussion around policy alternatives for this Electricity Balancing Significant Code Review.

Yours Sincerely,
on behalf of Neas Energy Ltd.

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Question 1: Do you agree with our proposal to make cash-out prices more marginal?

We agree with the rationale that a more marginal cash-out price would decrease the pollution on the wholesale grid. The decrease of pollution should give the system operator better information about the positions of all market actors at any point in time, and thus make the system more "clean". In addition, we welcome the increased incentive to invest in flexible generation to balance intermittent generation.

Question 2: Do you agree with our rationale for going to PAR1 rather than PAR50? Are you concerned with potential flagging errors, and would you welcome introduction of a process to address them ex-post?

We agree with the rationale to introduce PAR1 rather than PAR50. We believe that an increase to PAR50 would not be sufficient to change behaviour significantly. PAR1 will give the strongest price signal and thus the highest incentive to balance positions properly.

The topic of flagging errors is not a concern from our side. We believe that there are already sufficient measures in place to appeal to any flagging issues in various Codes and regulations by National Grid, Elexon and Ofgem. Thus, we expect that current "checks and balances" concerning imbalance cost calculations are robust. Therefore, as long as the same route can be used for flagging errors towards these institutions, we would not need a new process.

Question 3: Do you agree with our proposals for pricing of voltage reduction and disconnections, including the staggered approach?

We welcome that voltage reduction will be priced as this will give a maximum "ceiling" to SBP in the imbalance market. A staggered approach is adequate for ensuring that market players have sufficient notice to prepare for the introduction of the Capacity Market.

Question 4: Do you agree with our assessment of the interactions with the CM and its impact on setting prices for Demand Control actions?

The assessment that Ofgem and its advisors made is based on economic rationale. However, it is highly speculative, if not impossible, to forecast how market actors will react on the Capacity Mechanism which has not been introduced to date. This is because investment decisions are not made solely on economic rationale. In addition, there can and most likely will be unintended consequences from both policies on Capacity Market and Demand Control on the EBSCR. To conclude, we support the current proposals as they follow economic rationale as it is known today, but would like to see a reservation for a review of this policy closer to the start date of the Capacity Market. This reservation would be created to prevent a decision made today on imperfect information that could create unintended consequences in the future.

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Question 5: Do you agree that payments of £5/hr of outage for the provision of involuntary DSR services to the SO should be made to non-half-hourly metered (NHH) consumers, and for £10/hr for NNH business consumers?

In general, the intention to compensate consumers for outages is commendable. Electricity is vital in the daily business of both consumers and (small) businesses.

It is debatable what the size of the compensation should be. Our position is that the compensation should be agreed upon in discussion with Consumer Protection Groups and/or representatives from SME associations.

Question 6: Do you agree with the introduction of the Reserve Scarcity Pricing function and its high-level design? Explain your answer.

It seems from the Draft Policy Document that Ofgem is minded to give an additional incentive to participate in the STOR mechanism by leveraging the RSP into the cash-out regime. We are strongly in favour of giving higher incentives to flexible load as it becomes more vital with the introduction of higher amounts of intermittent renewable generation.

However, it is debatable if the introduction of the RSP would not create unintended consequences about the amount of incentives that would be given to the assets under a STOR regime. It would be commendable if Ofgem could weigh the RSP solution against a review of the STOR mechanism itself.

Secondly and maybe even more importantly, we would welcome that when the market would be subject to RSP or would be close to RSP, that information would be available or even pushed to market actors as a warning signal. If RSP-cash out pricing has been taken place and this is only known ex-post, actors have no possibility to change their behaviour to anticipate the RSP cash-out pricing. Without notification ex-ante, RSP would only be an additional risk for market participants and would influence their behaviour positively.

Question 7: Do you agree with our rationale for a move to a single price, and in particular that it could make the system more efficient and help reduce balancing costs? Please explain your answer.

Ofgem states that balancing costs would reduce in case of single cash price, compared to dual cash prices. In particular, the notion that balancing costs for intermittent generators would be mitigated by a single cash-out price is motivating for new PPA providers such as ourselves. However, this is only true if there would be no correlation between the notification and balancing behaviour of the market participants. More specifically, this would not be valid when assuming that most imbalances will be a result of wind power generation and deviation from expected generation of wind power assets.

In this case, if the weather forecasts and weather forecasting services are expected X amount of MWh equivalent wind in a particular settlement period for all wind generators, but the actual production would deviate from X, then all parties would

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be on the same side of the imbalance market; provided that they use the same services. Thus, there would be no benefit from single cash-out prices for the intermittent generators, as long as there is no diversity in the service providers of balancing and forecasting services. This diversity is currently not available in the UK.

Question 8: Do you have any other comments on this consultation, including on the considerations where we did not propose any changes?

In general, a more marginal cash-out regime can lead to more efficient balancing across the UK wholesale market. Nonetheless, in order to enforce market participants to be more efficient, sharing of information is vital. REMIT introduces the sharing of inside information as mandatory, however this compulsion is on a company-by-company basis. Arrangements are needed to centralise the overview of information in a clear manner. For the gas market, National Grid, in collaboration with market participants have introduced a joined REMIT platform (https://www.remit.gb.net/). In continental Europe, the UMM (Urgent Market Message) system is giving this information. In order to increase the efficiency of balancing in the electricity market, especially by smaller players, the introduction of these information platforms is essential.

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