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Dear Julian

National Grid's proposed new balancing services: draft impact assessment

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

In general, we are satisfied with Ofgem's draft impact assessment. However, there are a number of technical issues (elaborated in the attachment to this letter) which were not addressed fully in the C16 consultation. We are currently in dialogue with NGET to better understand and resolve those issues; additional amendments to the Statements may be necessary at a later date to address the gaps in the proposals. Should Ofgem decide to approve the proposed services and amendments to the C16 Statements, we would welcome an undertaking by NGET to consult further to ensure stakeholders fully understand the detailed mechanics and impacts of the proposals.

In our response to NGET's consultation, we also challenged their proposal to despatch SBR ahead of the Maximum Generation (MaxGen) service. It would seem logical that MaxGen would be a cheaper solution than the SBR as it is nominally in the market, and therefore, despatched ahead of the SBR. However, we note from NGET's report to the Authority that they continue to retain the principle that SBR should be despatched ahead of emergency instructions such as MaxGen because SBR has been designed as an additional tool that could be deployed in a planned way to avoid the need to call for emergency actions in operational timescales.

While we understand that SBR is not intended to replace MaxGen instructions, we believe that it would still have the effect of replacing some of those instructions and undermine existing contractual arrangements. We would, therefore, propose that (if SBR is approved) MaxGen service providers are allowed to renegotiate existing contractual terms should they wish to do so, possibly to include an availability fee. This may require further amendments to the Procurement Guidelines as it may be deemed as a change in product description.

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Lastly, we would like to re-iterate the importance of minimising the procurement costs of both services. A robust methodology for assessing the requirement for the services and a competitive tender process with full transparency of the procurement decision process and data should help minimise the costs for consumers. But NGET must also ensure that their internal costs are scrutinised to a similar level given that they will also be recovered via BSUoS charges.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mari Toda on 07875 116520, or me.

I confirm that this letter may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Mark Cox".

Mark Cox
Head of Transmission and Trading Arrangements

Annex A - Issues raised with NGET

- **BSC Bid-Offer payment and potential Non-Delivery charges.** We note from the latest C16 Statements that if SBR providers are instructed as a BM Bid Offer acceptance after Gate Closure (the SBR provider would be required to submit BM prices consistent with utilisation prices in the contract), SBR plant would receive payment through the Balancing Mechanism settlement arrangements for bid/offer acceptance volumes and potential BSC non-delivery, but also for any resulting imbalance (as well as becoming subject to RCRC and other smaller volume related amounts). It is not clear whether BSC imbalance and non-delivery charges would be taken into consideration with contractual delivery incentives/penalties. The treatment of BSC imbalance charges (for shortfalls against delivery) and receipts (for delivery of more energy than requested/contracted), potentially at very high imbalance prices, should be clarified. If SBR is instructed before Gate Closure, these issues may be magnified. We would suggest the mandatory use of Applicable Balancing Services Volume Data (ABSVD) adjustments to overcome these difficulties.

Similarly, if the despatch of DSBR is undertaken outside the BM as suggested, suppliers will be subject to imbalance charges/receipts for delivered volumes, at potentially very high prices in the circumstances. We would suggest the use of post-event ABSVD adjustments to remove this issue, which would be consistent with EU initiatives for the position of Balancing Responsible Parties to be adjusted for balancing services requested by system operators.

- **Timely visibility.** We note that if the SBR is instructed ahead of Gate Closure outside the Balancing Mechanism by requiring the submission of a non-zero Final Plant Notification (FPN), an Energy Contract Volume Notification (ECVN) would be submitted to remove any payment through the imbalance settlement arrangements, and utilisation would be paid at the tendered rate under the SBR contract. This would not necessarily be visible to other market participants, on whom it might have an effect, although we assume a notice of insufficient system margin would be in effect. ECVN represents half-hourly notional balancing point volume including transmission losses. Actual delivery (at NBP) would be different and subject to BSC imbalance charges. These could be positive or negative and very high at time of system scarcity when SBR is used. Use of ABSVD on actual volume, or MVRN of all volume to NGET account, would overcome these issues, but issues of timely visibility to the market would remain.

Similarly, if the despatch of DSBR is undertaken outside the BM as suggested, visibility to other market participants could be severely restricted.

Delivered volumes of SBR/DSBR may not be known until some time after the event, yet in the circumstances of their use could have significant effect on imbalance prices

(through BSAD volumes and costs affecting Net Imbalance Volume and price “stacks”), and on individual participants’ imbalance positions (through ABSVD). A method of informing participants of likely outcomes should be developed, given the materiality of potential imbalance prices. A simple approach would be a requirement for NGET to issue prompt system messages indicating the price and approximate volume they expect from each requested service, together with advice that prompt imbalance prices may not reflect outturn values. A more complex approach could change BSAD reporting so that prices and estimated volumes are passed promptly to BMRS for indicative reporting and imbalance pricing. Given that non-BM products such as SBR/DSBR tend to have their own bilateral non-delivery terms, a further development could be to require prompt reporting and inclusion in imbalance pricing of requested volumes (and costs where priced) under the BSC, with changes to the BSC so that non-delivery effects are managed bilaterally outside the BSC.

- **Imbalance prices.** We note that if SBR/DSBR is approved by Ofgem, at that stage NGET intends to work with Ofgem’s EBSCR team and the industry to consider how best to price SBR/DSBR into imbalance prices ahead of any enduring EBSCR changes being implemented. NGET also acknowledges that this may require an interim measure to be established, potentially via a BSC modification proposal. We note that SBR cannot set imbalance prices under the proposed C16 modifications because the system operator flag would be set (System Management Action Flagging).

However, it is not explicitly stated in the draft C16 Statements that the volumes would not be transferred to the BSC for inclusion in imbalance price calculations. Similarly for DSBR, it is not explicitly stated in the draft C16 Statements that the volume and cost of DSBR would not be transferred to the BSC for inclusion in imbalance price calculations. In the absence of explicit exclusion, we think the BSAD methodology would include all Balancing Services described in the Balancing Procurement Guidelines, and this is necessary for the correct Net Imbalance Volume and imbalance price to be determined. For example, if SBR/DSBR volumes do not feed through to the BSC in BSAD data, the system could appear long under the BSC due to actions taken by the system operator, when in fact it is otherwise short. With current dual imbalance prices, this would significantly distort the imbalance price signals. Also, if DSBR volumes and costs do pass to the BSC in BSAD data as for other balancing services, they could potentially set imbalance prices, unless also system-flagged.