

04/12/2013

Dear Julian,

Re: Impact Assessment: Demand Side Balancing Reserve and Supplemental Balancing Reserve

UK Power Reserve Ltd is pleased to provide specific views on the impact assessment relating to Demand Side Balancing Reserve and Supplemental Balancing Reserve consultation.

As an independent developer, operator and aggregator of flexible power generation assets, we have a strong interest in the development of Balancing Services and the potential impacts as a consequence of introducing new Balancing Services in the UK Energy Sector. Our views are in addition to our responses already provided to National Grid as part of their final proposals relating to Demand Side Balancing Reserve and Supplemental Balancing Reserve – this specific response can be found here;

<http://www.nationalgrid.com/NR/ronlyres/F36A6892-248F-4CF8-8D98-B81BEF2FB723/63266/UKPowerReserve.pdf>

About UK Power Reserve

UK Power Reserve is the leading independent developer and operator of flexible power generation in the UK. Founded by energy experts and investors in 2010, UK Power Reserve combines a specialist team and a portfolio of flexible energy generation assets. From site purchasing to operations and from plant design to grid connections, UK Power reserve brings a unique expertise to the UK energy market.

With its portfolio of flexible power plants, UK Power Reserve maintains security of supply and supports a renewable future as a provider of choice to the UK energy market. The pioneers of developing and acquiring flexible power generation, UK Power Reserve own and operate a rapidly expanding UK portfolio of generation capacity in addition to 3rd party STOR aggregation services.

Should you wish to further discuss any of the points in this response further, please do not hesitate to contact me directly.

Yours sincerely,

Sam Wither
Commercial Director
UK Power Reserve Ltd
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DSBR Impact Assessment

The Impact Assessment covers the majority of issues that could arise as a result of introducing DSBR as an additional Balancing Service. We would like to highlight developments since National Grids Final Proposals were published that should be considered by Ofgem when making a decision to accept or reject the DSBR Proposal;

Breadth and Depth of Demand Side Market Offerings

National Grid has completed its annual review of the STOR service through its change proposals consultation process. This concluded on 22nd November with the publication of the STOR Detailed Change Proposals (DCP-05) document;

<http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=28060>

Section 3 details a new additional service offering within the STOR market called the 'Premium Flexible STOR Product'. This products objective is to provide a route to market for Demand Side Response and Embedded Generation with certainty of Availability payments/revenue for providers that cannot offer a firm/committed service ahead of time but can offer partial availability throughout the winter season. The launch of this specific product within the existing STOR service creates another Balancing Service option for Demand Side and embedded generation. The introduction of this service and the availability of other options in the current market should be taken into consideration by Ofgem in its final decision on whether or not to implement the DSBR product. Our current view is that there is a place for Demand Side Balancing Reserve as an additional exclusive Ancillary Service if correctly procured, monitored, despatched and settled.

Costs of DSBR

In National Grids supporting report to Ofgem on DSBR we noted that the Utilisation rates have been lowered to £0.25/kW and £0.50/kW – our view are these are too low and creates a conflict of interest within National Grids existing Ancillary Services such as STOR where contracts are in place with Utilisation rates higher than these proposed within DSBR. Equally we would highlight that National Grid has recently accept Offers in the Balancing Mechanism over the lower rates proposed in DSBR – again

creating a potential conflict of interest – our view is DSBR should clearly sit higher in the stack – especially if its payments are on a cost pass through basis (i.e. not targeted under BSIS).

Exclusivity of DSBR

Currently if Demand Side capacity wishes to participate within National Grids Ancillary Services it has to do so on an exclusive basis. This rule of exclusivity should be applied to the rules of DSBR if implemented with clear rules around participating in other energy related services so to minimise potential distortions.

Measuring of DSBR

All metering and monitoring of DSBR should be governed as per the BSC.

Payment and Incentives on DSBR

The Cost of DSBR should be benchmarked relevant to other Balancing Services and payments should be made over the duration of a delivery period rather than an upfront payment. We also firmly believe DSBR (and SBR) should feature in the Balancing Service Incentive Scheme (BSIS) as a targeted cost in the methodology as opposed to a pass through – to introduce an ancillary service on a cost pass through basis creates a perverse incentive and undermines the balance on incentives.

SBR Impact Assessment

The Impact Assessment covers the majority of issues that could arise as a result of introducing SBR as an additional Balancing Service. We would like to highlight our major concerns with the proposed SBR product;

Free Reserve Option

One of main concerns with SBR is the potential impact on the wholesale markets, specifically around creation and payment of reserves by the System Operator to manage margins on the system ahead of real time – our concern stems from how frequent warming (reserve creation) will take place and whether in right balance on incentives is placed on National Grid as System Operator given the proposed SBR service payments will be treated on cost pass through within BSIS. Our view is that this cost should feature in the BSIS as a targeted cost in the methodology as opposed to a pass through – to introduce an



ancillary service on a cost pass through basis creates a perverse incentive and undermines the balance on incentives.

Summary

We recognise the issues National Grid as System Operator and Ofgem as Regulator face with maintaining short term security of supply against a backdrop of diminishing capacity margins. Our preference would be no intervention through the proposed additional ancillary services such as SBR or DSBR. We strongly believe the market will respond to tightening of margins over the forthcoming period – to introduce measures such as SBR and DSBR now will undermine the markets appetite to respond appropriately to capacity shortfalls and inefficiencies will be introduced that cannot be reversed.

We would emphasise the importance of the pending Electricity Balancing Significant Code Review (EBSCR) regarding the amendments to imbalance and cash out and how vital timely implementation of this proposal is in the context of incentivising and securing additional capacity to support a safe and reliable energy system. We firmly believe the EBSCR preferred proposal should be approved with implementation brought forward during 2014 – this would represent less of a rapid change and risk on the end consumer than introducing SBR and DSBR – our view is the EBSCR alone will provide the correct market signals for the wholesale market to rapidly respond with the appropriate capacity to ensure adequate margins are maintained throughout the forthcoming period.