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To SO Incentives Team

Future Arrangements for the Electricity System Operator: its Role and Structure

VPI Immingham welcomes the opportunity to respond to the above call for evidence. VPI Immingham is a combined heat and power (CHP) plant near Immingham, on the south bank of the river Humber. It is one of the largest CHP plants in Europe, capable of generating 1240MW – about 2.5% of UK electricity peak demand and up to 930 tonnes of steam per hour, which is used by nearby oil refineries. As well as looking at future investment in new generation assets, we have recently invested in battery storage projects.

Role of the System Operator (SO)

We agree with the high level proposal regarding the role of the SO and also in the respective ordering. Operating a safe and resilient system must remain the ultimate priority, but it should be achieved in a competitive and hence efficient manner that promotes innovation and flexibility. With the energy landscape changing rapidly, new products and technologies must be able to participate. Any changes to the role of the SO must support the future landscape and should not be based on the historical landscape. The design should also be robust for any future changes, such as a lower volume of transmission connected capacity.

We also agree in part with proposed evolution, noting that National Grid are currently a long way from achieving these and progress to date to be more transparent and competitive has been very slow, despite calls from industry for many years. We would like to see firm targets on National Grid as the SO to deliver these objectives. We also feel that it is appropriate the National Grid acts as the lead, but that they engage with all aspects of industry, from DNOs, to storage to large scale transmission connected capacity. It must consider distortion in the market as this impacts investment.

We advocate any changes that improve transparency regarding the operation of the system. Information is often poor or incomplete and, in the worse cases, missing. As a matter of principle, all non-confidential information should be easily accessible in a timely manner. This is currently not the

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case and often requests for more information are met with a wall of silence – this is far from the customer oriented approach that they say they advocate. Whilst in some areas, detailed information is shared, we are aware of at least two bilateral contracts between National Grid and service providers that are not published anywhere. This clearly begs the question as to how many other of these contracts exist, what their purpose is and what the consequential impact on costs is.

We would also like National Grid to adopt a more engaging, open approach to designing Balancing Services – providers are best placed to say what their plant / technology can do. Therefore, National Grid should hold open, competitive tenders to see what can be delivered rather than design a service with a specific technology in mind. This should result in innovative approaches being developed and hence increased competition.

We have some concerns regarding the proposal that National Grid adopt a whole system approach. This may be the case from a system operation perspective, but with the growing role of DNOs and the increasing number of OFTOs, interconnectors and market participants, we would prefer that either the government or regulator takes on this responsibility. This would expand the whole system view beyond the role of system operator to include aspects such as the capacity mechanism, CfDs and carbon taxes. Clearly it is not appropriate for National Grid to take on this role given their role as EMR Delivery Body, although they must play an important role within the conversation.

We are very concerned that National Grid has too much influence and has become “too big to fail” and do not feel that this is an acceptable position for a shareholder owned organisation. There is a perception, whether true or not, that National Grid work too closely with Ofgem and the government and action must be taken to ensure that this is not the case.

A More Independent SO

We support the proposals to separate the SO within the NG group and see this is a step towards full separation, which we advocate strongly. Whilst there is no evidence to suggest any wrongdoing from NG as SO, there are increasing conflicts of interest, particularly with the growing role of interconnectors, with many of the new projects part-owned by National Grid. We believe that even if the SO sits under the same ultimate organisation, these perceived conflicts will still exist.

Furthermore, we would support total separation of the SO – including Shared Services and office location. Whilst this would be more costly, it would ensure a full separation and also make an independent System Operator more easily achievable in the future. Any changes to the role of the SO must be future proof, in that they must be able to adapt to the rapidly changing environment in which it is operating. There is evidence to date that NG as SO has not been evolving rapidly enough – the higher blackstart costs and the introduction of the Contingency Balancing Reserve.

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Ofgem's timeframes to implement these changes are sensible and we would suggest that clear milestones to deliver these timeframes are laid out. National Grid's track record of delivering change to date, particularly IT projects, could be better and hence we think a clear plan to delivery is critical, given the importance of these changes.

For further question regarding any of the above, please contact:

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