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Call for input on 2019-20 ESO regulatory and incentives framework: UKPR Response

Dear Louise,

Please find here UK Power Reserve's response to Ofgem's call for input in the 2019-20 ESO regulatory and incentives framework.

Context of response

UK Power Reserve is the leading provider of secure, flexible, low carbon electricity and services to the UK power market. With over 1GW portfolio of decentralised thermal power generation and battery storage assets, we help keep the country's electricity system balanced and resilient. Our fast-ramping, low-cost and efficient assets are located across England and Wales, improving competition, contributing to security of supply, and delivering better value to consumers. Our assets are, and will continue to be, crucial in delivering a flexible energy system.

UKPR welcomes this consultation, as well the opportunity to engage with Ofgem in ensuring that the ESO incentives framework delivers as intended.

ESO Roles and Principles

UKPR agrees with the structure of the set of roles and principles identified by Ofgem and are supportive of maintaining the four roles and seven principles as they are now. However, given the pace of change in the industry, Ofgem must be aware that certain principles may become more relevant in future and as such should have a greater bearing when determining ESO performance. This will be of particular importance when considering principles that have the greatest impact on customer cost and value, such as the fair, efficient and transparent procurement of balancing services, for which the ESO must be accountable.

As with other changes, we would expect that any future amendments will involve full engagement with industry and relevant stakeholders.

The Forward Plan process

UKPR hopes that the new processes outlined in the Forward Plan will increase transparency and ultimately make the ESO more accountable. For this to be fully realised, we believe that the ESO should be providing firm commitments and timelines – as opposed to soft targets – which can be effectively monitored to ensure that responsibility is taken for delivery. We consider this point to be particularly relevant in the context of balancing services and the System Needs and Product Strategy (SNAPS), given the importance of these workstreams to both industry and consumers.

With this in mind, we would be supportive of Ofgem's suggestion to further enhance reporting on how internal resources are allocated. The ongoing issue of the human element determining the dispatch choices of each control room shift team, means that the types of plant dispatched, and the associated costs and volumes, may not always be the most efficient dispatch decisions.

In light of the failure to implement the EBS* system,¹ which would have introduced automatic dispatch of BM units, UKPR believes that more regular and granular information relating to control room shift team financial performance should be made available to provide a better insight on the human element of ESO actions.

Furthermore, the cost recovery for the development of the EBS* platform from a manual to an automatic dispatch system is part of the Balancing Services Incentive Scheme (BSIS). With pre-tax profit from BSIS ranging between £23-28 million/year between 2013-14 and 2017-18², National Grid is profiting from the incentives scheme on an annual basis despite considerable failures on the EBS* internal system spend.

Given the level of funds available, it is vital that both industry and the regulator are satisfied with the performance of the ESO with regard to balancing the system efficiently. Failures such as those outlined should therefore be escalated to the Performance Panel (and resulting incentive payments) and will also need to be used to provide a guarantee that National Grid are delivering market access on equal terms for all parties.

In addition, control room KPIs and control room policies should be transparent and taken into account when determining the level of incentives. In particular, we note recent changes made to the way in which Short Term Operating Reserve (STOR) is utilised by the ESO³. The changing of policies without consultation – for which there was none in this case – is affecting the market and undermining the legitimate expectations on investments that were made under a set of circumstances and signals that are now being changed without consulting the

¹ Please note that BSC Modification Proposal P297, which aimed to introduce the EBS among other elements, has not been implemented although it had been approved by Ofgem in 2014. Another Modification Proposal P373 was raised by National Grid in October 2018 to "reverse the P297 changes" through P373, i.e. to "nullify the current P297 changes, such that they are not required to be implemented in the BSC and BSC Systems on 1 November 2018, or at any future date". Available here: <https://www.elexon.co.uk/mod-proposal/p373/>

² 2017/18 – BSIS delivered performance of £8m (page 19 [full-year-results-statement](#))

2016/17 – £28m of pre-tax profit (page 20 [full-year-results-statement-2016-17.pdf](#))

2015/16 – £27m of pre-tax profit (page 16 [full-year-results-statement-2015-16.pdf](#))

2014/15 – £23m of pre-tax profit (page 14 [full-year-results-statement-2014-15.pdf](#))

2013/14 – £25m of pre-tax profit, the maximum allowed for that year (page 17 [Statement-2013-14.pdf](#))

³ [Short Term Operating Reserve \(STOR\): Update for market participants – 6th November 2018](#)

providers. This lack of consultation and the negative impact on market participants – which in turn has made the market more opaque than ever – should be accounted for by the regulator when reviewing performance.

Within-year reporting requirements

Although UKPR recognises and welcomes the efforts made by National Grid to provide timely and complete information to market participants via their ESO reports (e.g. the regular Monthly Balancing Services Summaries), we believe that certain elements of the reports require more clarity and granular breakdown of the data, with additional evidencing and justification.

For example, UKPR has identified several issues and ESO actions that have been hindering the efficiency and transparency of balancing the system. The issues stem from existing bilateral, non-transparent, contracts between National Grid and a closed number of units that provide Fast Reserve – known as Spin-Gen. These contracts represent the majority of costs paid by the ESO for Reserve products⁴ and do not fall in the scope of SNaPS, which aims to simplify and harmonise balancing services and remove obsolete products.

UKPR has been calling for the ESO to publish data on the services procured via these bilateral agreements to promote transparency and competition. For instance, in the ESO's Monthly Balancing Services Summary⁵, Figures 31 and 32 provide some unclear figures on NGESO expenditure on Fast Reserve services, with reference to Spin-Gen. As it stands, it is unclear whether the costs refer to availability payments and to utilisation payments. As these values would be reflected in the cash out stack and influence the imbalance price, NGESO must be precise when publishing this data.

We also believe market participants would benefit from more detailed information relating to the cost performance of National Grid's balancing actions, supported by a robust level of transparency that within-day balancing actions are proved as the most economic and/or efficient decisions.

The evaluation process and financial incentive parameters

UKPR agrees with Ofgem's minded to position to maintain the even weighting of incentive payment allocation amongst the seven principles. However, we would hope that in time, and with further analysis, that the incentive split may reflect the proportion of spend by the ESO on each principle. We believe this would act as a more reflective mechanism and would ensure that those areas with a high impact on industry and consumers are better targeted for optimum performance.

Special Condition 4C.2

Although we appreciate the thinking behind the proposal – to allow differences between the ESO incentive forecasts and the final incentive value to be reconciled through adjustments to charges in the following year – UKPR is not supportive; principally because the changes cannot be considered cost reflective in a temporal

⁴ National Grid spent ~£5m/month on Non-Tendered Fast Reserve in 2017 for availability (excluding utilisation via offers and bids), no data is provided on the prices or the volumes awarded to the individual service providers. Reference: National Grid, Monthly Balancing Services Summary (MBSS) 2017/18.

Available here: https://www.nationalgrid.com/sites/default/files/documents/MBSS_Mar_2018.pdf

⁵ https://www.nationalgrideso.com/sites/eso/files/documents/MBSS_August_2018.pdf

sense. System balancing should involve response in as close to real time as possible and the use of a reconciliation mechanism therefore seems illogical.

We also note that a new entrant to the market will find themselves paying more or less, based on how the ESO performed before they were active. Conversely a party that leaves the industry will find they have paid under or over the odds for ESO performance in their final year; which again does not represent a suitable methodology for payment recovery.

Should you have any questions, please do not hesitate to contact James Jackson at james.jackson@ukpowerreserve.com.

Kind regards,

James Jackson
Regulatory Analyst
UK Power Reserve