



Alice Siri
Office of Gas and Electricity Markets
10 S Colonnade
Canary Wharf
London – E14 4PU

Friday, 19 July 2019

RE: Notice of statutory consultation on a proposal to modify the special conditions of
the electricity transmission licence held by National Grid Electricity System
Operator Limited

Dear Alice,

Please find Sembcorp's response to your letter to the National Grid Electricity System Operator, dated 26th June 2019. Our response is not confidential.

Context of the letter

Sembcorp is an established industrial energy, utilities, and services provider to major process businesses based in the Teesside area. On the Wilton International Industrial site, Sembcorp owns and operates one of the largest and most efficient combined heat and power (CHP) plants in the United Kingdom. With 200MW of installed capacity, the plant supplies electricity and heat to on-site businesses via the private distribution systems that are owned and operated by Sembcorp.

Sembcorp, through its wholly-owned subsidiary UK Power Reserve, is also the leading provider of secure, flexible, low carbon electricity and services to the UK power market. With a contracted portfolio of over 1GW 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 to delivering a flexible energy system in which a greater proportion of energy is delivered by intermittent, low carbon generators.

Proposed Modification to the special conditions of the electricity transmission licence

Sembcorp agrees with the aim of the proposed modification in that it will reduce the need for retrospective adjustments via settlement runs. Having a separate element that explicitly states the over or under-recovery of incentive, based on the ESO's predictions of their performance, will allow users to see clearly whether the ESO consistently overstates their performance, and so over-recovers their incentive allowance. It will also make it easier for Ofgem to hold the ESO accountable where there is suspicion of enthusiastic over-recovery. There should be pressure on the ESO to be as accurate as possible in their incentive payments predictions and this extra term will allow industry to see whether they are doing so.

Future of Balancing Services Use of System charges

We believe, however, there is a larger issue around Balancing Services Use of System (BSUoS) charges that needs to be addressed.

As detailed in the report of the Balancing Services Task Force¹, the Balancing Services Use of System Charge is made of a number of disparate elements, which contribute to the uncertainty faced by the industry around charges.

Internal costs ($SOTOC_t$) and incentive payments are unrelated to the half-hourly performance of the network, they are not incurred on a half-hourly basis and should be viewed as cost recovery. Following the principles of the Targeted Charging Review, it seems logical to recover these costs from demand as a fixed charge, as attempting to recover them based on network users' half-hourly volume risks creating distortions.

We believe that uncertainty in BSUoS comes from market-facing elements, such as cost of Balancing Mechanism ($CSOBM_t$), cost of Balancing Services ($BSCC_t$) and revenue from Balancing Services (OM_t). These costs are incurred half-hourly, so should continue to be recovered on that basis. Attempts to smear these costs over different timescales will increase complexity, not decrease it, and reduce transparency. The direction of travel across the industry is towards Half Hourly Settlement and so it seems counterintuitive to take a half-hourly cost and charge it non-half-hourly, when the half-hourly data exists. It will be less clear to users when the costs were incurred and so the charges applied across a wider timeframe could be regarded as unfair. While there is limiting ability for market participants to respond to BSUoS charges under the current mechanism, with increased network data and transparency, this will not always be the case.

The Balancing Task Force discussed on a number of occasions the need to reduce balancing costs overall, and it was generally agreed that the Balancing Mechanism is a key mechanism to do this. For the ESO to balance the system in the most cost-effective manner, it is vital parties remain true to their Final Physical Notification. The cash-out price therefore needs to be truly cost reflective of all the balancing actions the ESO is required to take, to ensure parties are incentivised correctly. We have raised a BSC Issue Group² to include some balancing costs that are currently not captured in the cash-out price. We are particularly keen for availability payments to be reflected in the imbalance price as we strongly believe that Option Fees and Utilisation payments should be targeted on participants who are out of energy balance. Specifically, with respect to Option Fees, Ofgem had in the past argued that since the holding of reserve enables the System Operator (SO) to call upon additional energy at short notice, it is appropriate to provide a signal to those participants who are out of balance as to the costs of ensuring reserve capacity is available.³

¹ Balancing Services Task Force Final Report <http://www.chargingfutures.com/media/1348/balancing-services-charges-task-force-final-report.pdf>

² BSC Issue Group 83 <https://www.elexon.co.uk/smg-issue/issue-83/>

³ Ofgem, Correction of price spikes in the Balancing Mechanism, Decision Document, April 2001. Available here: <https://www.elexon.co.uk/wp-content/uploads/2012/02/p3decision.pdf>



We believe this is a fundamental principle that Ofgem must be aware of as industry moves to much greater levels of BM access.

If you would like to discuss any of the issues raised in this response further, please get in touch and we would be happy to meet.

Kind Regards,

Grace Smith
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