

Energy UK response to GC0048 Requirements for Generation – GB Banding Thresholds

16 May 2016

Energy UK is the trade association for the GB energy industry with a membership of over 80 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

Introduction

The European Network Codes 'Requirements for Generators' (RfG) comprises technical requirements for new generation of 800 W in capacity or greater that procure plant items two years after the RfG code 'Enters into Force'. RfG uses four incremental plant types ('A' to 'D') which set a sliding scale of generator technical capabilities to support System Operation. The code describes the process each Member State needs to follow to set its own level, and National Grid has provided a high, medium and low option for implementing the banding thresholds which are set out in the consultation. Energy UK have provided a response.

Executive summary

Energy UK strongly supports that Great Britain (GB) uses the 'high' option because this option poses the least risk to GB generators who will be carrying the cost of implementing the RfG. The 'high' option is in line with statutory European banding thresholds which provide for a good balance between the needs of the System Operator (SO) to manage a secure and robust system, with the needs of GB generators. Using the 'high' option will also ensure that generators will not be left with stranded assets which would be the case if we use a lower option now and then raise it to the 'high' option upon a review, as some generators would have invested in complying with the lower banding threshold.

If you have any questions about this response, Energy UK are happy to discuss further. Please contact Kate Dooley at kate.dooley@energy-uk.org.uk or 02077472942.

GC0048 – Requirements for Generators – GB Banding Thresholds

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **16 May 2016** to Grid.Code@nationalgrid.com. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

These responses will be included in the Report to the Authority which is drafted by National Grid and submitted to the Authority for a decision.

Respondent:	<i>Kate Dooley</i> Kate.dooley@energy-uk.org.uk
Company Name:	<i>Energy UK</i>
Consultation Questions:	
i) From your perspective, which of the banding options presented in the consultation document ('high', 'medium', and 'low' is most suitable to apply in the GB synchronous area for the next three-five years?	
High	
i) In respect of your preferred banding option stated in question (i), please can you provide a supporting justification, particularly focusing on quantifying any costs/savings/benefits (the attached template is provided as a guide), when it is compared to the other two options presented in this report.	
<p>Energy UK believes the high option presents the least risk to transmission and distribution connected generators in GB. It is reasonable to conclude that using the high threshold banding will protect more generators from incurring high capital costs associated with the technical requirements of the RfG when compared to the other two options.</p> <p>In principle, the more assets that are captured by the banding threshold, the bigger the cost to asset owners and developers who must adhere to the correspondingly higher requirements. Therefore Energy UK considers choosing either the medium or low banding thresholds as potentially damaging for GB generators.</p> <p>Should a medium or low banding threshold be applied followed by a move to the high option post review, new generators would risk facing higher capital costs in the interim; such costs will not be recoverable when competing with existing generators not bound by the RfG's technical requirements outlined in low and medium options. It is significantly less risky for GB to use the high option for banding threshold in the first instance and lower, if necessary upon review, given that initially using the medium or low option could result in stranded assets.</p> <p>It is not clear, under a low or medium option, whether plant equipped with capabilities to provide extra services will be remunerated. Currently, there are arrangements whereby plant that currently provide balancing services are commercially incentivised to do so. It is</p>	

unclear whether if under the 'medium' or 'low' options, whether new generation that is forced to comply with technical requirements will also have access to these commercial arrangements to recover the costs of investment. These arrangements include payments for providing frequency and quick response. Further to this, it was noted, in one of the GC0048 working group meetings that the GB System Operator is not using the current amount of frequency management that is available. Energy UK believes that having technical requirements for more generation will be redundant and is not appropriate for GB needs.

National Grid has not proposed any details of the potential financial benefits of reducing the banding thresholds (the consultation report section 4.7.1 says "benefits were difficult to quantify").

GB should look to secure electricity supply for GB, at the lowest cost, and it is Energy UK's position that the low and medium options do not secure electricity supply at the lowest cost.

iii) Does your preferred banding level adequately protect the interests of all Transmission System and Distribution System Users? If not, why does it fail to do so?

Energy UK believes the preferred banding level adequately protects the interests of all Transmission System and Distribution System Users. The 'high' option that Energy UK prefers to see implemented in GB is the same banding threshold that the European Commission (EC) has recommended for Continental Europe and GB. Prior to forming this recommendation in the draft Network Code, the EC held open consultation and would have considered the interests of European Transmission System and Distribution System Users.

While it is important to consider the interests of all Transmission System and Distribution System Users, ultimately it is users connecting to the GB transmission and distribution networks in GB that will be shouldering the costs of this regulation. It is the responses of GB Transmission and Distribution Users that should be prioritised. Further to this, capital costs are also likely to be passed on to the end customer who must be considered as well.

iv) Do the proposed banding levels strike an appropriate balance between the needs of the System Operator, Network Operators, Generators and other interested parties? If not, why do they fail to do so?

While there must be a balance between the requirements of the System and Network Operators, Generators and other interested parties, ultimately, it is GB Generators that will be shouldering the costs associated with the implementation of the RfG banding threshold and therefore Generators should be considered first.

Energy UK believes that the extra frequency response capacity that would be gained by choosing the low or medium options is redundant considering that GB does not use the capacity frequency response that it currently has at the moment. This may well change in years to come but there is a review policy in place to respond to any potential changes.

v) Are there additional considerations for the banding level which the Workgroup has so far not taken account of in this report?

vi) Please provide any other comments you feel are relevant to the proposed change.

Given that all codes reference Banding Thresholds, a definitive position with respect to definition must be reached as soon as possible in order to facilitate timely implementation of the Network Codes.

The consultation notes in the executive summary that “in some cases existing power generating modules may be bound by RfG, for example if they undertake significant modernisation which necessitates substantial revisions to their connection agreement”. National Grid must clarify “modernisation which necessitates substantial revisions to [applicants] connection agreement” because currently, there is no understanding of what size of amendments this may apply to. It is also mentioned in 2.25 that “retrospective application is allowed where this can be justified” in terms of applying RfG to existing plant. We need to ensure that definitions, across all network codes are the same and that they are established as soon as possible for clarity and certainty.

vii) How do you believe your preferred banding level facilitates the Grid Code/Distribution Code objectives?

Relevant objective (i) - to permit the development, maintenance and operation of an efficient, coordinated and economical system for the transmission of electricity;

- The ‘high’ option in this consultation, that is the same as banding thresholds suggested by the EC for both continental European and GB, were created by regulators in Europe and consulted upon which suggests that the objective noted above is being met.

Objective (ii) to facilitate competition in the generation and supply of electricity (and without limiting the foregoing, to facilitate the national electricity transmission system being made available to persons authorised to supply or generate electricity on terms which neither prevent nor restrict competition in the supply or generation of electricity);

- Imposing unnecessary requirements onto new plant may damage competition and discourage smaller developers who cannot deliver on high capital costs. The high option will allow for minimal disruption to requirements for generators and ensure that the best possible balance is struck between securing the system and promoting competition.

Objective (iii) subject to sub-paragraphs (i) and (ii), to promote the security and efficiency of the electricity generation, transmission and distribution systems in the national electricity transmission system operator area taken as a whole; and

- The high option outlined in the consultation would allow for the least amount of disruption to generators.

Objective (iv) to efficiently discharge the obligations imposed upon the licensee by this license and to comply with the Electricity Regulation and any relevant legally binding decisions of the European Commission and/or the Agency.

The high banding option will help the licensee to comply with Regulation (EC) No 714/2009 and Regulation (EU) 2016/631(RfG).
Do you have any additional comments?