

# Reserve Reform

February 2022

Project Delivery Update





## Executive summary

A suite of new reserve products are being designed to replace the existing positive and negative post-fault products: Short Term Operating Reserve (STOR) and Fast Reserve (FR). In November we presented our approach to launching new response and reserve products starting with Dynamic Regulation (DR) in March 2022, followed by Dynamic Moderation (DM) in April. We then planned to launch Negative Slow Reserve (NSR) as an optional service with other Reserve products and firm auction capability in later releases.

We have reviewed the benefits of coordinating our delivery strategy for Reserve Reform with the potential impacts of not having Negative Slow Reserve in operation during Summer 2022. We have identified that there is a cost saving to be made by taking a more holistic and considered release strategy for the new reserve product suite without impacting our ability to operate the system securely.

**We will therefore not be launching NSR directly after Dynamic Moderation in Summer 2022, and instead we will be taking the time to further engage with the industry to identify the optimum approach to deliver the new reserve products.**

Whilst we appreciate that this news will be disappointing to stakeholders, we believe that this approach will result in a better overall experience for providers whilst ensuring we have the necessary tools to operate the system at the lowest cost to consumers.

## Update on project delivery

System conditions are changing as more low-carbon, decentralised generation connects to the network in our acceleration towards net-zero. More standardised, faster-acting reserve products that are procured closer to real-time are required to operate the system securely. In line with our operating guidelines, they must meet two distinct criteria:

- a) to recover frequency to within statutory limits within 60 seconds; and
- b) to restore frequency to within operational limits within 15 minutes.

These new reserve products will also support our ambition to automate procurement through auctions closer to real time.

In November we presented our approach to launching new response and reserve products starting with DR in March 2022, followed by DM in April. We then planned to launch optional utilisation-only NSR. This staggered rollout avoids presenting unacceptable risk to the safe and secure operation of the network and ensures that the market has sufficient notice to develop the appropriate technical and commercial arrangements to participate in these new markets.

Since sharing this timetable, we have been finalising the product and service design for NSR as well as drafting contractual and technical documentation, ready for the statutory EBR Article 18 consultation process. We have also been reviewing the new reserve products to ensure that they meet our operational needs as well as delivering the best value for the consumer through efficient procurement. Through this process, and the detailed exploration of the implementation plans of other associated projects, we have determined that there is value in reassessing the implementation strategy for the new reserve products.

The choice to launch NSR as an optional-only product on Day 1 would have meant that it could not be relied upon to meet operability requirements to restore system frequency. Nevertheless, there were benefits because the product would:

- 1) Support our operational ability to manage extremely low demand conditions by replacing BMUs being held for footroom, delivering cost savings for the consumer; and

- 2) Not require existing providers, or ourselves, to undertake any transition of commercial or technical arrangements, processes or systems. This would be a particular issue for transitioning the STOR market, including long-term STOR contracts, to Positive Slow Reserve (PSR).

Whilst these drivers remain true, there are further considerations which mean a more holistic strategy should be pursued to launch new products more effectively. In the interim, we are confident that the operational needs for negative reserve will continue to be satisfied through existing tools.

We have moved to an agile delivery approach for our reform of balancing services (where additional functionality is added to a product or market over a number of 'sprints' or releases through a prioritised backlog of requirements). Through this approach, we have learnt that whilst there is benefit in launching a 'minimum viable product' and then improving it over time, this is dependent on the number of IT systems and processes that are required to be changed. There is a trade-off between the number of releases and the overall cost of the project, which increases as more systems are impacted. Coordinating and minimising the number of releases, therefore, has a material effect on the overall cost of the Reserve Reform project. This has become a particular issue during Reserve Reform as we identified that more significant changes to the systems for dispatch and communications are required for Day 1.

Furthermore, reviewing our strategy for releases will allow us to improve our coordination with the delivery schedules of new and replacement IT systems in areas such as settlements, auction and scheduling. This in turn will reduce the amount we spend on introducing short-term changes to legacy or end-of-life systems.

Comparing the benefits of reviewing and coordinating our delivery strategy for Reserve Reform with the potential costs of not having NSR in operation during this summer, there is a cost saving to be made by taking a more holistic and considered release strategy for the new reserve product suite. We will therefore not be launching NSR directly after DM, and instead we will be planning the optimum approach to deliver the new reserve products.

Whilst we recognise that stakeholders will be disappointed with this decision, we believe that this approach will result in a better overall experience as it will ensure that there is more time for providers to understand the requirements and proceed through the onboarding process. It will also ensure that we have the necessary tools to operate the system at the lowest cost to consumers.

## What are the next steps?

- In the next month, we will publish a delivery strategy for reserve product reform, covering the project interdependencies and release timescales for the suite of new products. We will also engage with the industry through a similar 'show and listen' approach as that trialled through the Single Market Platform project.
- We will launch an informal consultation on the product and service design for Reserve products, which will include elements that will be common across all new services.
- We will continue to engage on other aspects of our service design such as baselining and will consult on proposals for operational metering standards.

Please direct any questions or feedback on our work to the Reserve Reform team at:

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