ukpowerreserve
SUPPORTING A RENEWABLE FUTURE

C16 Annual Review

Introduction

UK Power Reserve (UKPR) is the leading provider of fast-response, flexible ancillary services to the System Operator, with a strong track record in the provision of STOR and Fast Reserve. UKPR have secured the largest distribution new-build programme in the UK Capacity Market that will aggregate to a portfolio totalling 800MW by 2020, comprising of both gas-fired and battery storage assets. UKPR welcomes the opportunity to respond to National Grid's review of its Transmission License, and sets out considerations to be made in the procurement and operation of ancillary services.

Specifically, we highlight a number of concerns that have arisen out of proposed changes to the SO C16 license which has the potential to harm competition in the provision of ancillary services, and undermine investor confidence in embedded new-build capacity contracted under the government's capacity mechanism. Such future capacity is set to play a significant role in the provision of ancillary services, under the government's and regulator's programme to transition to a low-carbon, smart, flexible energy system; we urge the SO to take into account the wide ranging impacts these potential impacts will have on the UK energy market, in making changes to its licence.

Proposed CUSC Modifications to Network Charging Arrangements

CMP 264 and 265[1] were proposed by two large energy companies that have sought to significantly reduce the level of embedded benefits to embedded generators in levelling the playing field. Embedded generators have most typically been provided by small energy companies, providing value to the UK energy system and the SO in the competitive provision of balancing services which are considered "relevant balancing services", such as STOR, Fast Reserve and Firm Frequency Response. These balancing services are recognised as revenues to be relied upon by providers of capacity in the government's capacity market auction. The proposed code modifications represent a significant risk to a large amount of capacity, specifically 2GW of new-build embedded plant committed to be built under the government's capacity market auctions held in 2014 and 2015. We highlight that this set of capacity was committed under 15 year agreements at a clearing price that was viable with the current level of embedded benefits. UKPR stresses that these proposed code modifications represent a significant retrospective industry code change that would jeopardise the financial viability of these projects, pushing them into default on their obligations. These proposals therefore represent a clear threat to the future competition, provision and operation of balancing services which the system operator has a direct interest in. Embedded generation has and will continue to provide a valuable service to the SO as an increased amount of flexible renewables and DSR capacity grows in our changing energy system. We highlight that the SO gives due consideration to the wider external factors in its decision making when making fundamental changes to its operating license.

[1] Available at: http://www2.nationalgrid.com/uk/industry-information/electricity-codes/cusc/modifications/Current/

EBSCR and Non-BM Balancing Services

We have also seen BSC modifications such as P354[2] seeking to implement other retrospective changes as mentioned above, to remove cash-out revenues from all NON-BM STOR units that would negatively impact committed new-build investments currently operating in ancillary services. The System Operator should also consider this in their assessment before making any implementation. NBM STOR providers have factored in this commitment when bidding into the Capacity Market and lowered their bid prices accordingly on the current state of play. This includes existing NBM STOR providers and newbuid DG assets looking to provide STOR and ancillary services. Therefore any significant changes made to the cashout treatment that cannot be mitigated through adjustments to capacity market obligations leaves NBM providers exposed.

We would highlight the Ofgem commitment letter published in 2014[3] on EBSCR and encouraging Capacity Market participants to lower their bidding in light of policy decisions relating to P305, P304 and P314 and their impact on imbalance pricing. Clearly Capacity Market participants and specifically distributed generation units will have taken EBSCR commitments into consideration as directed by Ofgem ahead of the 2014 Capacity Market auction when bidding into the capacity market and new-build investment committed projects taking on long term commitments will be sensitive to significant changes to the treatment of cashout reform for their investment case where it could impact ancillary service economics.

The principle relevant extract from Ofgem statement on commitment to EBSCR Reforms;

"*We also note the interactions between the EBSCR and the government's Capacity Market. These policies have distinct but complementary roles in ensuring the electricity market delivers in the interests of consumers. The EBSCR should increase electricity market revenue expectations for flexible capacity to a level more in line with the value consumers assign to this flexibility. The Capacity Market aims to provide an efficient level of security of supply by providing payments to market participants for reliable sources of capacity alongside their electricity market revenues.*

As a result of the EBSCR reforms, participants should need to recover less 'missing money' through capacity payments and therefore lower their bids in the Capacity Market auctions. Given the EBSCR's high likelihood of introduction, we strongly advise participants bidding into the Capacity Market auctions in December 2014 to factor in the expected impact of EBSCR. This will ensure efficient auction results and the avoidance of unnecessary costs for consumers in winter 2018/19."

Black Start and Fast Start distortions in STOR for OCGTs CMP275

[2] https://www.elexon.co.uk/mod-proposal/p354/

[3] *https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/statement_on_our_commitment_to_the_ebscr_reforms_0.pdf*

6th Floor, Radcliffe House, Blenheim Court, Solihull, West Midlands B91 2AA
Company no. 07385282
Tel: 0121 712 1970 ▪ Fax: 0121 709 5709
Registered Office: 6th Floor, Radcliffe House, Blenheim Court, Solihull, West Midlands, B91 2AA

Currently BM units can access revenue streams from multiple ancillary services that overlap in their scope, this gives them a competitive advantage through over compensation when taking part in the provision of Ancillary Services auctions as they are able to undercut other BM and non BM units through accessing duplicate Ancillary Service payments (i.e. not mutually exclusive). This is a distortion to the market and has a severe material impact in preventing a level playing field as well as increasing the cost to the end consumer and unduly rewarding some generating units above others. This distortion is present in both availability and utilisation payments associated with the provision of balancing services such as Short Term Operating Reserve (STOR) from National Grid and is most pronounced where units are able to enter and/or tender into multiple ancillary services such as Black Start and Fast Start which do not exclude participants from taking part in other services such as STOR.

6th Floor, Radcliffe House, Blenheim Court, Solihull, West Midlands B91 2AA
Company no. 07385282
Tel: 0121 712 1970 ▪ Fax: 0121 709 5709
Registered Office: 6th Floor, Radcliffe House, Blenheim Court, Solihull, West Midlands, B91 2AA