

Buy-out of mandatory services

Position paper by the BSSG

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What is buy-out?

- Allow commercial/economic choice to:
 - comply with certain code obligations; or
 - buy-out via a third party providing equivalent
- Requires published price or traded market to facilitate the choice
- Security standards still need to be met

What could be bought out?

- **Capability** - physical capability to provide the service (generally built in at time of construction). Capability obligations may be easier for ‘traditional technologies’
- **Utilisation** - deliver the capability into a usable service in real-time. Market signals in relation to payment for utilisation could assist in decisions of installing the capability in the first place
- Maximum benefit from allowing buy-out of both?

Reactive Power

- Highly zonalised service
- Previous work concluded there was very limited competition on a zonal basis
- Little possibility for buying out within zones
- Full scale introduction of buy out arrangements for reactive power should not be considered at this stage
- May be possible to consider requests on a case-by-case basis

Frequency Response (1)

- Minimum levels specified for mandatory frequency response
- Testing process results in actual tested levels being entered into Mandatory Services Agreement
- This does not result in any ‘spare’ volumes that could be offered for buy-out
- Issue is worthy of further consideration

Frequency Response (2)

- Grid Code specifies technical requirements for frequency response
- Response capability must be maintained to cater for abnormal conditions
- Can ‘standard’ operating conditions be separated, i.e. could connection conditions be relaxed to remove capability requirements for normal operation?
- Is there any benefit in maintaining the capability obligations but removing the utilisation obligations?
- CAP047 provides price freedom

Frequency Response (3)

- Requirements relating to operation under abnormal conditions means that full scale introduction of buy out arrangements would require resolution of significant technical issues
- Case-by-case assessment of requests might represent a potential way forward

Potential Way Forward

- Issues related to full scale scheme presented in Appendix
- Potential application to derogations process?
- Considered on a case-by-case basis
- Commercial implications considered in decision making process - may result in derogation being refused
- NGC view that derogations should only be driven by short term operational issues i.e. any process should not be seen as an alternative to long term compliance
- Consider augmentation of current derogation process

Recommendations

- Note the BSSG views on buy-out
- BSSG to consider further how mandatory frequency response volumes are derived
- Agree not to progress consideration of a full scale buy-out scheme at this stage
- Agree to consider the specific application of a buy-out arrangement to the derogation process