

Clean Energy Package & Reserve Services

Frequently Asked Questions – includes some
'lines to take'

11th August 2020



FAQ

Following our recent decision to not procure any further firm Fast Reserve and to only look at making STOR (not Fast Reserve) compliant with the CEP with the expectation that we won't procure any further STOR before it is compliant, we have prepared this document to answer the expected questions and will add in any subsequently generated through the ongoing engagement.

How far have NGESO got with the work on Reserve reform and when do you believe it will be delivered? Will it still be in line with the roadmap for April 2021?

Our original milestone has been delayed while we consider reserve design requirements in light of how the new Pan-European Standard product, TERRE, will be used, and how wider access will impact the makeup of the Balancing Mechanism. We will be progressing reformed reserve products once we have more clarity on these areas. We will communicate updates and progress on reserve reform via the Forward Plan tracker and our Future of Balancing Services newsletter and web page.

How does NGESO intend to involve providers in reserve reform and when will the engagement start? Will providers be able to contribute to the discussion and design of new products?

It is our intention to involve the wider industry in the development of Reserve Reform. We shall communicate the plan to industry once we are in a position to do so.

How is NGESO planning to meet the Reserve volume requirements, following the announcement of the removal of the firm product? Firm Fast Reserve has gone from expanding the requirement to 600MW to the entire product being mothballed, how can anyone have faith to make investments in such a market?

In reaching our decision to stop firm procurement, we considered both the need for compliance with CEP and the impact on system security and we are satisfied that we will continue to be able to meet our requirement for fast energy.

To do this, we intend to continue to use optional contracts, including optional fast reserve contracts, as well as BMUs, with dynamic parameters, to deliver fast energy to meet our requirements, while we look to complete reserve reform. We have circa 1 GW of non-BM providers capable of providing the optional service and about 2.7GW of BM units with the dynamic parameters to deliver fast energy.

We understand the need for the market to have clear notice of our requirements to aid investment decisions and are committed to sharing these to the relevant markets with as much notice as possible.

With only optional fast reserve, will the shortfall be made up for by other bilateral reserve options, such as spin gen?

If there is a shortfall this will be made up by other options with similar capabilities to meet system need. The decision will be made based on cost and system security considerations.

In the recent industry letter on 16 July 2020, NGENSO explain the decision not to make firm Fast Reserve CEP compliant. Can NGENSO explain the rationale for this decision?

The existing method for firm procurement is no longer compliant with EBGL and CEP. Our long-term strategy for reserve, as set out in SNaPS & the Reserve & Response Roadmap, requires simple and transparent products in line with our operational needs, as we believe this will maximise competition and deliver better value for the end consumer. To do this, we have committed to standardising and rationalising our products.

This means that providers must be competing in a market whereby different parameters are assessed against other providers with the same parameters. Standardising products in this way is therefore an important step to achieving compliance especially for Fast Reserve, where to date the value of an individual tender is affected by parameters such as MNZT and recovery period. Feedback from the market has highlighted that managing this variability in parameters through a more complex assessment reduces the transparency of the market. To drive competition and increase transparency we will look to replace fast reserve with standardised reserve products which meet our system needs through our work as part of Reserve Reform.

The recent letter just states that NGENSO “does not foresee procuring any more firm STOR in 2020” and that the future procurement strategy is “yet to be finalised”. What can you tell us now about your expected future procurement strategy for STOR and when will you decide whether to procure any more STOR prior to it being CEP compliant?

We will need to re-start procurement of STOR such that it can be utilised from 1st April 2021, when long standing contracts end. It is our intention to procure the volume of STOR required from this date to be compliant with the CEP regulations. This is likely to mean that a proportion of the volume may be procured at Day Ahead timescales and the remaining volume at Month Ahead – though this is still to be finalised and would be subject to derogation.

Over time we will look to move towards 100% Day Ahead procurement.

What do you expect new products under reserve reform to look like?

This is subject to engagement with internal and external stakeholders and as such we do not have a set idea on new products. We will need them to meet several key requirements including:

- Aligning with the ESO's ambitions for a zero-carbon network and full competition across all markets.
- Helping create deep and liquid closer to real time markets.
- Maximize competition - by removing the barriers preventing new technologies from entering the market, which will ultimately reduce costs for consumers.
- Will focus on simple and transparent requirements for tender and assessment

What makes you believe that optional FR will be sufficient?

The market for optional FR is mature, which is not the same for optional STOR. For STOR we have firm contracts until March 2021. There is a significant volume of optional FR available which together with other BM units, which have FR capability and other products and services have proven to be sufficient since earlier this year when Firm FR stopped.

When do you expect a decision from Ofgem regarding the derogations that you have submitted for STOR? It seems these will be critical to any future STOR procurement strategy.

Under the Clean Energy Package, there is no time limit on Regulatory Authorities communication on the outcome of derogation requests, unlike in the 3rd energy package where it is explicitly clear that they have 6 months to return a verdict. Therefore, we continue to work with OFGEM as they work through the derogations and provide OFGEM with evidence and analysis to support the requests. We envisage that any further derogations will be informally submitted and followed by several engagement sessions where OFGEM can request clarity from SMEs. We can then take that feedback onboard and amend the derogation as necessary. As such, we hope to make the process more efficient for all.

What other routes are there for providers to be able to offer balancing services?

From 31 January 2020, Non-BM STOR units that have prequalified and do not have a firm contract are able to offer their capacity in real-time via the new Optional STOR route. The existing optional mechanism for Fast Reserve will continue and is open to both BM and Non-BM providers.

Units are also able to enter the Balancing Mechanism through the new Wider Access route, whilst existing BM units will continue to have access to the Balancing Mechanism.

Will the derogations be time bound or indefinite?

It is not clear at this time, but we expect that any derogation, if granted, would be time bound.

What if the derogations are not approved, what are your plans then for the transition to day ahead?

If the derogations are not approved, we must buy 100% of all STOR at Day Ahead or risk being non-compliant.

Moving to a scenario where 100% of STOR is bought at Day Ahead is not an ideal situation for system security, for business change or for the industry as the impacts of this are currently unknown.

What can you tell us about the likely minimum changes required to make STOR compliant with CEP? What commercial, process and IT impacts do you expect?

We are still working on a plan with our IT department, and plan to share with market for feedback by the end of August.

If the derogation is approved, we must procure proportion of STOR at Day Ahead. The remaining can be bought at between Month or Year Ahead (depending on the derogation approval).

If the derogation for 6(4) is also approved, there is no impact to the settlement of Balancing Energy for 2 years. Once those 2 years are up, we need to have moved to a place where we are compliant. Given the huge impact of moving to a Pay-As-Clear mechanism on the entire industry, we are looking to undertake an industry wide consultation to ensure we can develop a proposal that works for all.

What is the timeline for making STOR compliant with CEP and will this include a trial period to test out the new platform? Will there be engagement on the design of the day ahead methodology?

We are still working on a plan with our IT department, and we will engage with market for any methodology we are proposing for day ahead procurement and leave a time for receiving feedback and comments, we will share the timescale once it's confirmed and plan a trial with market for testing any new IT solution which impacts market participants

Any re-procurement of STOR will need to be compliant with the Day Ahead provisions within Article 6(9). Due to the current contracts running until 31st March 2021, we must be compliant by April 1st 2021, as this is when we will need to re-procure STOR in order to meet operational requirements.

We are currently working on the internal aspects of the design and hope to be able to share these designs soon. It is important that we understand the impact of moving to Day Ahead procurement for our industry partners and want to ensure that all parties are involved in the design process.

Is there any intention to consult with market participants on the design methodology for making STOR compliant with CEP?

We intend to engage with market participants for any methodology we are proposing for day ahead procurement once we have completed our assessment of the minimum requirements to do so. For STOR we expect to complete this by the end of August 2020. We will ensure to leave a time to receive feedback and comments from the market participants.

Does optional STOR/Fast Reserve route rely on integration with PAS?

Yes, the new optional route for both services will be facilitated by PAS system for Non-BM units. Optional Fast Reserve for BM units will continue to be available via EDL/EDT.

Can you confirm that the day ahead bidding will be done via the PAS system?

We are still working on a plan with our IT department to make STOR compliant with CEP, and plan to share with market for feedback by the end of August

What value do you see in moving to Day Ahead procurement? When can you provide timescales for its possible introduction?

One of the key principles of the Clean Energy Package is to remove barriers to entry for renewable generation. One of those barriers is long-term procurement as renewable generation generally find it more difficult to forecast accurately. Moving to Day Ahead procurement should therefore help to open these types of markets to renewable generation. This should increase competition within these markets, providing better outcomes for consumers and help us to reach our Net Zero targets!

We are still working on a plan with our IT department, and plan to share with market for feedback by the end of August

Assessment of STOR and FR has been too simplistic historically (e.g. ignoring wider system costs)– how is this going to change with a day ahead auction?

Our SNaPS consultation in 2017 set out the principles for which we would design our enduring reserve and response product suite. Feedback from industry highlighted the need for our markets to be simple and transparent to maximise competition and deliver value for the end consumer. So, we are designing our services with these principles in mind, whilst ensuring our products meet our system needs. This will involve standardising products and the parameters within them to reduce the complexity and consequential opaqueness that is introduced when you assess non-standard products by factoring in the non-standard variables into the assessment.

Have you considered whether STOR and FR are still required? At DAH pricing we expect prices for STOR/FR and DAH EPEX auctions to converge.

There is a system need for a reserve service to cover for demand forecast errors, plant losses and market imbalance. Our enduring reserve products will be designed with our system needs and those of a future zero carbon system, in mind.

Will new reserve / response services scheduled as part of the roadmap use day-ahead procurement?

Yes, it is likely that this will be part of the process for some services where practical.

Will procurement be technology agnostic, or will there be any changes made to enable renewables / storage to participate more easily?

We are technology neutral and design our markets to maximise competition with the principles to be simple, transparent and in line with system needs.

Do you think STOR as a service is currently fit for purpose? Is there a true requirement for STOR going forward?

We intend to review this as part of Reserve Reform as described above. Currently the service is meeting our need for this category of short term reserve.

Questions from the webinar

Does the Pay as Clear requirement apply to other NGENSO products e.g. Frequency Response, Pathfinders?

Pay as clear is for balancing energy only for specific and standard products. Frequency Response has not been designated as specific. We are in discussions with Ofgem to understand the scope and impacts.

In Design Suggestions, what does "co-optimize auctions" mean? Also, can you share what you believe the size of the STOR market is, to allow providers assessment of the benefit given resource requirements

To enable a provider to bid their units across more than one NGENSO balancing service. If they are unsuccessful with product 1, they can offer their unit to product 2.

For April 2019 there were 6 opportunities to tender, this corresponded to 5.7GW of volume.

For April 2020 there were 5 opportunities to tender, this corresponded to 4.6GW of volume. The last opportunity to tender for April was removed during January, so it would be reasonable to assume that there would have been additional volume that would have tendered into the last opportunity, so the size of the market would be greater than 4.6GW would suggest.

Is CEP impacted by Brexit in any way?

At the current time we are continuing to work with CEP obligations and plan to evaluate it as we get closer to the end of the year. Most of the clauses will be retained under UK law or there may be changes. We are working with the rules we have in place now until we are told differently.

Re: Continuing procurement of optional STOR. Why is this compliant with CEP? Is it technically a day-ahead procurement structure?

No availability payment is made for optional STOR. Optional STOR is then not classed as balancing capacity.

Would the reserve reform consider next steps on ODFM service procurement and how this would be filtered in by NGENSO?

Reserve Reform will cover downward as well as upward reserve. We will be consulting with industry on the design of the reserve reform products.

Is there a risk that STOR, Fast Reserve or a similar services are never re-introduced if you are fulfilling requirements for fast energy without it?

We will always have a requirement for a reserve service for the reasons we identified:

- To cover plant losses,
- Forecast errors
- System imbalances

Would procurement of day-ahead reserve products consider carbon emission standards to align with the ESO ambition to operate a net zero network by 2025?

Yes, net zero is an ambition and therefore will be considered when we develop new products.

To encourage transparency, will any clean energy package data be published on the ESO Data Portal

All relevant data will be published through the channels where could provide sufficient transparency to the market. ESO data portal is one of the options.

Why has the clean energy package caught the UK out so badly that we are reacting to it 2 years after its implementation?

CEP came into force in January 2020. Some of the changes required under the Clean Energy Package have already been implemented, and others are much broader in scale and scope and therefore require a longer implementation period.

It's important that we engage with stakeholders from across industry to develop solutions that work for all.