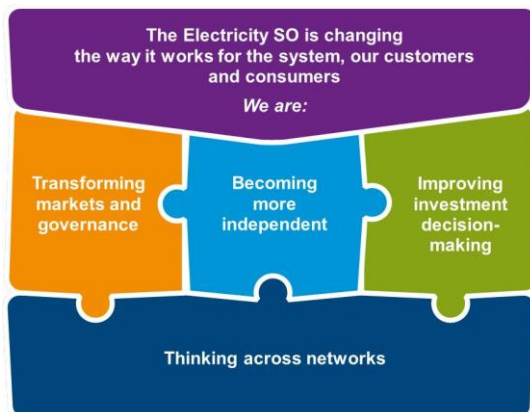# System Needs and Product Strategy

Summary of consultation responses   September 2017

This **summary of responses to the System Needs and Product Strategy consultation** is part of a wider transformation programme of work: the **Future Role of the System Operator Programme**.
For more information please go to:
The changing role of the Electricity System Operator

The Electricity SO is changing the way it works for the system, our customers and consumers
We are:

Transforming markets and governance | Becoming more independent | Improving investment decision-making

Thinking across networks

Summary

- Majority of parties prefer standardised (discrete) products for each of our system needs

- A mix of short-term markets and long-term contracts is the preferred option

- Potential to trial alternative procurement approaches such as auctions was well received

- Other themes include greater transparency of SO's day to day activities and reducing barriers to entry

Introduction

Our System Needs and Product Strategy report was published in June 2017. The report sets the scene for future requirements, and consults on the future of balancing services products. The report can be downloaded here: Future of Balancing Services web page. The consultation closed in July, and this paper is a summation of the wide ranging views of responses from market participants.

In addition to formal responses to the consultation, hundreds of industry experts provided views informally at industry events, meetings and through account managers, as well as through more public comments made on articles and on social media platforms. National Grid would like to thank everyone who took the time to get involved by providing your view(s).

This consultation has succeeded in establishing a clearer picture of the industry view on how our balancing services products should develop and how the transformation should be delivered.

Summary of key insights

We received 128 responses from stakeholders, representing a variety of types of organisation focusing on different technologies, and with different risk profiles, as shown in Figure 1 below.

Companies were asked to categorise their businesses, and parties could select more than one box to describe the role they play in the energy system.

Figure 1 – Profile of Respondents[1]
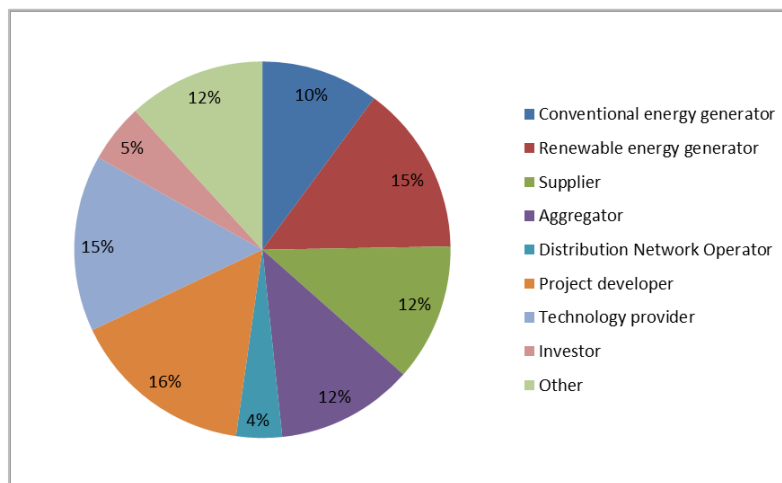
When asked 'Do you agree with our approach to resolving the issues identified?', 98.1% of respondents agreed with or felt neutral in relation to the statement.

Figure 2 – Approach to resolving issues

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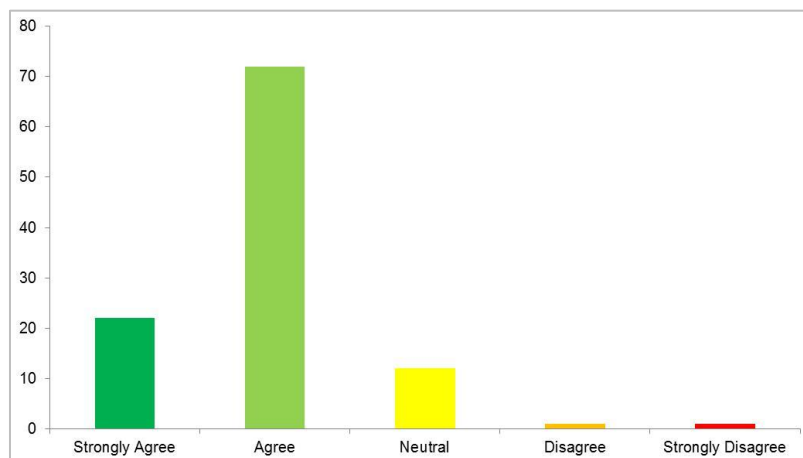
[1] Note that parties could select more than one box to describe the role they play in the energy system

Key themes:

Three key themes emerged. That there was a need for:

1. greater transparency of the System Operator's (SO) day-to-day actions;
2. a reduction in barriers to entry; and
3. the SO to provide more details on its simplification of products.

Actions in those three areas will be part of a product roadmap to be published in late 2017. In addition to these themes, there were several key insights which were clearly signalled by industry.

Insight 1: Standardisation is the way forward for future products

The overall preference of respondents is for standardised products (discrete products for each of our system needs), for the following reasons:

- Standardisation should simplify services and make procurement more transparent;
- Standardisation offers scope for simple products within a service area with a small number of parameters; and
- Single markets may introduce too much complexity, and may not be technically feasible for the purposes of balancing the network in conjunction with other needs;

Some parties felt that more standardised products could easily lead back to the current status quo with too many products as the services evolve over time. Others felt that standardised products may stop providers from offering something valuable because they could not meet the standards of the product.

In addition, some parties felt that single markets would allow for more efficient procurement of services. Single markets could also enable continuous service provision as well as stacking of services.

Some parties felt that more detail and assessment was needed for them to provide an informed view of the right approach to future product evolution.   We intend to provide greater details on how we will engage with industry on the more detailed design of future products in our product roadmap in late 2017.

Parties felt that fixing product parameters, and therefore standardising the products, would have a positive effect on transparency (79.3% responded positively) and competition (56.7% responded positively), as seen in Figure 3.

Figure 3 – Q4 a and b. Effect of fixing product parameters (standardising products) on Competition (left) and transparency (right)
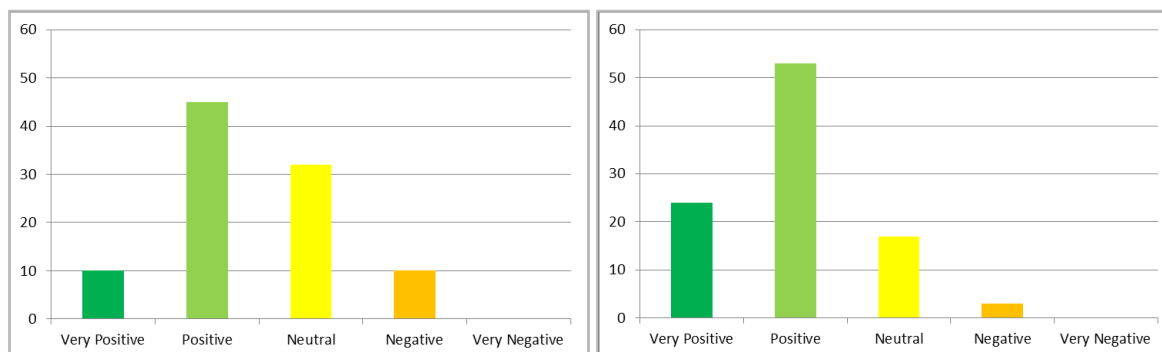

When thinking through standardisation versus single markets, respondents provided us with a range of comments. The SO intends to use these comments to create an initial view of the criteria that will be used to assess the actions we propose to take. These criteria will be discussed with industry in the next round of engagement in October 2017[2].

Insight 2: Standardised products may lead to secondary trading and to more efficient stacking of services

The potential to allow secondary trading was generally seen as a positive step. Figure 4 shows that 61.3% of parties responded positively, and 26.9% were neutral to the idea. Investors were the most positive respondents.

Figure 4 – Q7a – introduction of secondary trading in balancing services
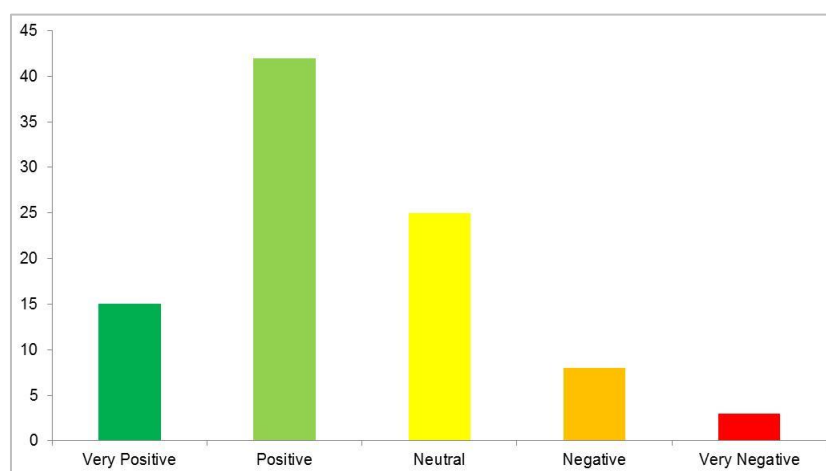

- Standardised products are well placed to allow for secondary trading;
- Secondary trading requires a high level of liquidity and competition in markets; and

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[2] We are organising a number of sessions including a Power Responsive Flexibility forum as well as other sessions through trade associations to engage with industry in an agile way on the way forward following the SNAPS consultation. Most of these sessions are occurring between late September and late October.

- this would allow market participants to hedge against low prices and operational risk.

Stacking of services was seen as important or very important by 95.6% of respondents. This consultation demonstrates the broad view that standardised products, rather than single markets, would better enable stacking of services, as seen in Figure 5 below.

Figure 5 – Q8: How single market or standardisation would impact on stacking services
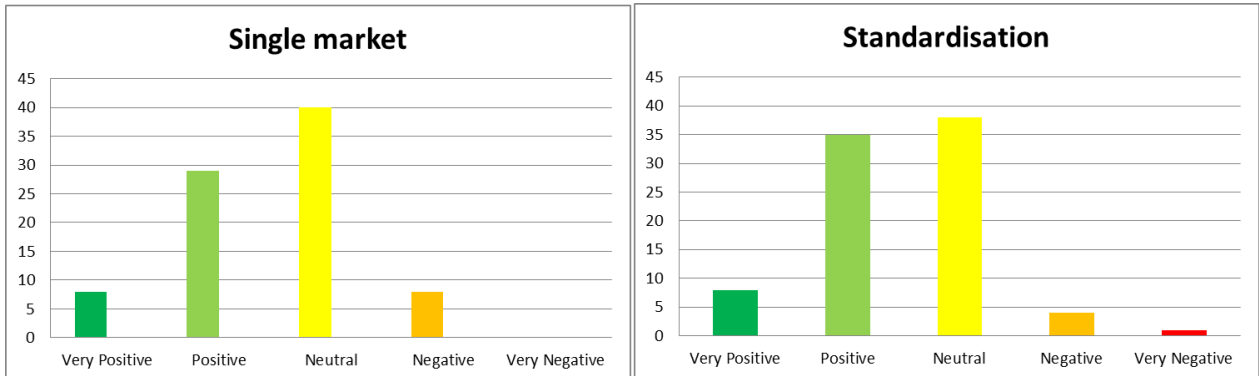
It was also felt that fully unlocking the potential for stacking requires aligned procurement timescales between products as well as short term markets.

Insight 3: A mix of short-term markets and long-term contracts is the preferred option
**Figure 6 – Q9: Short versus long term contracts**
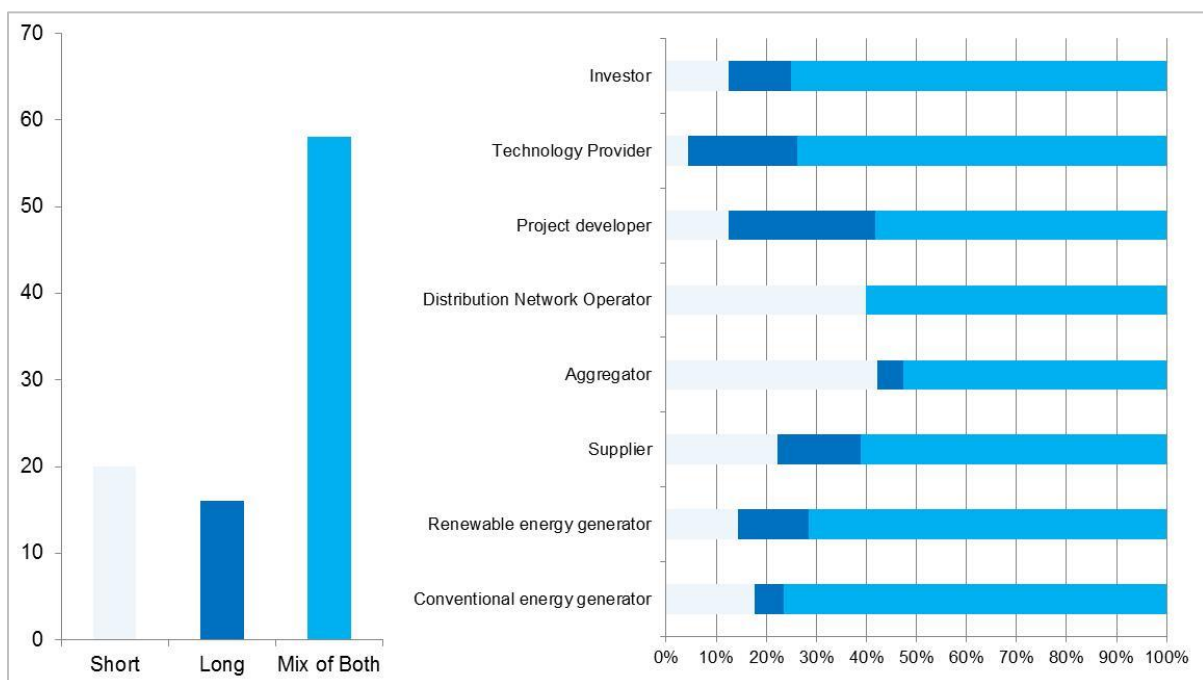
A mix of both short-term markets and longer-term contracts was favoured by 61.7% of respondents, (Figure 6) while 21.2% favoured short-term markets only. Only 17% of parties favoured long-term contracts only.

Short term markets can remove forecasting risk as well as allow for changes to parties' commercial strategies. On the other hand, short term markets may not increase investor confidence. Longer term contracts would deliver a much lower cost of capital for investment. On the other hand, longer term contracts may create higher costs of balancing for the end consumer by locking in technologies which may be cheaper in the future or lock the SO in a procurement contract which may no longer be relevant as the system needs change over time.

Insight 4: Potential to trial alternative procurement approaches such as auctions was well received

We found that 68.4% of respondents were positive or very positive about trialling alternative procurement approaches, as seen in Figure 7 below.

Figure 7 – Q11: Views on trialling different procurement approaches
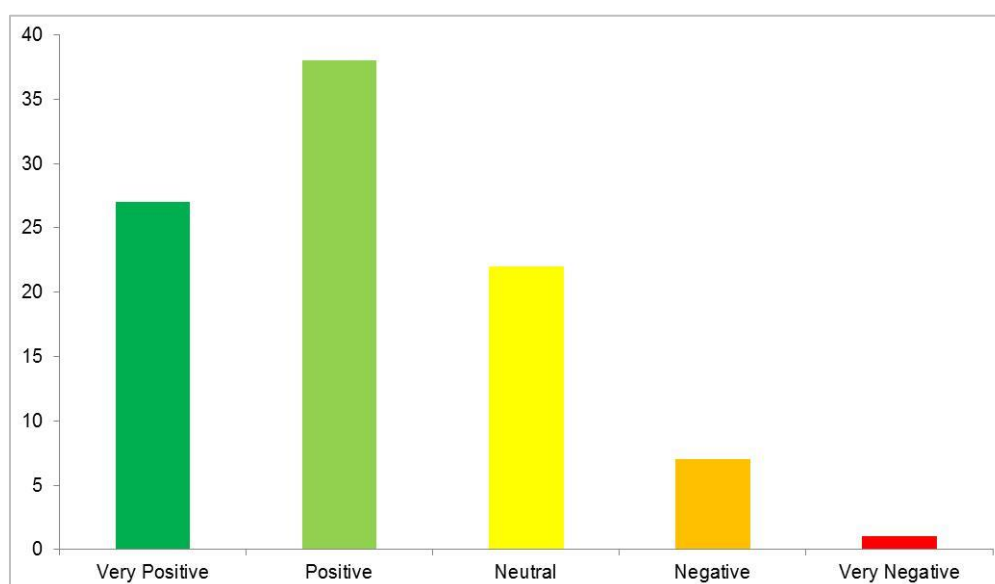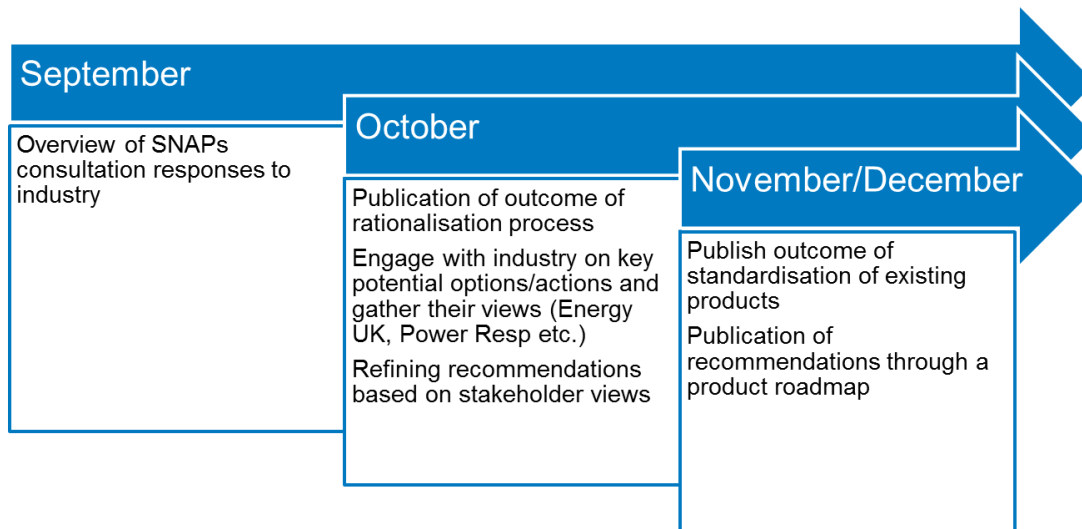

In terms of bringing new capacity onto the system, respondents provided the following insights:

- A mix of long-term contracts and short-term contracts will encourage new technologies to markets;
- Clarity of longer-term needs is necessary to provide clear commercial signals that would bring new capacity to the system;
- Well-designed markets, which reward the services as well as transparency of the SO's day-to-day actions to operate the system, are needed; and
- Removal of barriers to entry (e.g. testing and compliance), and effectively moving to a more ongoing performance monitoring regime, is important.

Next steps

The immediate next steps include the following:

September	October	November/December
Overview of SNAPs consultation responses to industry	Publication of outcome of rationalisation process Engage with industry on key potential options/actions and gather their views (Energy UK, Power Resp etc.) Refining recommendations based on stakeholder views	Publish outcome of standardisation of existing products Publication of recommendations through a product roadmap

The recommendations in November/December will:

- Provide a clear direction of travel of our thinking based on feedback from the consultation;
- Allow us to narrow the uncertainty in terms of future products for each service area (response, reserve, constraints, reactive power and black start) by providing a roadmap of actions which cover the short to medium term;
- Provide an overview (where possible) of future engagement points and consultation points with industry; and
- Provide an overview of other actions which we believe will deliver greater transparency and reduce barriers to entry.