

Richard Smith
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www.nationalgrideso.com

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Dear industry colleagues,

JANUARY 2020 STOR TENDER ROUND

Historically we have procured Short-Term Operating Reserve (STOR) during three tender rounds each year, contracting for up to two years ahead. We have categorised STOR as being ‘balancing capacity’ based on the definition of this term within relevant European regulations and network codes and, due to certain requirements within the Clean Energy Package (CEP), changes are likely to be required to our approach to STOR procurement in future.

The CEP is the next tranche of European energy legislation and it builds upon the content of the Third Energy Package and the associated network codes. It entered into force in July 2019 and many of its provisions apply from 1st January 2020.

Article 6(9) of the recast Electricity Regulation within the CEP requires NGENSO to procure balancing capacity at no more than one day ahead, for a contract length of no more than one day. A derogation is possible, and where a derogation is granted by Ofgem it can instead be procured at no more than one month ahead, for a contract length of no more than one month, with further potential with Ofgem approval for this contracting period to be extended to a period of up to twelve months.

We have submitted a derogation request to Ofgem in respect of Article 6(9)¹ to allow us to procure on an up to one month ahead basis (with up to twelve month contracting) rather than the one day ahead basis and our discussions with Ofgem in respect of this derogation request are ongoing.

Our view to date has been that changes to our procurement timescales (i.e. a move towards procurement being no more than one day before provision) for STOR would not apply until June 2020 to coincide with the implementation of project TERRE at which point the relevant standard and specific products would come into force. There is however some uncertainty about the timing of the required changes and whether, based on our latest discussions with Ofgem, they are required from 1 January 2020.

We are therefore mindful that running STOR TR40 in January 2020 and concluding contracts as we had originally planned could potentially raise some issues. We have not taken this decision lightly but after consideration have decided to suspend the next STOR tender round until we have a clear legal framework agreed with Ofgem.

¹ We have also submitted a derogation request to Ofgem in respect of Article 6(4) to allow energy balancing within the BM and STOR utilisation prices to continue to be settled on a pay-as-bid basis rather than being settled on a pay-as-cleared basis.

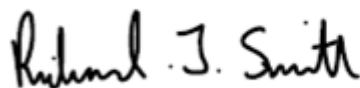
Although we will be suspending the January tender round for STOR, Non-Balancing Mechanism providers with framework agreements will be able to offer their capacity via the new optional STOR route which will become effective from 31 January 2020. Balancing Mechanism units will continue to have access to the Balancing Mechanism. In addition, with the recent go-live of Wider Access to the Balancing Mechanism, this offers an alternative route for market participants to offer their flexibility to NGENSO.

For the avoidance of doubt, we do not believe units with existing STOR contracts are impacted by Article 6(9) or our decision to suspend the planned tender round. Additionally, our Firm Frequency Response products are out of scope of Article 6(9). With regard to Fast Reserve (which we consider will also be balancing capacity) we are also in discussion with Ofgem on timing and extent of any required change and whilst we are continuing with our next planned tender round for Fast Reserve there is a risk that this and other future STOR and Fast Reserve tender rounds could be impacted in relation to the conclusion of contracts.

In order to address your questions on these developments we will be hosting a webinar on 8 January 2020. Further details for the call will be sent out in parallel to this letter being published.

We will be continuing to work with Ofgem on our derogation requests and the potential implications of Article 6(9) for the procurement of our STOR and Fast Reserve products. We will keep you updated on our plans for the postponed STOR tender round in early January 2020 and once we have clarity we will provide you with an update on what this means for subsequent planned tender rounds for STOR and Fast Reserve.

Yours sincerely,

A handwritten signature in black ink that reads "Richard J. Smith". The signature is written in a cursive style and is positioned to the left of a vertical line.

Richard Smith
Head of Commercial