

All Industry

Colm Murphy
Head of Business Development (Acting)
07788 183124
colm.murphy@nationalgrid.com

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Dear Colleagues,

Review of Exclusivity Clauses within Balancing Services Contracts

Introduction

In the Product Roadmap for Frequency Response and Reserve, which was published in December 2017, we committed to publish and consult industry on revised exclusivity clauses within balancing services contracts. These clauses currently prevent Providers from providing other commercial services to third parties, such as Distribution Network Operators (DNOs). Changes to the existing exclusivity provisions should facilitate revenue stacking and increase clarity as to how services can be provided to DNOs at the same time as being under contract to the ESO and vice versa. DNO products for real power have now been commonly agreed by all UK DNOs and have been designed to align with existing STOR contracts, should the provision for exclusivity be removed. As well as being a deliverable under the Product Roadmap, this review is also an important element of the Energy Networks Association Open Networks Project, which is facilitating the emergence of Distribution System Operator (DSO) models. In the event that a DSO licence is created, the principles outlined in this letter will still apply. For clarity, the discussion below refers to firm services only.

We committed to engaging with industry on recommended changes to our exclusivity clauses by the end of Q3 2018. This letter represents the first stage in that process and communicates:

- What is meant by service and revenue stacking;
- The high-level principles of service and revenue stacking;
- The existing Standard Contract Terms (SCTs) relating to service and revenue stacking;
- Our initial thoughts on options for how service and revenue stacking could work in line with the high-level principles;
- Request for feedback to help shape our thinking and support next steps.

Service and revenue stacking

Stacking refers to the pooling of revenue streams from multiple services to build the business case for investing in flexibility. Providers and investors have informed us of the need to participate in multiple markets to ensure a reliable revenue stream due to the inherent uncertainty associated with participating in competitive markets. These markets include frequency response and reserve products, as well as constraint management and other flexibility services provided to National Grid, or the DNO.

A contract for any service will specify the time periods, defined as Availability Windows in some contracts, for which the contract provides the terms of remuneration. Providers can stack revenues by:

- Participating in other markets with other assets
- Participating in other markets with the same assets outside of their contracted windows.
- Participating in other markets with the same assets within their contracted windows where there is additional uncontracted capacity that can be offered without conflicting with existing obligations.

We understand that Providers may want to offer multiple services in the same time periods to multiple entities (e.g. ESO, DNO, Suppliers etc.) Providers may stack revenues across services as above, providing they can deliver on their obligations under their live contracts. The onus is on the Provider to ensure that their asset or portfolio of assets is

available to perform under each contract that they are party to. The network and system operators will be sharing data to avoid service conflicts.

High-level principles of service and revenue stacking

- **Security of supply is maintained:** An exclusivity clause in balancing services contracts ensures the availability of resources to meet our requirements and secure the system. This exclusivity is reflected in our assessment of the price we are willing to pay for these products.
- **Providers can offer multiple services to multiple entities:** Providers should be able to participate in multiple markets to diversify revenue streams.
- **Assets can be contracted under two services in the same time period if the requirements of each service are not conflicting.** An example would be where an asset or portfolio of assets provides active power services and reactive power services over the same time window to the ESO or the DNO.
- **Stacking is compatible with the Capacity Market (CM) Rules:** The CM Rules state that Providers can participate in “Relevant Balancing Services” at the same time as receiving CM revenues.
- **Providers can stack revenues within markets, where the Availability Windows exactly align.** The standardisation of the FFR market and introduction of EFA blocks support this principle, in removing some of the previous issues associated with stacking revenues within this market.

Existing Standard Contract Terms (SCTs) relating to service and revenue stacking

The existing contractual terms allow Providers to contract for multiple services but the Availability Windows cannot overlap:

- For example, Unit ABC123 can provide STOR at any time outside of its contracted windows for FFR.
- Services for active and reactive power can be provided within the same Availability Window.
- Providers can offer active power services to DNOs outside their contracted windows for services to the SO.

Within services, Providers can stack revenues by submitting subsequent tenders for Units which have previously been awarded contracts, if the Availability Windows, or EFA blocks in FFR, exactly align:

- For example, if Unit ABC123 has an existing contract for EFA blocks 1 and 2, the Unit can subsequently be tendered in for additional volume, but only for EFA blocks 1 and 2.

Initial options for service and revenue stacking

For a single asset or portfolio of assets operating across different Availability Windows:

We have received the feedback that stacking firm services across different availability windows requires alignment of procurement timescales as well as the availability windows themselves. This is a commercial services development consideration and the move toward closer to real time procurement across services should help with this.

- Providers can offer single or multiple services to single or multiple buyers, if they can deliver on their obligations under all contracts. The onus is on the Provider to ensure that their asset(s) are available to perform under each contract that they are party to. Providers can offer both active and reactive services to the ESO and / or DNO across different Availability Windows.

For a single asset or portfolio of assets operating within an Availability Window:

- Multiple services can be provided to multiple buyers over an Availability Window if the requirements of the services are compatible and the provision of one service does not impede performance under an existing contract. An example would be where an asset or portfolio of assets provides active power services to the ESO and reactive power services to the DNO over the same time window.

- A single active or reactive power service cannot be provided to multiple buyers over an Availability Window, as this would result in the potential for double counting of MW or Mvars. Also, once instructed by one Operator, the provider may become unavailable for the other. This would add uncertainty and require over-procurement to compensate. This adds cost at the national scale and may make some local schemes with limited volume unworkable.
- Multiple services can be provided to a single buyer over an Availability Window, if the requirements of the services are compatible and if the provision of one service does not impede the ability to perform against an existing contract. An example would be where an asset or portfolio of assets provides active power services and reactive power services over the same time window to the ESO or the DNO.

Next Steps

We invite your feedback on this letter to:

- help shape our thinking on the review of exclusivity clauses within balancing services contracts so that we can ensure efficient service provision across the ESO and DNOs;
- better understand how the ESO and DNOs can procure similar or different services from the same distributed resources;
- ensure that revenue streams remain appropriate and generate best-value for consumers.

We expect in the first instance to propose revisions to the SCTs for each of our balancing services via an outline change proposal (OCP) process. External parties will be consulted and will have the opportunity to feedback ahead of implementation.

In conjunction with the ENA's Open Networks project, we anticipate developing more detail around how the ESO and DNOs can better coordinate the procurement and use of balancing services at transmission and distribution, through the development of new DNO services and associated processes. We will capture relevant work in plans for future Open Networks products.

Please contact your Account Manager, or email us at commercial.operation@nationalgrid.com to share your views. The consultation period will close at 17:00 on 26th October 2018.

Yours sincerely,

Colm Murphy
Head of Business Development (Acting)