

Consultation on Inflexible Offers Licence Condition

Consultation response from Regen and the Electricity Storage Network

13/03/2023

About Regen and the Electricity Storage Network (ESN)

Regen is an independent centre of energy expertise with a mission to accelerate the transition to a zero carbon energy system. We have 20 years' experience in transforming the energy system for net zero and delivering expert advice and market insight on the systemic challenges of decarbonising power, heat and transport.

Since 2017, Regen has managed the Electricity Storage Network (ESN) – an independent business network established in 2008 to provide a voice for the UK storage industry. The ESN has 80 members who have a shared mission to promote the use of energy storage and flexibility to support the net zero transition. The ESN membership includes clean energy developers, businesses, local authorities, community energy groups, academic institutions, and research organisations across the energy sector.

This response is based on extensive practical experience and input from our members. We are keen to continue to engage the DESNZ team in the development of the Balancing Mechanism and other services in the future.

1. Introduction

The [Electricity Storage Network](#) (ESN), managed by Regen, hosted a discussion with Ofgem regarding the Inflexible Offers Licence Condition (IOLC) on 2 March 2023, as part of the quarterly Markets and Revenues Working Group. The points made have fed in to this response throughout.

We have had several discussions during the working groups regarding the Balancing Mechanism and challenges around increasing dispatch of electricity storage assets. This included attending the in-person National Grid ESO events on dispatch transparency in October and December 2022 and ongoing engagement with the market development team in National Grid ESO during our quarterly ESN/ESO strategic meetings.

1.1 Background

As part of our wider energy policy work, Regen has published several recent papers and consultation responses that are relevant to this discussion.

Regen and ESN response to the Review of Electricity Market Arrangements (REMA)

In our response to BEIS' Review of Electricity Market Arrangements (REMA) consultation, we highlighted the need for a radical evolution of the electricity system and markets to unlock the step change in renewable deployment required to achieve net zero – you can read our full response [here](#) and summary [here](#). This highlighted the need for wider market reforms to reduce price speculation, excess profit taking and gaming in key markets such as the Balancing Mechanism (BM).

Regen Insight paper on transmission constraint management cost reduction

We published an insight paper last year looking at transmission constraints – [Seven solutions to the rising cost of transmission network constraint management](#).

This paper highlighted the need to open up the balancing market, *“to many more participants, offering flexibility services and improve dispatch processes to ensure that they are used effectively.”* To do this the balancing market needs to be transparent and fair to all participants.

The paper discussed the risk that market speculation and manipulation that can cause inefficiencies within the market including the occurrence of very high price speculation and bullwhip effects. For example, we state, *“It is problematic, however, if participants can manipulate the market to force the ESO into a position where it must award very high “scarcity rents”. Such tactics can include making late changes to Physical Notifications, bid gaming and setting unreasonable technical parameters for minimum run times (MNZT) and minimum downtime (MZT).”*

We go on to mention, *“One current example is the “fear of being short in a short market” bullwhip, which is the result of a fear of extreme balancing costs causing market participants to put themselves into a long position, with the result that the market itself ends up being long (with*

oversupply). This leads to a paradox: during low wind periods with high wholesale prices there is oversupply and a need to turn down generation in the BM.”

We are therefore supportive of Ofgem’s intention to increase monitoring of the BM and to tighten up the regulations and adherence to licence conditions by BM participants. We welcome the proposal bring forward the Inflexible Offers Licence Condition, subject to a check that this does not lead to unintended consequences, and recognise all the work that has gone in to the current set of draft conditions and guidance.

1.2 Continuing engagement

We would like to offer our help and insight as the reform process continues following this consultation. As a centre of expertise and a collection of leading companies and organisations, both in the electricity storage sector and the wider energy sector, we are well positioned to help design the solutions and additional work that will follow on from this initial consultation.

Electricity Storage Network Lead – Olly Frankland

Olly is an expert in effective stakeholder engagement, working closely with our members, chairing and facilitating working groups, presenting on key issues and writing consultation responses.

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Markets Lead – Ellie Brundrett

Ellie led Regen’s response to the government’s REMA consultation, bringing together subject matter experts from across Regen’s knowledge areas and helping to run two member events on the subject. She continues to lead Regen’s work in market reform.

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2. Response to consultation questions

Regen is aware that the BM needs reform and that there is a significant amount of speculation, market sentiment, irregular behaviour and/or inefficiency in the current market which is driving up prices and costs to the consumer. Ofgem is right to highlight the manipulation of the market that is occurring and that the changes will provide significant consumer savings, which we wholeheartedly support.

1) Do you agree with our proposal to remove the 'within the operational day' requirement for submission of 0 MW PNs?

Yes. See answer to Q2.

2) Do you agree with our proposal to limit the scope of the condition to generators with an MZT greater than 60 mins?

Yes.

When discussing the proposed changes at our ESN Markets and Revenues Working Group the following views were shared:

- a) **The best way to ensure value for the consumer is to promote greater competition within the balancing mechanism.** This should be a priority for the regulator and includes continuing to open up the BM to more participants and ensuring that all BM participants can compete within an open and transparent market.

As part of our ongoing industry representation as the ESN, we are continuing to push for the removal of barriers to the dispatch of electricity storage in the BM that has been a long running challenge for the sector. This includes:

- Continuing to work with National Grid ESO to reform the processes, IT and control room systems to increase dispatch rates of electricity storage in the BM.
- Highlighting the discrepancy between treatment of non-BMU vs BMU registered assets and the risk that if dispatch processes are not improved more assets will decide not to register as a BMU.
- BM dispatch is a strategic policy priority for ESN in 2023 with a letter from industry planned.

Recommendation – We would welcome proposals by Ofgem and the ESO to improve the transparency, access and monitoring of the BM.

- b) **Expand introduction of new reserve services by National Grid ESO.** The introduction of the new reserve products by National Grid ESO this year is likely to have a notable impact on the BM. Our ESN members have however highlighted that the proposed 50 MW volume threshold to participate in the scheme would be an unfair barrier to entry. If this threshold has been introduced because the control room cannot dispatch high numbers of units effectively then

this needs to be resolved. As we understand it, changes that are due in September 2023 should help improve the current situation. We are therefore very supportive of [Ofgem's letter to National Grid ESO regarding Balancing Reserve](#), which highlights the discrimination against smaller assets providing volume in that service. And several members mentioned that they are keen to participate in Balancing Reserve and the other new reserve services.

Recommendation – continue to mandate the National Grid ESO to implement new reserve services this year, including a reformed non-discriminatory Balancing Reserve service.

- c) **The electricity storage sector is supportive of the proposed IOLC and recognises that the change in licence conditions should not have a direct impact on electricity storage projects.** As more electricity storage comes online over the coming years, with longer durations (2 hour+), the value and role of these assets to provide capacity and reserve services will grow. It is crucial that any changes do not undermine the ability of electricity storage to dispatch in the BM and wider reserve services. Allowing more low carbon assets into the BM will help increase competition and reduce the carbon intensity of the market.

- d) **Be aware of the risk of unintended consequences on BM market dynamics.** One of the points that has raised by several members at our working group meeting is that although there is no direct impact on electricity storage there is potential for this change to impact dispatch rates of these assets in the BM. This is because the pricing of other assets will change, impacting the merit order. As this is a crucial revenue opportunity for electricity storage, there is a risk that any large interventions undermine future revenues and business cases for electricity storage projects. There may be opportunities to mitigate the impacts.

Recommendation – investigate unintended consequences of IOLC on BM market dynamics and mitigation options.

- e) **Consider alternative approaches to implementation of IOLC outcomes.** As discussed, this is a significant market intervention by Ofgem. There may be opportunities to implement the desired outcomes of the IOLC in alternative ways. For example, by more closely linking the trading position of assets with Physical Notifications (PNs) in BM with appropriate penalties.

Recommendation – ensure the alternative approaches to the implementation of the desired outcomes of the IOLC have been investigated and assessed.

3) Is the proposed licence condition drafting in Appendix 1 sufficiently clear? Are there any drafting edits or additions that you would encourage us to consider? No specific response.

4) Do you agree with our approach to considering excessive benefits, as set out in the draft guidance? Are there any other factors we need to consider for inclusion in the supporting guidance? No specific response.