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Dear Ian

BELLA participation in the Balancing Mechanism

Welsh Power Group (WPG) is a privately owned energy company with a strong track-record in development, in both conventional and renewable energy.

In January 2009 the company received planning consent for the construction of a 49.9MW biomass plant at Newport Docks, Wales through its wholly owned subsidiary Nevis Power Limited. As well as renewable energy, WPG submitted an application to develop Wyre Power, an 850MW CCGT (combined-cycle gas turbine) power plant near Fleetwood, Lancashire in August 2009. We also own and operate an OCGT, Leven Power, on a STOR contract to National Grid (NG) as well as Rhymney Power, a new build STOR project.

Welsh Power agrees that NG should use any plant in the BM that can meet the technical requirements of operating within the BSC BM rules. It has been apparent for some time that the rules that not in themselves that clear and the links between BSC systems and NG's contracts is historical rather than operational. The rules governing the BM should sit in the BSC and may require the registration of units into CVA systems, but that should not in itself be related into the parties' contracts with NG.

If a party is embedded in a DNO, with no impact on the transmission network, it should not be required to sign contracts with NG. It should be able to allocate its output to a supplier. However, the fact it is embedded should not preclude it offering BM services to NG if it is able to meet the BM requirements and can communicate effectively, i.e. with NG's control room as well as the BM systems. To not take advantage of the ability of embedded plants to play a role in system balancing is likely to result in a sub-optimal balancing outcome, with higher costs for customers.

Welsh Power

Your letter suggests that any plant that offers energy into the BM must also comply with the Grid Code. We are unclear why that should be a requirement, as the plants do not use the TO system to which the Grid Code relates. NG should outline what is in the Grid Code, rather than the BSC, which it feels is a necessary requirement for such embedded plants. Those rules could then possibly be captured in the BSC or alternative contract.

Likewise we do not see why embedded plants that do not impact the TO's systems should be required to hold access rights. That would appear to create a new product, no doubt with charges and potentially with liabilities for cancelling access, which is unnecessary. The "embedded benefits" that a plant provides does not alter just because contracts are altered. Plant owners may also want the option of leaving their supplier paying all the monopoly charges and the monopolies should facilitate that.

To develop BM participation, Grid should look at one example embedded plant and work out exactly what systems and rules are actually needed to allow it to be in the BM. The aim should be to keep barriers to entry low and regulation minimal.

Welsh Power notes that Grid talks about the role of renewables, but we believe there are other businesses for whom this could be an additional route to market. For example, STOR plant outside of STOR windows, smaller, controllable renewables plants or on-site generation may have the potential to provider BM services. We would not advocate such businesses being required to be BM participants, but we agree NG should encourage participation.

As well as giving the SO additional flexibility in balancing the system, these plants may also bring different plant dynamics to the market (smaller, but more flexible) which could help provide shape in the BM.

If you wish to discuss this matter further please do not hesitate to contact Lisa Waters or myself.

Yours sincerely

Alex Lambie
Chairman