Special Condition 4K: DSBR and SBR funding arrangements

1. The purpose of this condition is to:

i. determine the values relating to the external costs of procuring and using the Demand Side Balancing Reserve (DSBR) and Supplemental Balancing Reserve (SBR) services for the purposes of the balancing services activity; and

ii. establish arrangements to determine the incentives payment that the licensee may derive by means of the term LBS_t in paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs).

2. The term LBS_t shall take the values as set out below for Relevant Years 2014/15 and 2015/16 (together the scheme) unless otherwise directed by the Authority (which shall be determined in accordance with paragraph Y of this condition). Such values will return to zero after the expiry of the scheme unless directed otherwise by the Authority.

$$LBS_t = SBR_t + DSBR_t$$

$$DSBR_t = DSBRS_t + DSBRU_t$$

$$SBR_t = SBRA_t + SBRT_t + SBRW_t + SBRU_t$$

where:

LBS_t means the costs to the licensee of contracts for the availability, testing, pre-utilisation warming or use of the last resort balancing services during the Relevant Year t, excluding costs within $CSOBM_t$ and those made for the other balancing services except SBR and DSBR including charges made by the licensee for the provision of balancing services to itself in the Relevant Year t;

SBR_t means the cost to the licensee of contracts for the availability, testing, pre-utilisation warming or use of the Supplemental Balancing Reserve during the Relevant Year t;

$DSBR_t$ means the cost to the licensee of contracts for the set up or use of the Demand Side Balancing Reserve during the Relevant Year t;

$DSBRS_t$ means the costs to the licensee of contracts for the set up of DSBR providers for the Relevant Year t minus any adjustments made by the Authority as described in Part A;

$DSBRU_t$ means the costs allowed by the Authority to be recovered by the licensee for the utilisation costs of DSBR providers following a determination of the Authority as described in Part A otherwise it shall take the value of 0;

$SBRA_t$ means the costs to the licensee of contracts for the availability of SBR providers for the Relevant Year t minus any adjustments made by the Authority as described in Part B;

$SBRT_t$ means the costs to the licensee of contracts for the testing of SBR providers for the Relevant Year t minus any adjustments made by the Authority as described in Part B;

$SBRW_t$ means the costs allowed by the Authority to be recovered by the licensee for the pre-utilisation warming of SBR providers following a determination of the Authority as described in Part B otherwise it shall take the value of 0;

$SBRU_t$ means the costs allowed by the Authority to be recovered by the licensee for the utilisation of SBR providers following a determination of the Authority as described in Part B otherwise it shall take the value of 0;

Part A: Demand Side Balancing Reserve

3. The licensee shall in respect of Relevant Years 2014/15 and 2015/16 prepare and submit for approval by the Authority by [1 May 2014] a methodology for the purposes of procuring DSBR services (the DSBR procurement methodology) and which shall comprise:

a. the criteria for evaluation of the tenders submitted for the provision of DSBR services, and such criteria shall include (but not be limited to):
   i. the manner by which the most efficient or economic procurement price for the purposes of reducing the risk of supply shortages and securing value to consumers will be identified;
   ii. the weighting to be applied to set up costs and utilisation costs;

b. the criteria for determining the volume of DSBR service provision that it would be economic and efficient to procure (the Volume Requirement Methodology), and such criteria shall include (but not be limited to):
   i. the methodology for determining the Volume Cap:
   ii. the methodology for determining the economic and efficient volume to be procured within the Volume Cap;
   iii. the manner by which the cost threshold above which procuring DSBR would not provide value for money to consumers, will be identified.

4. the Volume Requirement Methodology referred to at paragraph 3(b) above must be in accordance with the following principles:
   i. ensuring that only DSBR services from service providers which are economic and efficient are procured;
   ii. ensuring that only DSBR services from a service provider which deliver a net benefit to consumers are provided; and
   iii. ensuring that the volume of DSBR and SBR should, in total, not exceed that which is needed to meet the reliability standard.

4. The licensee shall prepare and submit for approval by the Authority a methodology (DSBR operational methodology) which is to be applied in the Relevant Years 2014/15 and 2015/16 by 1 May 2014. The DSBR operational methodology shall include (but not be limited to):

i. the DSBR principles as set out in the document prepared pursuant to paragraph 5 of Standard Condition C16 of the Standard Conditions, including the principles regarding the order of call off for DSBR;
ii. specifying how the requirement for any testing of DSBR services would be identified and how costs of any testing would be kept to a minimum;
iii. clear and objective rules for the assessment of the circumstances in which utilisation is necessary in operational timescales; and
iv. the steps the licensee proposes to take to prevent or minimise any distortion in the electricity market in GB.

Part B: Supplemental Balancing Reserve

5. The licensee shall prepare and submit for approval by the Authority a methodology for the purposes of procuring SBR services which is to be applied in the Relevant Years 2014/15 and 2015/16 by [1 May 2014] (the SBR procurement methodology). The SBR procurement methodology shall comprise:

a. the criteria for evaluation of the tenders submitted pursuant to this paragraph , including but not limited to:
   i. the manner by which the most efficient and economic procurement price for the purposes of reducing the risk of supply shortages and securing value to consumers will be identified;
   ii. how the licensee will determine the price that consumers are willing to pay for the product;
   iii. how the licensee will ensure that it will not procure any SBR service if tender prices are above consumers' willingness to pay for it.
b. the weighting to be applied to availability, testing, pre-utilisation warming and utilisation costs;
c. how the licensee will compare the tender prices with the evaluation criteria pursuant to this paragraph;
d. the criteria for determining the volume of SBR service provision that it would be economic and efficient to procure (the Volume Requirement Methodology), and such criteria shall include (but not be limited to):
   iv. the methodology for determining the Volume Cap:
   v. the methodology for determining the economic and efficient volume to be procured within the Volume Cap;
   vi. the manner by which the cost threshold at which procuring extra SBR would not provide value for money to consumers, will be identified.

6. The Volume Requirement Methodology referred to at paragraph 5 (c) above must be in accordance with the following principles:
   i. ensuring that only SBR services which are economic and efficient are procured;
   ii. ensuring that only SBR services which deliver a net benefit to consumers are procured; and
   iii. ensuring that the volume of SBR and DSBR procured in total does not exceed that which is needed to meet the reliability standard.

Testing

6. The licensee will prepare and submit for approval by the Authority a methodology (SBR testing costs methodology) which is to be applied in the Relevant Years 2014/15 and 2015/16 by 1 May 2014 to include but not limited to:
   i. establishing clear and objective testing requirements based on technical characteristics of the generation plant and having regard to the need to optimise the number of tests on SBR service providers;
   ii. the expected number of tests required and expected testing costs including justification for these expectations;
   iii. how the licensee will minimise any distortion on the electricity market in GB that could be caused by testing.

7. The licensee must record the number and costs of all tests carried out pursuant to paragraph 6(i) and retain those records for a period of [5] years.

8. The licensee may not claim any costs incurred under the term $SBRT_t$ for the purposes of paragraph 4C.1 of Special Condition 4C where these costs result from the number, or costs of testing, exceeding the expected number of tests required and expected testing costs pursuant to paragraph 6(ii) .

Operational methodology

9. The licensee will prepare and submit for approval by the Authority a methodology (SBR operational methodology) which is to be applied in Relevant Years 2014/15 and 2015/16 by [1 May 2014] to include but not limited to:
   i. the SBR principles as set out in the document prepared pursuant to paragraph 5 of Standard Condition C16 of the Standard Conditions, including the principles regarding the order of call off for SBR;
   ii. the establishment of clear, objective and non discriminatory rules with respect to pre-utilisation warming of SBR providers;
   iii. an approximation of how many times SBR providers may require pre-utilisation warming for the purposes of despatch if deemed necessary pursuant to this paragraph; and
   iv. an assessment of what the licensee considers to be a credible risk to security of supply which may elicit a requirement for pre-utilisation warming and utilisation.

10. The licensee shall use reasonable endeavours to ensure that pre-utilisation warming of SBR plant does not distort the electricity market in GB.

Part C: Revision to Methodologies

11. The licensee may prepare and submit proposals to the Authority for revisions to the value of the term LBS_t which is to be applied in the Relevant Years 2014/5 and 2015/16 by 1 April 2015 to reflect any increase or decrease in the costs that the licensee expects to incur in respect of the:
    i. DSBR and/or SBR procurement methodologies;
    ii. DSBR and/or SBR operational methodologies.

12. If the licensee considers that an error has arisen in respect to the methodologies listed in paragraph 11, the licensee shall notify the Authority of the error and the materiality of the error and will promptly seek to correct the error subject to the approval of the Authority.

13. The Authority may by way of a direction approve some or all of the revisions to the value of LBS_t pursuant to paragraphs x and y where it is satisfied that the revisions to the LBS_t are efficient and will provide long term value for electricity consumers.

14. In this condition

Demand Side Balancing Reserve	means the balancing service of that name as described in the document the licensee is required to establish in accordance with paragraph 3 of Standard Condition C16 of the Standard Conditions.
Reliability Standard	means the reliability standard as specified by the Secretary of State pursuant to powers in the Energy Act 2013, or prior to such specification coming in to force, the draft version of the same, as published by the Secretary of State in July 2013.
Supplemental Balancing Reserve	means the balancing service of that name as described in the document the licensee is required to establish in accordance with paragraph 3 of Standard Condition C16 of the Standard Conditions
Volume Cap	means the maximum volume of DSBR and SBR beyond which procurement could never be deemed to be economic and efficient