

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Julian Roberts
Economist
Wholesale Markets Policy
Ofgem
9 Millbank
London
SW1P 3GE

Telephone: 01738 453482

Email: robert.hackland@
sse.com

Date : 6th December 2013

Dear Julian,

National Grid's Proposed New Balancing Services: Draft Impact Assessment

Thank you for the opportunity to respond to the above consultation.

We found it extremely helpful in responding to this Impact Assessment consultation that National Grid were able to publish the supporting reports to the Authority for both the SBR and DSBR. Without these, we would have found it very difficult to provide any meaningful response.

We also found it encouraging that National Grid have made a number of changes to the proposed services in light of consultation responses to the design of both the SBR and DSBR. In particular we welcome the following changes to the SBR:

- a cap on the amount of SBR procured;
- the participation of part BMUs;
- the clarification that there would be no requirement to hold TEC;
- that the SBR would be technology neutral, regardless of dynamics; and
- that the SBR would be non-locational.

In addition to these changes, National Grid's proposal to work with Ofgem and industry on a method of factoring SBR prices into imbalance prices ahead of any EBSCR changes being implemented is to be welcomed.

We are though concerned that National Grid have seen fit to remove any requirements on participants demonstrating (through Declarations or e.g. giving up TEC) that the plant would otherwise be unavailable and instead are relying only on economics to determine which plant is truly additional.

We are also disappointed that no sunset provision has been included, and rather that a simple review of the SBR in 2016 is proposed. We remain of the opinion that a review clause would not provide sufficient confidence to the market that the SBR will be time limited in nature. If we are to rely on a review, then this cannot simply be a review by National Grid and should instead include consultation with industry and following that, only be extended if approved by Ofgem.

It is also disappointing that there is still no clarity on whether or not one year contracts will be available for 2014/15.

With regard to the DSBR, we welcome National Grid's proposal to work with Ofgem and industry on a method of factoring DSBR prices into imbalance prices ahead of any EBSCR changes being implemented. We also welcome their change in stance with regard to up-front payments and that it is now proposed to recover up-front payments from participants that fail to deliver their DSBR service.

In terms of Ofgem's Impact Assessment, our greatest concern remains that the SBR will interfere with the energy-only market, that the SBR plant may not be dispatched as a "last resort". This will hang over the market until the SBR is up and running and it is seen how National Grid use it as generation margins tighten. If it is used as anything other than a last resort, it will undermine the market and could have a negative effect on generation margins. It is important then that the SBR is in place for as short a time as possible, that it is removed as soon as the enduring Capacity Mechanism is in place and that the Capacity Mechanism is brought forward as early as possible.

It is assumed that Ofgem's quantification of consumer benefits/costs is based on the SBR being ring fenced from the energy only market, used as a "last resort" and that it does not impact on the energy-only market. On this basis, Ofgem's analysis shows that SBR is beneficial for consumers. However, this is likely to be different in a scenario were the SBR to become an enduring arrangement. In this scenario there is likely to be a detrimental impact on the market more widely, with the risk of the slippery slope of more and more plant becoming uneconomic creating a greater need for plant to participate in and be paid through the SBR arrangements. In this scenario it is unlikely that an enduring SBR would be beneficial to consumers and as such it is imperative that the SBR provisions are removed as soon as possible and replaced by an enduring Capacity Mechanism.

Nonetheless, we agree with Ofgem's impact assessment of the short term implementation of SBR/DSBR services, that the trade-off between costs and benefits is likely to be finely balanced. We also note that Ofgem have no powers to substitute the application made by National Grid with an alternative of their own. This being the case, and notwithstanding our comments above, in the interests of having a mechanism in place that could support security of supply in the winter of 2014/15, we support Ofgem's acceptance of National Grid's application for new SBR and DSBR services.

We previously responded to National Grid's C16 consultation on the SBR and DSBR. Following the changes proposed to the SBR/DSBR arrangements by National Grid, we look forward to seeing these changes included in the BPS, BSAD, etc. in due course.

I hope that you find our comments helpful. Should you have any questions on our response please do not hesitate to contact me.

Yours sincerely

Robert Hackland
Head of Market Development