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Dear Leonardo

## **Funding Arrangements for new balancing Services: Final Proposals**

Thank you for the opportunity to comment on the final proposals associated with the funding arrangements for the new Balancing Services, and the proposed changes to the NGET Transmission Licence as set out in the associated notice issued under Section 11A(2) of the Electricity Act 1989.

Some minor typographical comments on the proposed licence changes are:

- 4K.6: In line 5, close bracket after reference to 4K.3
- 4K.8 In line 6, the reference to DSBR should be SBR
- 4K.19: In line 5, remove “the” before 31 March
- 4K.30: sub paragraphs d, e and f should be sub paragraphs a, b and c.

Whilst we support the introduction of the proposed licence changes, we remain concerned over the ex-post funding of any warming and utilisation costs. We appreciate the opportunity to apply for such costs when the services are first used, and the opportunity to submit an early application if such costs exceed £2.5m, but our uncertainty over cost recovery remains. In particular, as set out in Paragraph 2.21, uncertainty over the ex-post funding of these costs is likely to create additional operational risk which could undermine the effectiveness of these services. It is imperative that the funding of such costs is not considered with the benefit of hindsight and any ex-post assessment takes account of the uncertainty that might be faced by the Control Room when decisions to warm and despatch these services are taken.

Ofgem recognise these as new activities in Paragraph 2.4 of the Final Proposals document, and so it follows that these activities must be delivering new outputs. We also note that the mid-term review will capture changes in outputs justified by clear changes in government policy and the introduction of new outputs needed to meet the needs of consumers and other network users. These services are deemed necessary to support the new Reliability Standard introduced by Government under the Energy Act 2013 ahead of the Capacity Market coming into effect, and the Authority have approved these new tools as providing additional consumer safeguards against narrowing margins in the mid-decade period. Hence in undertaking these new activities, our expectation is that any economically and efficiently incurred internal costs associated with this new activity will be fully recoverable as

part of the mid-term review. Costs associated with implementing these services are now being sanctioned and incurred against this expectation.

The third paragraph on page 5 implies that incentives would apply if the services were extended beyond 15/16. This is not reflected in the drafting (which assumes a roll forward of existing arrangements) or paragraph 2.12 which acknowledges that the drafting provides for the efficiency check approach to be extended if the service procurement is extended. Given this and our reservations regarding ex-post funding of warming and utilisation costs, we would expect a full consultation on both the form of cost recovery and any incentivisation should a decision be taken to extend these arrangements beyond 2015/16.

I trust you will find these comments useful.

*By Email*

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