

System operators, transmission system owners, generators, suppliers, traders, consumers, aggregators and other interested parties

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Dear Colleagues

Decision to approve National Grid Electricity Transmission plc's operational methodologies for SBR and DSBR

This letter sets out Ofgem's decision in respect of the above.

Background

In November 2013, National Grid Electricity Transmission plc (NGET) applied to us for approval for it to introduce two new balancing services: the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR).¹ These services provide NGET with additional tools to help balance the system in anticipation of tighter generation margins in the next few winters and ahead of the first delivery year of the Capacity Market. In December 2013, the Authority approved the option for NGET to use these new services, if required.

Subsequently, we issued a direction to modify NGET's transmission licence to incorporate funding arrangements relating to these services.² These licence conditions came into effect on 6 June 2014.

Pursuant to these funding arrangements, NGET must submit detailed methodologies to us for approval. These methodologies cover how NGET will determine the volume of services required and how it intends to procure, test and use these services (the volume requirement methodology, procurement methodologies and operational methodologies respectively). We believe these methodologies will provide a clear and transparent process for economic and efficient cost recovery: NGET can only recover costs that are consistent with these methodologies.

The volume requirement and procurement methodologies were approved by the Authority in June 2014. The Authority extended the deadline for submission of the operational methodologies to 6 August 2014.³ NGET provided its operational methodologies in accordance with this extension and this letter contains the Authority's decision to approve these methodologies. These methodologies are available on NGET's website.⁴

¹DSBR is a demand-side service that offers payments to half-hourly metered non-domestic consumers if they reduce their demand between 4pm and 8pm on winter weekdays. SBR is a supply-based balancing service that is available between 6am and 8pm on winter weekdays. Further information can be found [here](#)

² The direction to modify NGET's licence can be found [here](#)

³ The direction to change the submission date for the operational methodology can be found [here](#)

⁴ The volume, procurement and operational methodologies can be found [here](#)

Our position

We have decided to approve the operational methodologies, having assessed them against the following criteria:

- a) NGET's operation of the DSBR and SBR must be economic and efficient and the products must represent value for money to electricity consumers.
- b) NGET's operational methodology must describe a clear decision tree that will identify whether utilisation of either the DSBR or SBR is required, how the mechanisms will be utilised, including criteria for the order in which individual providers services are utilised and demonstrate the economy and efficiency of operating these services.
- c) NGET must assess the need for and, if required, operate a testing regime for DSBR or SBR to ensure asset availability and minimisation of costs. Such a regime should include steps to minimise any distortion of the electricity market in Great Britain as a result of testing.

Operational Methodology

The operational methodologies describe how the NGET will determine whether use of the DSBR or thereafter the SBR services are required. The methodology sets out a clear decision tree to evaluate the need to make a SBR provider available or dispatch a DSBR provider. NGET propose evaluating the need for these services at the day-ahead stage, updating it periodically. If there is no market response, a DSBR dispatch is scheduled in economic order. If this is not enough, or any point is reached where delay would render a SBR provider unable to meet the shortfall, the SBR would be made available.

The methodologies also describe how the DSBR and SBR will be tested to ensure availability. NGET proposes the delivery of sample testing of DSBR providers to promote reliability of the service, with failure triggering a free performance test. If the DSBR provider fails a second time, it may be removed as a provider. For SBR, NGET proposes testing each unit once a month between November and February to assess ongoing capability, subject to plant dynamics.

We consider that provided these are implemented correctly, the operational methodologies presented by NGET meet our three main criteria noted above.

Next steps

If NGET incurs any cost in the procurement, test or use of these services it will have to submit notices and reports to us to demonstrate compliance with the methodologies. We may then either allow NGET to recover economic and efficient costs or disallow any costs which have not been incurred in such a manner. The onus will be on NGET to demonstrate to us how the actions it has taken are compliant with the methodologies as it should only be entitled to recover costs that are demonstrably economic and efficient.

Yours sincerely,

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Partner, Markets