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Other Interested Parties

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Date: 30 June 2016

Dear Colleague

Black Start Feasibility Study Notification: Decision Letter

This letter sets out the Authority's approval of £472,064.86 in funding for National Grid Electricity Transmission (NGET) to cover feasibility study costs for the year 2015/16. The costs were incurred by generators testing their Black Start capability to ensure that they are able to meet the technical requirements of the Black Start service. NGET is entitled to recover these costs under the Black Start Feasibility Study costs recovery mechanism in Special Condition 4G of the Transmission Licence. This approval follows NGET's formal application for this funding on 31 March 2016 pursuant to the *ex post* review of feasibility study costs under Special Condition 4G. A direction which approves the funding for NGET is published alongside this letter.

Background

Black Start is the ability of a generator to start up and provide electricity to the transmission system without an external power supply. Black Start power stations assist in the restoration of electricity supply in the event that all or part of the transmission system becomes de-energised as a result of plant failure or other unexpected occurrences. NGET as system operator (SO) is required under the Grid Code¹ to ensure Black Start capability in the system. To meet this obligation NGET enters into bilateral contracts with generators for Black Start services in accordance with its published policy.

Feasibility studies are necessary for potential new providers due to the particular technical requirements of the Black Start service and the effect that providing it can have on service providers. The feasibility studies are procured and conducted by the service providers, who are then compensated by NGET and the costs recouped through this mechanism.

Costs for performing these feasibility studies on potential new service providers are treated outside of the Black Start target, but within the SO Incentive Scheme.² Instead, we perform an *ex post* assessment of the costs incurred by NGET and if they are incurred efficiently and provide long term value to consumer direct them to recover it.

¹ CC6.3.5

² The SO is incentivised under a two-year BSIS, which commenced on 1 April 2015. The BSIS sets an overall cost target which incentivises the SO to take economic and efficient procurement decisions for balancing services. The overall cost target is comprised of a number of smaller targets, including one for Black Start.

NGET's proposal

NGET submitted a request for funding for Black Start Feasibility Studies on 31 March 2016. In it, NGET requested a total of £472,064.86 for a Stage 2 Feasibility Test of one potential new service provider and Manufacturer Testing of another.

The Authority's decision

We recognise that ensuring Black Start capability in the system is necessary to mitigate the impact on consumers of any Black Start event. The declining profitability and likely closure of some existing Black Start providers means that NGET needs to develop a diversified array of new service providers. Black Start Feasibility Studies play a key part in this transition by allowing NGET to test whether new providers are capable of providing the service.

Since NGET's application, we have worked to understand and fully scrutinise these costs. Our assessment described in the subsections below centred on the test set out in NGET's licence. This test requires us to determine whether the costs incurred were, or will be efficiently incurred and will provide long-term value for consumers. Following this assessment, The Authority has decided to approve £472,064.86 of funding for NGET's performance of Black Start Feasibility Studies in the year 2015/16.

Long-term value for consumers

We are satisfied that the costs incurred for the studies are expected to result in significant long-term value for consumers. The contracts under negotiation with these providers are multi-year and have the potential to be extended further. In addition, these potential service providers are expected to remain in the market for a number of years and as such potentially available to provide this service.

Economic and efficient procurement

While no two feasibility studies are identical, NGET has demonstrated that the costs for 2015/16 are in line with historical costs for other studies. In addition, the benchmarking of these costs as a share of expected contract cost is also comparable with other studies. We are therefore satisfied that NGET has demonstrated that the studies and testing have been procured economically and efficiently within given limitations.

Conclusion

As a result of our decision, we have directed NGET to recover £472,064.86 in funding to account for expenditure on Black Start Feasibility Studies. Please note that this figure is excluding Value Added Tax. We reiterate that procurement of Black Start services from a wide array of providers is vital to ensuring that the Black Start service is available at reasonable cost in changing system and that Feasibility Studies are the means to ensure NGET has access to the service providers it needs.

Alongside this letter, we have published a direction to award the funding as set out above.

Next Steps

The system is clearly changing quickly and we note that it is important that Black Start services continue to be procured in an efficient manner and that the incentives that NGET faces are as effective as possible. We will be working with NGET to ensure the current Black Start strategy remains fit-for-purpose and developing and consulting on proposals for incentives from 2017, which support this process.

Yours sincerely

Mark Copley

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Duly authorised on behalf of the Gas and Electricity Markets Authority

30 June 2016