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**28 June 2016**

**CC via email: [Johannes.Pelkonen@ofgem.gov.uk](mailto:Johannes.Pelkonen@ofgem.gov.uk) and [Leonardo.Costa@ofgem.gov.uk](mailto:Leonardo.Costa@ofgem.gov.uk)**

**Response to: Notice requiring the production of specified information under Special Licence Condition 4C.18 in relation to the Income Adjusting Event notice dated 24 May 2016**

Dear Emma,

This letter and its appendices form National Grid's second response to your formal notice dated 14 June 2016 requiring National Grid to produce specific information in relation to the income adjusting event notice submitted by National Grid. The document contains response required by the 28 June 2016 and further response to that submitted on the 21 June with information unavailable at that time.

Your letter noted that there may be circumstances where the disclosure of the information provided may be required and we would ask that if these circumstances occur the commercial confidentiality of the information provided to us by third parties and the confidentiality of the specific stations contracted for Black Start be considered.

If you have any questions regarding this response please contact: Audrey Ramsay ([audrey.ramsay@nationalgrid.com](mailto:audrey.ramsay@nationalgrid.com)) or Andrew Ford ([andrew.J.ford@nationalgrid.com](mailto:andrew.J.ford@nationalgrid.com)).

Yours sincerely,

Audrey Ramsay

Commercial Strategy Manager, System Operator

## Appendix 1 – Additions to National Grids Response Part One

2. Please provide by 21/6/2016 the following information in regards to the closure or mothballing of Drax, Fiddler's Ferry [ ]:

b. The date that NGET was first contacted by these power stations on their consideration to become unavailable for Black Start provision, close or mothball, including a description of the format and content of communications;

c. The date, if any, that NGET became aware that these power stations would take a decision to become unavailable for Black Start provision, close or mothball to their boards, including a description of the format and content of communications;

d. The date when NGET was formally informed of the closure or mothballing decision of each of these power stations, including a description of the format and content of communications;

### Response

b. [ ]

Fiddlers Ferry: Contact was first made by telephone from SSE to [ ]. The following week, on the Monday 25 January, [ ] and [ ] flew to Scotland to gain further understanding of SSEs position. Key areas of discussion were:

- Board subcommittee were intending to make a decision Wed 27 January on the future of plant, with market announcement the next morning and immediate union engagement.
- The position at this time was - likely headline "minded to close, and cease operations from 31 March, except 1 unit contracted for SBR (likely to need [ ] staff)."
- High level indication of financial position at Fiddlers Ferry.

Drax: Discussions had been ongoing with regards to renewing their Black Start contract. Drax did not approach National Grid specifically about their intention to mothball over the summer. This was picked up subsequently in their annual report.

c. Communication of unavailability for Black Start was indicated during the discussions outlined above.

d. There was no formal notification of closure or mothballing to National Grid.

3. Please provide **by 21/6/2016** the following information on the procurement process for Black Start services applied by NGET in relation to the proposed Black Start Income Adjusting Event:

a. The date and rationale for NGET's decision to pursue an Expression of Interest (EOI) exercise, including the objectives of the EOI and any additional parties it sought to attract;

## Response

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- a. On 24 February National Grid took the decision to issue an Expression of Interest and took legal advice on whether this was appropriate. The rationale for doing this was that it was felt that this would create some competitive tension between the potential providers and therefore achieve the best outcome for consumers by concluding the bi-lateral discussions that National Grid had been having competitively. There was also the additional benefit that, whilst we considered that we were already talking to any provider that could provide the service, there may have been others which we were unaware of and so this process would highlight a need to new providers. This did not identify any new providers that were able to provide the service by 1 April but has enabled National Grid to pursue longer term discussions with potential providers.

5. Please provide by 21/6/2016 a summary of any verbal or written communication, in any form or format<sup>1</sup> between NGET and SSE, as well as NGET and Drax relating to the Black Start contracts with these providers following NGET's submission of the Income Adjusting event, excluding any communication from the control room on operational matters.

## Response

Further discussions with SSE and Drax have taken place with regard to publication dates of the Black Start Income Adjusting Event, and alignment of communications through press office contacts.

## Appendix 2 – National Grids Response Part Two

8. Please expand on the Notice's description by 28/6/2016 of how the costs incurred as a result of this event were beyond NGET's reasonable control.

### Response

- **The extent to which the unfavourable market conditions would lead to plant closure or mothballing decisions for 2016/17 was unforeseen.**

National Grid were aware that market conditions could lead to coal plant declaring themselves 'summer cold' or light mothballing across the summer months, resulting in an increasing need for warming. This resulted in a Black Start Mid Scheme Review submission to Ofgem in December 2015. However, our analysis supported the stations remaining open but with reduced operations across the summer.

- **Decisions taken by the boards of power stations on the future of those power stations, taking into account both projected income and expenditure, are outside the control of NGET in its role as GBSO.**

Anecdotal conversations with a large range of market participants have discussed how market prices have dropped much lower than anticipated. This has led to a number of company boards re-evaluating their decisions on the life time of their power stations. Whilst the future revenue that a generator may expect to receive from balancing services with National Grid will be taken into account in any decision making process, the decision on whether to keep a power station open or not is the responsibility of the company board, who are accountable to their shareholders.

- **NGET has an obligation under the Grid Code (CC6.3.5)<sup>1</sup> to ensure that the NETS can be re-energised in the event of a total or partial system shutdown and therefore the obligation to contract with such stations for Black Start cannot be avoided.**

As noted above, National Grid has a Grid Code obligation to ensure that Black Start capability is maintained. However this does not state 'at any cost' and therefore an assessment will always be made on the most cost effective level of capability, taking account of the interests of consumers.

New Black Start services are being developed but these are multi year projects which require significant feasibility study and capital work. This means that there are limited circumstances where projects can be expedited in the timeframe of the generators decisions.

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<sup>1</sup> **Grid Code CC6.3.5.** It is an essential requirement that the National Electricity Transmission System must incorporate a Black Start Capability. This will be achieved by agreeing a Black Start Capability at a number of strategically located Power Stations. For each Power Station NGET will state in the Bilateral Agreement whether or not a Black Start Capability is required.

9. Please provide **by 28/6/2016** the justification, including data in regards to the Fiddler's Ferry contract and the contract negotiation where applicable on:
- a. Any verbal or written communication, in any form or format<sup>1</sup> in relation to the Black Start contract between NGET and SSE on whether SSE would retain Transmission Entry Capacity for a capacity above that required to maintain plant availability to provide the Black Start service (including summary);
  - b. [ ];
  - c. The analysis and rationale used by NGET to set the clawback mechanism and how it minimises market distortion, including NGET's expectation of the value recouped through the clawback;
  - d. Zones where Fiddler's Ferry could and could not provide Black Start service, including borrowing;
  - e. [ ].

#### Response

- a. National Grid did not have any discussions with SSE prior to submissions of the tenders with regards to the retention of TEC above that required to maintain black start capability.
- b. [ ]
- c. [ ]
- d. [ ]
- e. [ ]

10. Please provide **by 28/6/2016** the justification, including data in regards to the Drax contract and the contract negotiation where applicable:
- a. Evidence on the feasibility of contracting two units at Drax instead of alternative providers;
  - b. The analysis and rationale used by NGET to set the profit-sharing mechanism and how it minimises market distortion, including NGET's expectation of the value recouped through profit-sharing;
  - c. Zones where Drax could and could not provide Black Start service, including borrowing. [ ]

#### Response

- a. The technical analysis carried out by National Grid and included in the IAE submission showed a technical preference for one unit at Drax and one unit at Fiddlers Ferry. One of the drivers for this preference is that relying on one station for the restoration of northern England and Scotland does not provide any redundancy. As a result the possibility of contracting two units at Drax was dismissed early in the assessment process.
- b. [ ]
- c. [ ]

11. []

a. []

b. []

c. []

**Response**

a. []

b. []

c. []