



The Office of Gas and Electricity Markets
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14th July 2016

Consultation on a Proposed Income Adjusting Event submitted by National Grid Electricity Transmission plc in relation to the 2015-17 Electricity System Operator Incentives Scheme

UK Power Reserve is an independent power generator with an extensive smart generation portfolio across England and Wales. Our primary business is to support the security of energy supply in the UK through ancillary services we provide to National Grid. We are committed to supporting the government's objective of decarbonisation through the flexible supply services we offer; unlocking the capacity for a flexible renewable energy infrastructure in the UK. To date, UK Power Reserve is the most successful and largest developer of new build gas-fired distributed generation in the Capacity Market, and continues to play a key role in shaping the future of the UK energy industry.

UK Power Reserve is an established provider of ancillary services to National Grid ('NGET') and notes the significance of this application for an Income Adjusting Event ('IAE'). The application made by NGET to increase the 2016-17 Black Start target closely follows a recent increase in the Black Start target by 55% to £34.74m, enabled by Ofgem under the Balancing Services Incentive Scheme ('BSIS') mid-scheme update in March 2016. The application for an IAE submitted by NGET in May 2016 to further adjust the maximum Black Start target for the same period by £113m represents a significant increase of 325% to reflect the cost of additional Black Start capacity procured. Due to the significance of the adjustment and timing of the application which followed a recent revision granted by Ofgem, made in light of recent market conditions. This therefore brings into question the actions and processes taken by NGET in the procurement of its Black Start capacity.

The application made by NGET to reflect costs for additional Black Start capacity procured for 2016-17 had been justified by unforeseen circumstances and events outside of NGET's control which NGET claim to constitute an IAE. These unforeseen circumstances were specified as unforeseen closures or mothballing of large thermal plant in February 2016, namely large coal-fired thermal plant. It is therefore pertinent to ask whether these closures should have been foreseen, or planned for when NGET set out its Black Start procurement policy in 2012.

Contrary to this explanation, it was widely acknowledged in 2012 that up to 20% of traditional flexible generating capacity was expected to close over the next decade. This was parallel to the government's direction of policy at the time under Electricity Market Reform ('EMR') which aimed to transition the UK's generation mix away from traditional fossil fuels and phase out coal by 2025 through higher taxation. Taking this into consideration, it would have been clear at the time that NGET's Black Start portfolio, of which the vast majority consisted of coal-fired capacity would inevitably have been adversely affected by these policy decisions. It should therefore be investigated what considerations

NGET had given to these policy decisions, and what actions it had taken in the when setting out its policy for procuring Black Start capacity.

In addition to whether these events could have been foreseen, the tender process under which the two contracts with Drax and Fiddlers Ferry were awarded under should be examined as to whether they represent value for money for the consumer. The additional £113m of costs that would be passed onto consumers via BSUoS charges represents a material increase of approximately 13%, relative to average annual BSUoS charges of £850m. This sharp increase in BSUoS charges therefore gives rise to question as to whether these contracts were awarded in the most cost efficient and economic manner. In addition, it should also be investigated as to why these costs were not realised in the mid-scheme BSIS review which have been exceeded by 325%.

In conclusion, the events leading up to this application for additional costs for Black Start capacity appear to have been foreseeable, and the costs disproportionately higher. This questions the credibility of the application for an IAE submitted by NGET and brings wider questions as to whether the system operator has acted in the most efficient and economic manner, and in the interests of the consumer. We encourage the regulator to closely examine the processes followed by NGET which has allowed this to occur and what reforms may be required for the future.

UK Power Reserve Ltd