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Direct Dial: 020 7901 7000
Email: soincidentive@ofgem.gov.uk

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Dear colleagues

Decision to approve National Grid Electricity Transmission's (NGET's) proposed Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) Operational Methodologies for Winter 2016/17

This letter sets out our decision to approve NGET's proposed SBR and DSBR Operational Methodologies for 2016/17¹. These methodologies were submitted to us by NGET under Special Licence Condition 4K of the NGET Transmission Licence. They set out how NGET will use any SBR and DSBR respectively which they have procured if there is insufficient generation capacity available in the market to meet demand and reserve requirements during Winter 2016/17.

SBR Operational Methodology for 2016/17

The proposed SBR Operational Methodology for 2016/17 includes information on the process to prepare SBR prior to the Day-Ahead point. This is the main change from the SBR Operational Methodology for 2015/16. It is to take account of the potential use of long notice plants contracted for winter 2016/17. The other changes include more minor amendments and clarifications to the operational principles, to NGET's process for preparing SBR from the day-ahead point onwards and the despatch process, and to testing arrangements.

DSBR Operational Methodology for 2016/17

The proposed DSBR Operational Methodology for 2016/17 includes no changes to the actual process from that outlined in the DSBR Operational Methodology 2015/16. The only changes are updated figures to the DSBR sample testing budget to reflect a revised working example.

Grid Code modification GC0093

We approved the Grid Code modification GC0093 Assessment of System Warnings to change the name of Notification of Inadequate System Margin (NISM) to Electricity Margin Notice (EMN) on 22 September for implementation on 30 September 2016.² Both the SBR and DSBR Operational Methodologies were submitted to us before the Grid Code

¹ The methodologies and previous versions: <http://www2.nationalgrid.com/UK/Services/Balancing-services/System-security/Contingency-balancing-reserve/Methodologies/>

² <https://www.ofgem.gov.uk/publications-and-updates/grid-code-gc0093-assessment-system-warnings>

modification proposal and therefore refer to NISMs at various stages. We do not consider this to be a reason for rejecting them given the term was correct at the time at which the methodologies were submitted to us, and that the term NISM will continue to be understood within Industry. The code modification has no impact on the actual processes set out in the methodologies.

Our decision

We have assessed the methodologies against the requirements in Special Condition 4K.6 and 4K.8. In addition, we have considered three key factors which we consulted on in June 2013³:

- a) NGET's procurement must be economic and efficient and the products must represent value for money to electricity consumers;
- b) NGET's product design and proposed use of the new products must minimise unintended consequences to market participants and the operation of the market, and;
- c) NGET's procurement process must be objective and transparent.

We are satisfied, having reviewed the proposed methodologies, that when applied correctly they will meet the requirements of Special Condition 4K, they are consistent with the three factors set out above, and they are in the interests of consumers.

If you have any comments or questions on the content of this letter, please email soincentive@ofgem.gov.uk.

Yours faithfully

Emma Kelso
Partner, Wholesale Markets

³ <https://www.ofgem.gov.uk/sites/default/files/docs/2013/06/consultation-on-the-potential-requirement-for-new-balancing-services-to-support-an-uncertain-mid.pdf>