

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

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Dear colleagues

Decision to remove the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) cost recovery arrangements for 2017/18

This letter sets out our decision to remove the Supplemental Balancing Reserve¹ ('SBR') and Demand Side Balancing Reserve² ('DSBR') cost recovery arrangements for 2017/18. This will remove the ability of National Grid Electricity Transmission (NGET) to recover any efficient costs associated with procuring or operating these services in Winter 2017/18, but will not impact on the arrangements for 2016/17. This decision will also remove obligations on NGET to submit methodologies in respect of procuring, testing and utilising SBR and DSBR for 2017/18.

SBR and DSBR were designed to be short term tools to address specific concerns about the electricity supply outlook for 2014/15 and 2015/16, and were further extended to cover 2016/17 and 2017/18. However, with the Capacity Market now in place with 54.43GW of capacity procured for delivery in 2017/18, these additional balancing tools will no longer be required³.

Background

In December 2013, the Authority approved NGET's application to introduce two new balancing services, SBR and DSBR. These services were introduced to bridge the gap between tightening generation margins in the mid-decade period and the introduction of the Capacity Market. They were put in place to provide NGET with additional tools to help balance the system in the rare event that there is insufficient generation in the market to meet demand, and can only be used when all other system balancing actions (including all Balancing Mechanism, BM, offers) have been exhausted.

In April 2014 we modified NGET's transmission licence to implement arrangements for cost recovery of the economic and efficient costs relating to the procurement and use of SBR and DSBR for 2014/15 and 2015/16.⁴ This licence modification came into effect on 6 June 2014. Following a review, NGET identified a need for continued access to these additional

¹ A generation service where a generator is kept on standby should NGET require additional resources to balance the system.

² A demand side response service aimed predominantly at large scale electricity customers and aggregators prepared to shift or shed demand when instructed by NGET.

³ Our view on the balancing need for these services once the CM is established is available at https://www.ofgem.gov.uk/system/files/docs/2016/02/ofgem_open_letter_on_future_sbr_and_dsbr_given_proposal_to_run_a_ca_auction_for_2017_18_2.pdf

⁴ Our decision can be found at <https://www.ofgem.gov.uk/publications-and-updates/decision-funding-arrangements-new-balancing-services>

balancing services for two years, 2016/17 and 2017/18 - until the first Capacity Market delivery year (then expected to be in 2018/19). Following consultation, we issued a direction⁵ in November 2015 (the 'November 2015 Direction') to extend the arrangements accordingly. The November 2015 Direction extended the SBR and DSBR cost recovery arrangements to cover 2016/17 and 2017/18 by including them for the purposes of Special Condition 4K.3.

On 1 March 2016⁶, following the Government's announcement that it would be bringing forward the Capacity Market for delivery in 2017/18, we stated in an open letter that we expected this to mean that SBR and DSBR services would not be needed for 2017/18.

Consultation responses summary

We asked stakeholders to comment on our minded to decision to issue a direction to remove NGET's SBR and DSBR cost recovery arrangements and obligations to submit methodologies in respect of procuring, testing and utilising SBR and DSBR for 2017/18.

We received 12 responses. The responses are published alongside the decision letter on our website. All but one of the responses were supportive of our minded to decision. One respondent agreed with removal of the SBR provisions, but argued that DSBR could continue to provide additional flexibility to NGET. However, there are other appropriate routes for Demand Side Response providers to offer flexibility to NGET. Some stakeholders suggested that it would be helpful for Ofgem to outline the timescales for removing the remaining SBR and DSBR provisions from NGET's licence.

Two respondents argued changes were also needed to other cost recovery and charging arrangements which sit under the Grid Code and are outside the scope of this consultation. One respondent suggested that the cost recovery provision on other balancing measures via Balancing Services Use of System charge should also come to an end, whilst a separate response suggested that reforms to Transmission Network Use of System charges were required to facilitate effective Capacity Mechanism.

Our decision

The Early Capacity Auction was held in February 2017 and procured 54.43GW of capacity for the 2017/18 Delivery Year. In light of this and the consultation responses, we are issuing a direction today which has the effect of removing the SBR and DSBR cost recovery arrangements for 2017/18, and obligations on NGET to submit methodologies in respect of procuring, testing and utilising SBR and DSBR for 2017/18. The direction is published on our website with this letter.

Our decision does not affect the existing cost recovery arrangements for 2016/17. We will not carry out any modifications to NGET's licence in respect of the wider SBR and DSBR provisions until the cost recovery process for 2016/17 is complete. We expect to consult later in the year to remove the remaining SBR and DSBR provisions from NGET's licence.

Yours faithfully



Mark Copley
Associate Partner, Wholesale Markets

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https://www.ofgem.gov.uk/sites/default/files/docs/direction_issued_to_national_grid_electricity_transmission_plc.pdf

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https://www.ofgem.gov.uk/system/files/docs/2016/02/ofgem_open_letter_on_future_sbr_and_dsbr_given_proposal_to_run_a_ca_auction_for_2017_18_2.pdf

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