

System operators, Transmission  
System Owners, Generators,  
Suppliers, Traders, Consumers,  
Aggregators and other interested  
parties



Making a positive difference  
for energy consumers

Direct Dial: 020 7901 7000  
Email: [soincentive@ofgem.gov.uk](mailto:soincentive@ofgem.gov.uk)

Date: 28 July 2017

Dear Colleagues

## **Consultation on removing references to Supplemental Balancing Reserve and Demand Side Balancing Reserve from National Grid Electricity Transmission plc ('NGET') licence**

On 7 March 2017 the Gas and Electricity Markets Authority ('the Authority') decided to remove the Supplemental Balancing Reserve<sup>1</sup> ('SBR') and Demand Side Balancing Reserve<sup>2</sup> ('DSBR') cost recovery arrangements for 2017/18. This decision removed the ability of NGET to recover any costs associated with procuring or operating these services in Winter 2017/18. In our decision<sup>3</sup>, we also said that we would consult on removing the remaining provisions from NGET's licence once the cost recovery process for 2016/17 is complete.

This consultation sets out our proposed approach to removing SBR and DSBR references from NGET's licence.

### **Background**

In December 2013, the Authority approved NGET's application to introduce two new balancing services, SBR and DSBR. These services provide NGET with additional tools to help balance the system in the rare event that there is insufficient capacity in the market to meet demand. They were introduced to bridge the gap between tightening generation margins in the mid-decade period and the introduction of the Capacity Market.

We modified NGET's transmission licence to implement arrangements for cost recovery relating to the procurement and use of SBR and DSBR for 2014/15 and 2015/16. This licence modification came into effect on 6 June 2014 and required NGET to have in place methodologies, approved by us, which provide detail on how it will procure and use SBR and DSBR in an economic and efficient way.

---

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

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

<sup>3</sup> Our decision to remove cost recovery from NGET's licence can be found at [https://www.ofgem.gov.uk/system/files/docs/2017/03/decision\\_to\\_remove\\_sbr\\_and\\_dsbr\\_cost\\_recovery\\_arrangements\\_for\\_2017-18.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/03/decision_to_remove_sbr_and_dsbr_cost_recovery_arrangements_for_2017-18.pdf)

SBR and DSBR were designed to be short-term tools to address specific concerns about the supply outlook for 2014/15 and 2015/16. NGET subsequently identified a need for SBR and DSBR in 2016/17 and 2017/18 – i.e. until the first Capacity Market Delivery Year (then expected to be in 2018/19). Following consultation, we issued a direction<sup>4</sup> in November 2015 to extend the arrangements accordingly.

In March 2016, Government announced its intention to bring forward the Capacity Market by a year. In response<sup>5</sup>, we said that this meant SBR and DSBR services would no longer be required in Winter 2017/18. An Early Capacity Auction was held in February 2017 and procured 54.43GW of capacity for the 2017/18 Delivery Year. Following consultation, we subsequently issued a further direction in March 2017<sup>6</sup>, with the effect of removing the SBR and DSBR cost recovery arrangements for 2017/18. At the time, we also indicated that we expected to consult to remove the remaining SBR and DSBR provisions from NGET's licence following completion of the cost recovery process for Winter 2016/17.

### **Our minded to decision**

We published our decision on NGET's cost recovery application for NBS Winter 2016/17 in April<sup>7</sup>. Consequently, we are now publishing our minded to decision to remove the remaining references to SBR and DSBR from NGET's licence. We are publishing details of these amendments alongside this letter.

Should you have any comment on our minded to decision to remove references to SBR and DSBR from NGET's licence or any comment on the proposed changes to the licence, they should be sent to [soincidentive@ofgem.gov.uk](mailto:soincidentive@ofgem.gov.uk) by 8 September 2017.

Please indicate if you would like your response to remain anonymous as we intend to publish all responses to this consultation on our website.

### **Next steps**

Once this consultation concludes and subject to industry feedback, we expect to issue a direction to remove the SBR and DSBR references from NGET's licence.

Yours faithfully



Mark Copley

**Associate Partner, Wholesale Markets**

**28 July 2017**

---

<sup>4</sup> The direction is available at <https://www.ofgem.gov.uk/publications-and-updates/decision-continue-sbr-and-dsbr-cost-recovery-arrangements-201617-and-201718>

<sup>5</sup> Our response 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](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)

<sup>6</sup> Our decision to remove cost recovery provisions for Winter 2017/18 is available at [https://www.ofgem.gov.uk/system/files/docs/2017/03/decision\\_to\\_remove\\_sbr\\_and\\_dsbr\\_cost\\_recovery\\_arrangements\\_for\\_2017-18.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/03/decision_to_remove_sbr_and_dsbr_cost_recovery_arrangements_for_2017-18.pdf)

<sup>7</sup> Our decision is available at <https://www.ofgem.gov.uk/publications-and-updates/decision-nget-s-cost-recovery-application-new-balancing-services-winter-201617>