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Date: 30 June 2017

Dear Colleague

### **Black Start Feasibility Study Notification: Decision Letter**

This letter sets out the Authority's decision to direct National Grid Electricity Transmission (NGET) to recover £1,871,822 of costs incurred to conduct Black Start Feasibility Studies in 2016/17. The costs were incurred by generators testing their Black Start capability to ensure that they are able to meet the technical requirements of the service. NGET may submit to the Authority a notification of any costs which it considers should be recovered under the Black Start Feasibility Study costs recovery mechanism in Special Condition 4G.5 of its Transmission Licence.

This letter gives reasons for the Authority's decision to direct the recovery of £1,871,822 of the costs specified in NGET's notification to the Authority. A direction approving recovery of those costs is published alongside this letter. We are unable to approve the remainder of the costs submitted to us for the reasons specified below.

### **Background**

Black Start is the process used to recover from an event which results in the full or partial shutdown of the transmission system. Isolated power stations are started individually without an external power supply, and gradually reconnected in order to re-energise the system. NGET, as the System Operator (SO) in Great Britain (GB), has an obligation under the Grid Code<sup>1</sup> to ensure Black Start capability is available.

Feasibility studies are necessary for potential new providers to make sure they can meet the technical requirements of the Black Start service. NGET pays the service providers for conducting these studies and can recover the costs through the Black Start Feasibility Study costs recovery mechanism in NGET's licence, provided we are satisfied the costs incurred are efficient.

### **NGET's Notification**

On 31 March 2017 NGET submitted a notification ('the Notification') to the Authority of costs totalling £1,826,542 it considered should be recovered in respect of 2016/17,

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<sup>1</sup> As set out in Grid Code CC6.3.5 and OC9.4.7.12.

pursuant to Special Condition 4G.5. On 28 April 2017 we received a revised Notification of costs totalling £2,025,120 following the discovery of errors in the initial submission. A further revision was made on 23 May 2017, which brought the final requested total to £2,007,976.

The difference between the initial submission and the final submission reflects the following corrections made by NGET::

- £504,481 of in scope costs for testing by one provider were not included in the initial Notification.
- £305,902 of out of scope costs not related to a feasibility study were included in the initial Notification.
- Some invoices were incurred in Euros but submitted without conversion in Pounds Sterling, which resulted in a difference of £17,195.

Overall, this resulted in an absolute total deviation of £827,578, equivalent to 45% of the original Notification

### **The Authority's decision**

Securing new options for Black Start capability is necessary to help promote liquidity in the market and to help ensure the value for money of the service for consumers.

We have worked to understand and fully scrutinise the costs submitted in the Notification. Our assessment described in the subsections below centred on the test set out in Special Condition 4G.6 which requires us to determine whether the costs incurred were, or will be efficiently incurred and will provide long-term value for electricity consumers.

#### *Efficient procurement*

Feasibility studies and their costs can differ significantly between providers and are difficult to compare, but NGET has demonstrated that the costs for 2016/17 are in line with historical costs for other studies, including in comparison to last year's benchmarks. In addition, the benchmarking of these costs as a share of expected contract cost is also comparable with other studies. We are satisfied that NGET has demonstrated that the studies and testing have been procured and incurred efficiently.

#### *Long-term value for electricity consumers*

We are satisfied that the costs incurred for the studies are expected to result in significant long-term value for electricity consumers. The contracts under negotiation with the providers specified in the Notification are multi-year and have the potential to be extended further. In addition, these potential service providers are expected to remain in the market for a number of years and, as such, they would be potentially available to provide this service longer term.

#### *Costs falling (out of scope)*

Special Condition 4G.5 allows NGET to submit costs in respect of "Relevant Year t". In the case of the Notification, the Relevant Year was 2016/17. However, £107,330 of the costs submitted by NGET were in respect of 2015/16 and therefore, fell outside the scope of the permitted submission for 2016/17. A further £28,823 of the costs did not relate to Black Start Feasibility Studies and therefore, also fell outside the scope of the submission permitted under Special Condition 4G.5.

## **Conclusion**

Taking the outcome of the above assessment into consideration, we are satisfied that a total £1,871,822 of the costs submitted to us in respect of the year 2016/17 were, or will be efficiently incurred and will provide long term value for electricity consumers in respect of Black Start Feasibility Studies. Therefore, we approve and direct NGET to recover those costs. This figure is excluding Value Added Tax.

## **Next Steps**

We introduced a new regulatory framework for the Black Start service from 1 April 2017.<sup>2</sup> On 2 June 2017 NGET submitted Black Start strategy and Black Start procurement methodologies to satisfy its obligations under the new framework, which also describes how it will approach Feasibility Studies. At the end of the Relevant Year 2017/18, NGET will have to submit all the relevant costs to the Authority for an *ex post* assessment where we will determine whether the costs were incurred in accordance with the relevant approved methodologies.

In the meantime, we will continue to work with government and industry on reviewing Black Start arrangements and will make any changes necessary to the regulatory framework to support an optimal Black Start framework in GB.

Yours faithfully

**Emma Kelso**

**Partner, Wholesale Markets**

Duly authorised on behalf of the Gas and Electricity Markets Authority

**30 June 2017**

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<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-electricity-system-operator-incentives-april-2017-modification-standard-and-special-licence-conditions-transmission-licence>