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Making a positive difference
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Date: 29 September 2017

Dear Colleagues

Decision to remove all references to Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) from the Special Conditions to National Grid Electricity Transmission plc's ('NGET') licence

This letter sets out our decision to remove all remaining references to Supplemental Balancing Reserve¹ ('SBR') and Demand Side Balancing Reserve² ('DSBR') from NGET's licence ('the Licence'). This follows our decision in March 2017 to remove the cost recovery arrangements and relevant NGET obligations for 2017/18. In March, we retained certain provisions in the Licence to enable us to complete the 2016/17 cost recovery process. Cumulatively, the changes specified in the statutory decision notice attached to this letter remove NGET's ability to recover any costs associated with provision of SBR or DSBR in the future.

Background

We approved NGET's application to introduce two new balancing services, SBR and DSBR, in December 2013. SBR and DSBR were designed as short-term balancing tools to bridge the gap between tightening generation margins in the mid-decade period and the introduction of the Capacity Market. They provided NGET with additional tools to help balance the system in the rare event that there was insufficient capacity in the market to meet demand. These tools were originally intended to be available for 2014/15 and 2015/16. This was subsequently extended to 2016/17 and 2017/18, to cover the period before the first Capacity Market full delivery year.

In May 2016, Government announced that it was going to bring forward the Capacity Market by a year. An Early Capacity Auction (ECA) was held in February 2017 and procured

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.

54.43GW of capacity for the 2017/18 Delivery Year. Consequently, this removed the need for SBR/DSBR in 2017/18.³

Following consultation, we issued a direction in March 2017⁴ removing the SBR and DSBR cost recovery arrangements for 2017/18 from the Licence. At the time, we also indicated that we expected to consult to remove the remaining SBR and DSBR provisions following completion of the cost recovery process for Winter 2016/17. The cost recovery process is now complete⁵.

Consultation responses summary

We asked stakeholders to comment on our intention to amend NGET's licence to remove the remaining references to SBR and DSBR, and the proposed licence changes⁶.

We received a total of three responses, which were all supportive of our minded-to decision to amend the Licence. The responses are published alongside this decision letter on our website.

Our decision

In light of the consultation responses, we have decided to proceed with the modifications that are set out in the statutory decision notice referred to below. These modifications will take effect on 25 November 2017.

A statutory decision notice modifying the licence has today been issued to NGET and has also been published on our website with this letter.

If you have any questions about the content of this letter please email soincentive@ofgem.gov.uk.

Yours faithfully

Mark Copley

Associate Partner, Wholesale Markets

29 September 2017

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 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

⁵ Our cost recovery decision is available at https://www.ofgem.gov.uk/system/files/docs/2017/04/20170412_draft_decision_on_sbr_and_dsbr_cost_recovery_for_2016_17.pdf

⁶ Our consultation and proposed licence changes to remove references to SBR and DSBR from NGET's licence are available at <https://www.ofgem.gov.uk/publications-and-updates/consultation-removing-provisions-relating-supplemental-balancing-reserve-and-demand-side-balancing-reserve-national-grid-electricity-transmission-plc-s-licence>