

**Energy UK response to Ofgem open letter on minded to decision to extend the SBR and DSBR cost recovery arrangements for 2016/17 and 2017/18****11 November 2015**

Dear Leonardo,

Energy UK welcomes the opportunity to respond to the Ofgem open letter. Energy UK is the trade association for the GB energy industry with a membership of over 80 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies' right through to new, growing suppliers and generators, which now makes up over half of our membership.

As you will be aware from previous consultation responses and discussions with Ofgem, SBR, in the opinion of Energy UK members, poses some serious concerns for the electricity generation sector.

We recognise National Grid's analysis which indicates that there are scenarios in which capacity margins could fall below the Government's Reliability Standard over the next two winters. Therefore we understand that it is prudent for National Grid to be prepared for such events. However, Energy UK members have significant concerns about the negative impact that SBR is having on the wholesale market. All thermal generators are currently struggling in current market conditions and SBR contributes to this situation, particularly as it is not a market based mechanism. SBR is impacting long term investment signals by dampening the curve and keeping plant on the system that would otherwise close. The impact of such an instrument on longer term security of supply should be an important consideration but this aspect continually seems to be underappreciated.

Energy UK welcome Ofgem's commitment that SBR and DSBR will not be needed once the CM is in place and to ensure the appropriate changes are made to its licence by the end of winter 2017/18 to remove the provision for SBR and DSBR.

Whilst Ofgem is confident that mitigation procedures have been put in place to avoid any distortion, we will only know once SBR and DSBR have been used, which there is an increased likelihood of this Winter. We encourage National Grid to share its analysis that there are no distortions both in the short and long term. Ofgem should also undertake and publish its own independent assessment of the impacts before approving use of the products over winters 2016/17 and 2017/18, especially in the light of the consistent and repeated feedback of the industry. If Ofgem approves the extension of SBR and DSBR it must pay close attention to ensure that distortion is minimised and proportionate. For example, it is absolutely vital that testing of SBR plant should take place overnight. Also, in order to avoid distorted interaction with the Capacity Market, SBR tender results should be published after the capacity auction.

An increase to the volume cap should be avoided to prevent further market distortion, unless absolutely necessary in order to meet Government's security of supply objectives. Before any decision is made to increase the cap, a detailed cost benefit analysis should be undertaken as the cost to consumers of the measures could increase significantly. This analysis should also ensure that any intervention is proportionate to the problem that it is alleviating. Without such analysis, which itself, should be open to challenge and commentary by the affected parties, it would seem inappropriate to extend the cost recovery arrangements at this point.

Energy UK members would welcome the opportunity to meet with you to discuss these issues in further detail and better understand Ofgem's process, decision criteria, and monitoring.

For further information or questions, please contact:

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