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## **Minded to decision to extent the Supplemental Balancing (SBR) and Demand Side Balancing Reserve (DSBR) cost recovery arrangements for 2016/17 and 2017/18**

Dear Emma,

Thank you for your letter dated 15<sup>th</sup> October regarding Ofgem's "Minded to decision to extent the Supplemental Balancing (SBR) and Demand Side Balancing Reserve (DSBR) cost recovery arrangements for 2016/17 and 2017/18". We are responding on behalf of RWE companies operating in the UK.

We note Ofgem's comments on the impact of SBR and DSBR on cash out prices, the effect on marginal plant and the implications for the capacity market. We continue to believe that SBR and DSBR detrimentally interact with the electricity and capacity markets, creating a missing money problem, impacting on marginal plant revenue and distorting the plant availability decisions. The resulting inefficiencies could be material, resulting in increased costs for customers.

With regard to the cost recovery, given Ofgem's previously announced support for the continuation of SBR and DSBR we can see no alternative to extending the existing cost recovery arrangements.

We note that the capacity market is based on a security standard with a "loss of load expectation" of "3-hours". We do not understand the rationale for adopting a lower security standard for SBR and DSBR (i.e. around 1-hour). It makes no sense to set a benchmark loss of load expectation of 3-hours in the capacity market then procure capacity in the short term to meet a different standard. We believe that Ofgem should consider seriously the implications for the energy market of this confusion over security standards and make it clear to the industry that SBR and DSBR will not be continued beyond the start of the first Capacity Market Delivery Year.

If you have any comments or wish to discuss the contents of this letter then please do not hesitate to contact me.

Yours faithfully

*By email*

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