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Date: 31 March 2016

Dear Colleague

Black Start mid-scheme target update: Decision Letter

This letter sets out the Authority's approval of an increase in National Grid Electricity Transmission's (NGET's) balancing services incentive scheme (BSIS) target by a maximum of £12.39 million for the year 2016/17. This approval follows NGET's formal application for an increase to the Black Start target as part of the mid-scheme update provisions under BSIS. The Authority's approval is conditional on NGET providing clear evidence that it has finalised contracts in line with its proposals and within the period from 1 April 2016 to 31 March 2017. A direction which deems an increase to the value of the Black Start target is published alongside this letter.

Background

Black Start is the ability of a generator to start up and provide electricity to the transmission system without an external power supply. Black Start power stations assist in the restoration of electricity supply in the event that all or part of the transmission system becomes de-energised as a result of plant failure or other unexpected occurrences. NGET as system operator (SO) enters into bilateral contracts with generators for Black Start services in accordance with its published policy.

The SO is incentivised under a two-year BSIS, which commenced on 1 April 2015. The BSIS sets an overall cost target which incentivises the SO to take economic and efficient procurement decisions for balancing services. The overall cost target is comprised of a number of smaller targets, including one for Black Start.

Under the incentive scheme, we identify those costs that can be forecast at the start of the scheme year and derive a cost target¹. NGET is incentivised to outperform this target. We also provide NGET with the opportunity to apply for a one-off, mid-scheme update in the target for the most volatile and difficult to predict costs.

¹ Note this is independent of the cost targets derived from the energy and constraints models to form the BSIS cost target

Mid-scheme update

Under the mid-scheme update provisions, NGET is able to make a submission to the Authority, prior to 31 December of the calendar year prior to the start of the incentive year, requesting a change to certain of the components which make up the Black Start target. This submission must be supported by evidence of why the change would be efficient and economic. Table 1 below breaks out the different elements of the Black Start target, describes the way they are treated under the existing regulatory framework and summarises the target in place for 2015/16.

Table 1: The original Black Start Target Breakdown

Cost area	Description	Treatment	2015/16 target	2016/17 target
Availability fees	Payments to providers for being available to provide a Black Start service	Eligible for a revision as part of the mid-scheme update	£22.35 million	£22.35 million (subject to mid-scheme update of agreed variables)
Testing	Testing to ensure that the plant can provide a Black Start service if called upon	Ex ante (not eligible for revision as part of the mid-scheme update)		
Capital contributions	Contributions provided by NGET for new and existing providers to invest in the required capital to provide this service within the scheme period	Eligible for a revision as part of the mid-scheme update		
Warming	Payments to providers to ensure they are available to provide a service when they would otherwise not be	Eligible for a revision as part of the Mid-scheme update		
Feasibility studies	Costs of feasibility studies to identify potential providers	Analysed Ex post	NA	NA
Total cost target			£22.35 million	£22.35 million

NGET's proposal

NGET submitted a request for a mid-scheme update on 23 December 2015. Since that time we have worked to understand and fully scrutinise these costs. The costs requested by NGET can be broken down into capital contributions, availability fees and warming costs:

- Capital contributions – NGET requested an increase in the target of £2.9 million;
- Availability fees – NGET requested an increase of £2.96 million to cover payments to new service providers and notified us of a decrease in the previous target of

£9.98 million arising from contracts ending and/or being renewed at lower costs than forecast;

- Warming – NGET requested an increase of £28 million to account for expected changes in overall plant availability. In simple terms this reflected a greater need to warm plant due to changes in their expected patterns of operation.

The Authority's decision

We recognise that the procurement of Black Start contracts is necessary to reduce the risk of system security issues. The Authority has decided to adjust NGET's target for Black Start to £34.74 million at a maximum and £31.78 million at a minimum for the year 2016/17.

Capital contributions

NGET has demonstrated that the £2.9 million increase in capital contributions is economic and efficient and provides long-term value to consumers. The costs incurred are in accordance with historical and benchmarked costs for this type of investment. As such, the Authority agrees to raise the target to account for the entire amount.

Availability fees

NGET has explained the steps it is taking to explore contracting options with a range of service providers and the way that recent closure decisions and market conditions have substantially altered the parties that provide Black Start. This leads to two changes in the target in respect of availability:

- As we agree that the end of contracts and other lower priced renewals should be reflected in the target in order to avoid windfall gains or losses from actions which are not related to NGET's innovation under the incentive scheme, we agree to lower the overall target by £9.98 million.
- As we also acknowledge that new service providers could (if contracted) lead to an increase in costs we agree to raise the target by £2.96 million subject to NGET submitting evidence that these contracts are signed within the incentive scheme year.

Warming

NGET has highlighted that it expects to incur significantly higher warming costs than has been seen historically and was forecast. This is a significant increase from the current low levels (£1 million) contained within the existing target and reflects changes in the merit order that have made the plant mix offering Black Start more marginal; and as such less likely to be warm and ready to provide the service.

Following our scrutiny of these costs and discussions with NGET, particularly around the plant likely to provide the Black Start service, we reached the view that an increase in the target of £16.51 million is justified.

Conclusion

As a result of our decision, NGET's BSIS target for 2016/17 will increase by a minimum of £9.43 million. This covers expected capital and warming costs. The target will increase by a maximum of £12.39 million if NGET finalises and incurs the availability costs in relation to all of the new contracts it expects to strike in 2016/17.

If NGET continues to consider that these contracts will be signed but does not finalise them within the relevant year then the 2016/17 target will not be revised.

As such we are directing a change to Table 1 of paragraph 4G.2 of NGET's Special

Licence Condition as shown below.

Relevant Year	BSTCt
1 April 2015 to 31 March 2016	£22.35 million
1 April 2016 to 31 March 2017	£34.74 million

Alongside this letter, we have published a direction to revise the target for Black Start costs for 2016/17 as set out above. The direction enacts the revision of the Black Start target, which is deemed to be included within Table 1 of paragraph 4G.2.

Next Steps

The system is clearly changing quickly and we note that it is important that Black Start services continue to be procured in an efficient manner and that the incentives that NGET faces are as effective as possible. We will be working with NGET to ensure the current Black Start strategy remains fit-for-purpose and developing and consulting on proposals for incentives from 2017 which support this process.

Yours sincerely

Mark Copley

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Duly authorised on behalf of the Gas and Electricity Markets Authority

31 March 2016