

System operators, transmission
system owners, generators,
suppliers, traders, consumers,
aggregators and other interested
parties

Email: soincidentive@ofgem.gov.uk

Date: 9 January 2017

Dear colleagues

Minded to decision to remove the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) cost recovery arrangements for 2017/18

This consultation letter sets out our proposed approach to removing the Supplemental Balancing Reserve¹ ('SBR') and Demand Side Balancing Reserve² ('DSBR') cost recovery arrangements for 2017/18. This would remove the ability of National Grid Electricity Transmission (NGET) to recover any efficient costs associated with procuring or operating these services in Winter 2017/18. Our proposed approach would not impact on the arrangements for 2016/17, recognising that NGET must be able to apply for cost recovery for the current winter.

SBR and DSBR were designed to be short term tools to address specific concerns about the supply outlook for 2014/15 and 2015/16, and were further extended to cover 2016/17 and 2017/18. However, we have previously said that we would expect that, once the Capacity Market was in place, the balancing need for these additional tools would disappear³. As we have previously said, SBR and DSBR should therefore not be required in 17/18 in light of the Early Capacity Auction (ECA). The prequalification for the ECA took place in 2016 with the final auction results expected in February 2017.

Background

In December 2013, the Authority approved NGET's application to introduce two new balancing services, SBR and DSBR. These services were introduced to bridge the gap between tightening generation margins in the mid-decade period and the introduction of the Capacity Market. They provide NGET with additional tools to help balance the system in the rare event that there is insufficient generation in the market to meet demand, and can only be used only when all other system balancing actions (including all Balancing Mechanism, BM, offers) have been exhausted.

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.

³ Our view on the balancing need for these services once 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

In April 2014 we modified NGET's transmission licence to implement arrangements for cost recovery of the economic and efficient costs relating to the procurement and use of SBR and DSBR for 2014/15 and 2015/16.⁴ This licence modification came into effect on 6 June 2014. Following a review, NGET identified a need for continued access to these additional balancing services for two years, 2016/17 and 2017/18 - until the first Capacity Market delivery year (then expected to be in 2018/19). Following consultation, we issued a direction⁵ in November 2015 (the 'November 2015 Direction') to extend the arrangements accordingly. On 1 March 2016⁶, following the Government's announcement that it would be bringing forward the Capacity Market for delivery in 2017/18, we stated in an open letter that we expected this to mean that SBR and DSBR services would not be needed for 2017/18.

Our proposed approach

The November 2015 Direction extended the SBR and DSBR cost recovery arrangements to cover 2016/17 and 2017/18 by including them for the purposes of Special Condition 4K.3. We are minded to issue a new direction removing the reference to 2017/18 from the term "Relevant Years". This will have the effect of removing the SBR and DSBR cost recovery arrangements for 2017/18 and obligations on NGET to submit methodologies in respect of procuring, testing and utilising SBR and DSBR for 2017/18.

It is important that NGET would still be able to recover costs associated with SBR for Winter 2016/17. This process is due to begin on 31 March 2017. We therefore will not carry out any modifications to NGET's licence in respect of the wider SBR and DSBR provisions until the cost recovery process for 2016/17 is complete. Thereafter, we expect to consult on the necessary licence modifications to remove SBR and DSBR from NGET's licence.

Question

Do you have any comment on our minded to decision to issue a direction to remove NGET's SBR and DSBR cost recovery arrangements and obligations to submit methodologies in respect of procuring, testing and utilising SBR and DSBR for 2017/18? Do you have any comment on the new direction attached? Please send these to soincidentive@ofgem.gov.uk by 3 February 2017.

Next steps

Subject to this consultation, we expect to issue the direction by late March 2017. We will then consult later in the year on further licence changes to remove the wider SBR and DSBR provisions from NGET's licence.

Yours faithfully

Emma Kelso
Partner, Wholesale Markets

⁴ Our decision can be found at <https://www.ofgem.gov.uk/publications-and-updates/decision-funding-arrangements-new-balancing-services>

⁵ https://www.ofgem.gov.uk/sites/default/files/docs/direction_issued_to_national_grid_electricity_transmission_plc.pdf

⁶ 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