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Dear Emma,

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

Thank you for the opportunity to provide views on Ofgem's consultation on its minded to decision to remove the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) cost recovery arrangements for 2017/18.

We welcome Ofgem's proposals to remove the SBR and DSBR cost recovery arrangements for 2017/18 from the System Operator's licence conditions. We consider that the Capacity Market is the most appropriate vehicle for efficient procurement of capacity and, following the introduction of the Early Auction for agreements commencing in October 2017, we agree that it would be inappropriate for the SO to contract for capacity in 2017/18 and beyond through SBR and/or DSBR services.

Should it be necessary in future to procure greater volumes of capacity, it would be appropriate to raise the Target Volume in T-1 CM auctions rather than contract for a separate strategic reserve. Procurement of SBR/DSBR in such circumstances would have a distortionary effect on the market and give rise to material inefficiencies which would result in greater costs for consumers and diminish investor confidence.

We support Ofgem's proposed approach to making modifications to the SO's relevant licence conditions on the understanding that the arrangements which remain in place during 2017/18 solely allow it to recover economic and efficient costs incurred from procuring, testing and utilising contracted SBR and DSBR services during Winter 2016/17. We agree that following such a cost settlement process being concluded, it would be appropriate to remove references to wider SBR and DSBR provisions from the SO's licence condition.

I hope you find these comments useful. Should you wish to discuss any of these points further then please do not hesitate to contact me.

Yours sincerely,



Rupert Steele
Director of Regulation