

The Office of Gas and Electricity Markets
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Consultation Response: Minded to decision to remove the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) cost recovery arrangements for 2017/18

UK Power Reserve fully supports the authority's minded to decision to make the necessary adjustments to NGET's licence in order to remove the ability to recover costs for SBR and DSBR services for winter 2017/2018.

UK Power Reserve does however recognise that NGET is sufficiently incentivised to procure the necessary balancing services at the most efficient cost for the consumer under the BSIS (Balancing Services Incentive Scheme). The current framework in place would ensure that any costs for procuring SBR and/or DSBR capacity for winter 2017/2018 would be only be recovered via BSUoS charges in the event that it was necessary and was the most efficient action to take to ensure security of supply was not at risk for winter 2017/2018.

We therefore see that the proposed adjustment to NGET's license which would remove the ability from NGET to recover any costs for SBR/DSBR capacity for 2017/2018 via BSUoS charges would not have any material effect on ensuring security of supply at the best cost for the end consumer.

We do however welcome this decision in principle which has been efficiently coordinated with government policy, and will now retire these interim services in lieu of a capacity mechanism in the form of a T-1 'early auction' covering the same period. As outlined in the BEIS (DECC) impact assessment for this auction, the early capacity auction will contract fixed revenues with a sufficient level of capacity at the lowest possible cost for ensuring security of supply, which has formed the basis of this minded-to decision. We therefore consider this minded-to decision has been made on the correct basis of government policy initiatives and direction, which has taken into account the planned contracted revenue streams via the early capacity auction for generating capacity in winter 2017/2018.

Additionally, we strongly encourage the regulator in its role in ensuring security of supply at the best cost for consumers to extend this approach to its ongoing wider reforms, which have a significantly greater potential to affect the cost of security of supply for winter 2017/18 and beyond. Specifically, we bring the authority's attention to its minded-to decision for implementing reforms to the TNUoS charging mechanism as part of its ongoing Embedded Benefits Review. We stress that the authority should and must, likewise, take into account the long-term contracted agreements with new-build embedded generation secured under the T-4 2014 and 2015 capacity mechanism, in conjunction with the revenue streams for embedded generation ('embedded benefits') that form part of the TNUoS charging framework.

The capacity market delivery body (fulfilled by NGET) has published that 1.7GW of contracted new-build embedded generation was procured under the first two T-4 capacity auctions held in 2014 and 2015. The current minded to decision to materially reduce the level of embedded benefit revenues jeopardises the economic feasibility of these multi-year (typically 15 years) new-build agreements, and in contrast to this decision, represents an unacceptable lack of coordination with government policy initiatives and due consideration expected from the industry regulator.

We stress that any decision made as part of the Embedded Benefits Review makes due consideration to investments made in good faith, as well as the economic impact on this category of generating plant which will be contracted over a period ranging over the period 2017-2034 via the T-4 2014, T-4 2015 and potentially the T-1 2017 early capacity auction. Any decision which poses a risk to the economic feasibility of this plant will have an inevitable impact on security of supply and the ultimate cost for the end consumer.

We therefore call upon the regulator in its capacity as the regulator of the capacity mechanism, the system operator and the wider electricity market to continue with its holistic approach, as with this decision, in the pursuit of consumer and wider stakeholder interests.

UK Power Reserve Limited