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Emma Kelso
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Dear Emma

Re: Minded to Decision to remove SBR and DSBR Cost Recovery Arrangements

We refer to your letter of the 9 January 2017, proposing to remove cost recovery arrangements for SBR and DSBR for 2017/8.

Yellow Wood Energy is a specialist consultancy in the field of electricity transmission trading arrangements. Our consultants have been heavily involved in many high profile industry projects in the UK, Ireland and the US, and have extensive experience working with and for National Grid. We were involved in the initial development of the Supplemental Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR) schemes.

We would concur with the view that the need for SBR is subsumed by the Capacity Market and, moreover, that the continuation of SBR could distort the operation of the Capacity Market. This is not the case for DSBR, though. DSBR is not a capacity product but simply gives the opportunity for participation in the provision of balancing services by demand side resources that do not have the opportunity to participate in the balancing mechanism in the Balancing and Settlement Code or through other balancing services procured by NGET.

We acknowledge that there may have been issues for demand side response providers with DSBR but, as we understand it, these relate to the interaction of DSBR with triad avoidance. However, we believe there are simple amendments can be made that could:

- (a) allow triad avoidance by participants providing DSBR;



- (b) make significant additional quantities of DSBR available to National Grid, hence putting significant additional system flexibility within National Grid's control; and
- (c) result in greatly improved consumption decisions by demand, in particular avoiding the need to speculate on the occurrence of triads and the significant costs to Industry of nugatory triad avoidance.

We are aware of the current initiatives to improve system flexibility, including the Call for Evidence and P344. We are also aware of the desirability of rationalising the array of balancing services that National Grid procures. However, there is currently no direct substitute for DSBR and its shortcomings can be easily rectified. Meanwhile the rationale, that DSBR is rendered obsolete by the Capacity Mechanism, we would contend is false.

We would, of course, be happy to discuss our thoughts with you further.

Yours sincerely

Richard Haigh and Peter Wibberley
Yellow Wood Energy