

Supplemental Balancing Reserve Clarification Note #1

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23rd September 2014

On 2nd September 2014, National Grid opened a tender for the provision of Supplemental Balancing Reserve (SBR) for the winter of 2014/15. This tender is due to close on 30th September 2014.

During the course of the last three weeks, we have received a number of queries on the new service from potential providers. In the interests of transparency and given that this is a new service, we believe it would be helpful to summarise some of the key issues raised and, where appropriate, provide additional clarification on those issues.

Service Start Date – A number of potential applicants have suggested that a 1st November start date may be challenging given the limited amount of time between the tender closing, contracts being agreed, and a station being made operational. We recognise this issue and will be flexible on the start date where 1st November is not achievable, taking account of this in the assessment of tenders received.

SBR Instructions – The indicative contract allows SBR Units to be despatched via the Balancing Mechanism (with prior warming if needed), or via an SBR Instruction to submit and follow an agreed Plant Notification which would be accompanied by an Energy Contract Volume Notification (ECVN). However, if we consider the BM despatch route for a given SBR Unit to be robust, the provisions associated with SBR Instructions would not be required.

SBR non-proving tests – The provisions associated with this feature will be amended such that if a request for a non-proving test is agreed, this would be achieved by the submission of a non-zero FPN with the SBR Unit self despatching accordingly. No payments would be made for such tests under the contract. In addition, such non-proving tests would be permitted outside a Service Window/ Service Month during the contract term.

SCHEDULE 2 : Part 1 – SBR Capability Payments – The calculations in this schedule will be undertaken on an annual basis, rather than across the contract term as could be implied. Hence the calculation of Observed Reliability Factor and any non-delivery changes would be reset for each year the contract is extended beyond the initial contract term.

Tendering Costs – Where a potential provider can demonstrate that it has or will incur material incremental costs directly related to the submission of a valid SBR tender, and such costs would be avoided if no tender were submitted, we will consider contributing to such costs if the tender is unsuccessful. Any such contribution would be at National Grid's discretion, subject to an economic benefit assessment, and only be applicable to non-permanent, short term costs for submitting a valid tender.

Commercial Balancing Services contracts – To the extent that a plant contracted for SBR has existing commercial balancing services contracts associated with it, the SBR contract requires that these be suspended for the duration of the contract or terminated, with the exception of any Black Start contract.

In assessing tenders from plant which has such contracts in place and there is an ongoing requirement for the service, we will take into account the replacement cost of such contracts, which may be the consequential cost of not being able to replace the service due to timescales or availability.

Tender Compliance- A number of parties have indicated that due to commercial or technical issues associated with their specific generation plants, they may not be able to fully comply with all service requirements of the tender. Given that this is a new service, we wish to be flexible in our consideration of potential service providers. Any such technical or commercial non-compliance should be highlighted in the tender, and depending on the materiality of these issues, we will give consideration to the tender whilst taking account of such issues.

Tendered Reliability Factor –Some potential bidders have noted that tendering a high reliability factor for a plant consistent with its historic availability could lead to significant non-delivery charges if the plant fails two of the four proving tests. However, if a plant fails a proving test, another test will be called, which will reduce this impact if the re-tests are successful. In addition, the tendered reliability factor should represent the probability that the plant could respond to an SBR despatch instruction, rather than its historic availability. Hence a figure of 0.5 might be tendered if the operator is only confident of responding to half the SBR despatch instruction received in order to reduce the risk of non-delivery charges.

Tendered Capability Price – The tender sheets require that this is provided on a £/MW/pa basis. This will be multiplied by the Tendered SBR Capability (in MW) to determine the overall Capability Price (in £/yr).

In due course and where appropriate, we will consider formalising the features highlighted in this note as part of the SBR/DSBR product designs and as part of any future tender events. If you have any questions on the issues highlighted here, or believe there are other matters that would benefit from further clarification, please contact Peter Bingham on 01926 655568 or email at peter.bingham@nationalgrid.com.