

Open Letter to UK Electricity Market Participants and Industry Stakeholders and Large Energy Consumers

Winter 2014/15 Supplemental Balancing Reserve (SBR) Tender

2nd September 2014

Dear Colleague

On 10th June 2014, we published an open letter on the volume of Demand Side Balancing Reserve (DSBR) and Supplemental Balancing Reserve (SBR) we are looking to procure for the next two winters.

The volumes required were determined by applying the Ofgem approved Volume Requirement Methodology to our Future Energy Scenarios published in July 2014 and represent the equivalent volume of additional capacity that would be required to achieve the Government's Reliability Standard of a 3 hours Loss of Load Expectation (LoLE) against a range of credible scenarios and sensitivities. The volume requirements identified at that time are set out in the table below:

Year	Maximum De-rated Volume
2014/15	330MW
2015/16	1,800MW
2016/17	1,300MW
2017/18	800MW

Given the modest requirement in 2014/15, we decided to undertake a pilot for the new DSBR service. A tender for the pilot was launched on 10 June 2014 and ran for 7 weeks. We were pleased with the response, receiving tenders for over 300MW of DSBR capability, representing some 500 individual sites. Following validation and assessment of these tenders, DSBR contracts will be awarded to the majority of the DSBR capability that came forward. Details of these awards will be published shortly.

This represents an encouraging start for the new service, broadly meeting our requirements and demonstrating the increasing contribution from demand-side service providers in supporting security of supply. We anticipate more volume will come forward in subsequent tender events to support us in meeting our 2015/6 requirement.

Winter 2014/15 Uncertainty

Since we published our open letter in June, there have been a number of developments to this winter's security of supply outlook. These include fires at the Ironbridge and Ferrybridge power stations and a closure announcement regarding the power station at Barking. The outcome of investigations currently underway at the Heysham and Hartlepool nuclear power plants may also have an impact. As a result, there is an increased level of uncertainty over the volume of plant that may be available in the market this winter.

To help manage this uncertainty, we have decided to take the precautionary step of inviting tenders to provide SBR for this winter to complement the DSBR procured under the pilot. The actual volumes contracted, if any, will depend on how the situation evolves over the next two months, how the market responds and whether prices offered in the tender offer value for money to consumers.

SBR is targeted at power stations that would not otherwise be available in the electricity or balancing markets – i.e. plant that could provide "additional" reserves to support us in balancing the transmission system. However, noting that SBR plant would be prohibited from participating in the markets for energy and other balancing services throughout the contract term and also that SBR is a last resort service called after other balancing services, tenders are invited from any generating plant that could be made available during this winter and which satisfies the SBR participation requirements outlined in the SBR Procurement Methodology¹ and described in detail in the SBR Service Description and Tender Process¹.

The tender opens today and will close at 5pm on the 30th September 2014. The tender documents can be found on our [website](#)¹ together with an indicative SBR contract, service overview and other supporting documentation.

Tenders will be subject to validation and economic assessment in accordance with the approved SBR Procurement Methodology. We will firm up our requirements (net of that procured under the DSBR pilot) for this service in October 2014. SBR contracts to meet this volume will be offered to those tenders offering best value to consumers. If required, such contracts will be established during October 2014 ready for the winter season.

¹ All documentation relating to this service can be found on our website at www.nationalgrid.com/uk/electricity/additionalmeasures

Tendering for the 2015/16 Requirement

Our requirements for winter 2015/16 have not changed materially in light of these developments and we still intend to procure the 2015/16 requirement across two tender events with up to 75% of the total requirement being tendered in autumn 2014 and the remainder in the spring of 2015. Tenders will be invited for both DSBR and SBR in accordance with the approved DSBR and SBR Procurement Methodologies, with the most competitive tenders offered a contract.

Please contact Peter Bingham (peter.bingham@nationalgrid.com) on 01926 655568 if you require further information on the proposals set out in this open letter.

Finally, we are considering holding a workshop next week to answer questions about this tender. If you would be interested in attending such a workshop, then please email us at dsbr.sbr@nationalgrid.com with your details and we will contact you with the details of the time and venue.

Yours sincerely

Cordi O'Hara
Director – UK Market Operation