

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

Volume and Procurement of new Balancing Services

10th June 2014

Dear Colleague

The Ofgem Capacity Assessment Report published in June 2013 highlighted a potential deterioration in electricity security of supply in the mid-decade period. In response, we developed two new balancing services, namely Demand Side Balancing Reserve (DSBR) and Supplemental Balancing Reserve (SBR), which were approved by Ofgem in December 2013.

Since then we have been working closely with Ofgem to agree a set of methodologies by which we would determine how much of these products, if any, we should buy, and how we would go about procuring them. Ofgem have today published their approval of these methodologies which can be found on our website². As a result, we can now confirm the maximum de-rated volumes we require together with details of the procurement process.

Volume Requirement

We have assessed the security of supply outlook over the next four years and, by applying the approved Volume Requirement Methodology, have established a volume of DSBR and SBR that we wish to procure from the market over this period. This is based on 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. This analysis is based on our updated Future Energy Scenarios which will be published in July.

² <http://www.nationalgrid.com/uk/electricity/additionalmeasures>

The volume requirements determined for the next four years 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

These represent the maximum de-rated volumes required and we will look to procure up to these volumes. The actual volume required will be that which delivers best value to consumers, balancing costs against the value of lost load in accordance with the methodology, and will depend on the prices submitted in the tenders for these services.

Note that these volume requirements are de-rated values, and the actual volume procured will depend on how individual DSBR and SBR resources are 'de-rated'. For example, if the 2014/15 requirement is met by DSBR which we propose to de-rate initially to 75%, the actual volume procured will be up to 440MW in order to meet the 330MW de-rated requirement.

Meeting the 2014/15 Requirement

Given the modest requirement for 2014/15, this will be met by undertaking a pilot of the new DSBR service. The learning from this pilot will enable us to evolve the product and better understand its value, thus supporting the economic and efficient procurement and use of this service in the following winter when the volume requirement becomes more material. This represents an excellent opportunity to stimulate the growing demand-side services sector which will increasingly make an important contribution to an affordable energy system for consumers.

Registrations for the 2014/15 DSBR pilot will open today for a period of 6 weeks via an online registration portal. An invitation to tender has been published on our [website](#) together with a draft DSBR contract and other supporting documentation.

Bids will be subject to validation and economic assessment in accordance with the approved DSBR Procurement Methodology. Those offering best value to consumers will be awarded a DSBR contract under the pilot, which will be effective over winter 2014/15.

Meeting the 2015/16 Requirement

We are proposing to tender the 2015/16 requirement across two tender events with up to 75% of the total requirement being tendered in late-summer/early autumn 2014. This will allow contracts to be established from October 2014, and provide any successfully tendered generation plant that is currently “mothballed” sufficient time to be returned to service. Tendering for a larger proportion of the requirement at this early stage will also help provide certainty to both SBR and DSBR providers that their services will be required, as well as providing us with greater certainty that the required volumes can be achieved.

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.

At least 25% of the 2015/16 requirement (plus any volumes not contracted in the earlier round) will be tendered in early spring 2015. This will provide a further opportunity for those unable to participate, or who were unsuccessful in the earlier tender. Tenders will again be invited from both DSBR and SBR, with the most competitive tenders offered a contract. However, whereas the first 2015/16 tender event may be more suited to SBR because of the longer lead time, the second may be more suited to facilitating the growth of the new DSBR service, with this tender event running closer to the point of delivery.

Both tender windows for the 2015/16 requirement will be open for four weeks, but notification of the volume requirements in this open letter is intended to provide sufficient time for potential service providers to prepare for these tender events. This will also provide the opportunity for aggregators and other intermediaries to market the DSBR product and recruit new sites to offer a DSBR service.

Meeting the potential 2016/17 and 2017/8 requirement

The ongoing need for these services will be reviewed early in 2016 via an industry consultation process. This will also consider the ongoing need for DSBR given that the transitional arrangements for DSR participation in the Capacity Market are expected to go live at this time.

If an ongoing need for these services is identified, and funding is approved by Ofgem, this will be met by rolling forward existing SBR contracts and/or tendering for SBR and possibly DSBR early in 2016 and 2017.

Additional Information

Service descriptions and draft contracts for both services are available on our [website](#), together with the Volume Requirements Methodology, the DSBR Procurement Methodology and the SBR Procurement Methodology. Further information will be published to support each tender event.

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. Queries regarding the 2014/15 DSBR tender should be directed to DSBR.SBR@nationalgrid.com or by calling 01926 655258.

Yours sincerely

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