From Tim Yeo MP, Chairman

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Electricity balancing services

The Committee has asked me to write to you regarding electricity balancing services. The National Audit Office has provided the Committee with a briefing, which as you may know the NAO recently published on its website: http://www.nao.org.uk/report/electricity-balancing-services/. The NAO has identified a number of questions as set out below:

1. How can Ofgem ensure that sharper Cash Out incentives from the Significant Code Review:
   - Encourage generators and suppliers to balance their own positions before gate closure, thus reducing the call on National Grid to perform balancing activity after gate closure;
   - Minimise the level of payments required under the capacity market; and
   - Do not restrict market participation to major utilities?

2. To what extent can National Grid’s use of the two new balancing services tackle the risks to security of supply identified in Ofgem’s 2013 capacity assessment?

3. To what extent can implementation of the EU Third Package and the Target Model reduce balancing costs and mitigate risks to security of supply?

4. To what extent will the 2013-21 regulatory settlements for Transmission Owners (RIIO-T1) address constraints on the movement of electricity around Great Britain?
5. Is public information about constraint costs adequate, in the light of recent media publicity surrounding the scale of constraint cost payments to wind farms?

6. How do you ensure that “Connect and Manage” is achieving its objectives without adding disproportionately to constraint costs?

7. How do you ensure that the approach to regulating balancing costs gives strong incentives for efficiency, while eliminating costs considered to be outside of National Grid’s control?

8. Are current arrangements for balancing services as a whole fit for purpose in the light of current and future developments (including the growth of intermittent and embedded generation)?

9. How is Ofgem proposing to take forward the various workstreams, other than locational pricing, identified by the Future Trading Arrangements initiative?

I know that we touched on some of these issues at our recent evidence session on 13 May but I thought it would be helpful for you to follow up in more detail. We would be grateful if you would respond formally to us in writing by Thursday 12 June. We may wish to publish this letter and your response to it. Please note that we are also writing to National Grid with the same questions.