

Richard Smith
Head of Commercial
National Grid Electricity System Operator
www.nationalgrideso.com

14th January 2020

Dear industry colleagues,

JANUARY 2020 FAST RESERVE TENDER ROUND

Historically we have procured Fast Reserve (FR) on a monthly basis, contracting for a mix of both long-term tenders and month ahead tenders in line with our published Tender Calendar. Along with STOR, we have categorised FR as being 'balancing capacity' based on the definition of this term within relevant European regulations and network codes. Due to certain requirements within the Clean Energy Package (CEP), changes are required to our approach to FR procurement in future.

The CEP is the next tranche of European energy legislation and it builds upon the content of the Third Energy Package and the associated network codes. It entered into force in July 2019 and many of its provisions apply from 1st January 2020.

Article 6(9) of the recast Electricity Regulation within the CEP requires NGENSO to procure balancing capacity at no more than one day ahead, for a contract length of no more than one day. A derogation is possible, and where a derogation is granted by Ofgem it can instead be procured at no more than one month ahead, for a contract length of no more than one month, with further potential with Ofgem approval for this contracting period to be extended to a period of up to twelve months.

Our view to date has been that changes to our procurement timescales (i.e. a move towards procurement being no more than one day before provision) for FR would not apply until summer 2022 to coincide with the implementation of project MARI at which point the relevant standard and specific products would come into force. There is however some uncertainty about the timing of the required changes for both FR and STOR and whether, based on our latest discussions with Ofgem, they are required from 1 January 2020.

We notified you in December that a derogation request has been submitted to Ofgem in respect of Article 6(9) to allow us to procure on an up to one month ahead basis (with up to twelve month contracting) rather than the one day ahead basis and our discussions with Ofgem in respect of this derogation request are ongoing.

A decision was made to launch the January FR tender round however due to the discussions not being concluded with Ofgem and no further update on the derogation request, we have taken the decision to replicate the approach taken for STOR and to suspend the monthly procurement of FR until we have a clear legal framework agreed

and in place. For clarity, none of the tenders received in January will be assessed and these prices will not be published on the NGENSO website as part of the tender process.

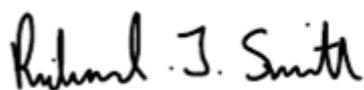
Although we will not be concluding any tenders in the January tender round for FR, there is still a requirement for this service, and this can be accessed via the optional market. All providers who hold a Framework Agreement will be able to offer their capacity via the optional market. Balancing Mechanism units will continue to have access to the Balancing Mechanism.

Last November we highlighted to the market our plans to increase the daytime procurement volumes of Firm Fast Reserve and the launch of a 3-month trial starting in January. The driving factor behind this was to explore opportunities to reduce balancing costs by facilitating increased competition in the reserve market and encouraging more participation in tenders, to provide us with more options for optimising costs.

We are still keen to continue with this trial for all of the above reasons, but because we will not be able to procure firm fast reserve in the same way from February as a result of Article 6.9 of the recast Electricity Regulation within the Clean Energy Package we will instead review the utilisation of the optional Fast Reserve service to inform our learning from this trial.

We will be continuing to work with Ofgem on our derogation requests and the potential implications of Article 6(9) for the procurement of our STOR and Fast Reserve products. We will keep you updated on our plans for the future and once we have clarity, we will provide you with an update on what this means for subsequent planned tender rounds for STOR and Fast Reserve.

Yours sincerely,

A handwritten signature in black ink that reads "Richard J. Smith". The signature is written in a cursive, slightly slanted style.

Richard Smith
Head of Commercial