

CMP300 - Cost reflective Response Energy Payment for Generators with low or negative marginal costs



straight line.



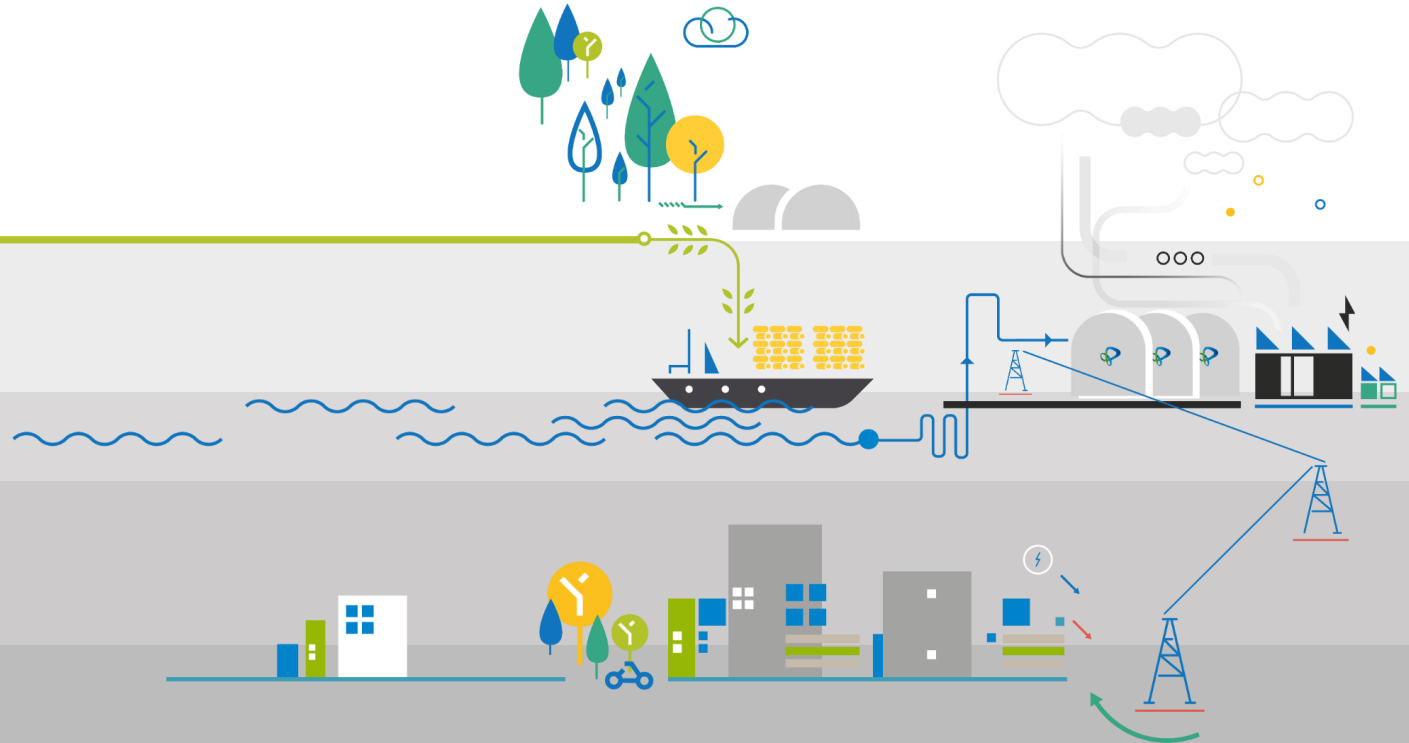
CUSC Panel – 25 May 2018

Paul Youngman - Drax

CMP300 - Cost reflective Response Energy Payment for Generators with low or negative marginal costs



May 2018



The Defect

Construction of the Response Energy Price (REP) is not reflective of the cost or avoided cost of energy production for all low or negative marginal cost generators

- Providers of Mandatory Frequency Response (MFR) are paid, or pay the SO a Response Energy Payment (REP) to reflect energy costs
 - Increase in output (LFR) Generator receives REP
 - Decrease in output (HFR) Generator pays REP
- In **principle** the REP should be **cost reflective** being derived from a Market Index Price (MIP) or set at zero for some low or negative marginal cost generators defined as “non-fuel”
- **Defect** is that not all units with low or negative marginal costs have the REP set to zero
- These units should not have the REP derived from the MIP as it does not reflect their costs or avoided costs
- This treatment is **discriminatory** as it treats sites with equally low or negative marginal costs differently based on technology type rather than the generator’s cost, or avoided cost
- The derivation of the REP is therefore **not cost reflective**
- This defect may also **be distortive** of the MFR market

The proposal

To ensure that the Response Energy Payment paid to or by generators with respect to a BM Unit with low or negative marginal costs is reflective of the cost or avoided cost of energy production

Proposed change

- Simple and concise change to amend calculation of REP
- Set the reference price for REP to zero for **both** “non-fuel” cost and **CfD BM Units**
 - **CfD BM Units** defined as *“a CfD **BM Unit** means a **BM Unit** which entered into a Contract for Difference (CfD) or investment contract each as designated in the Energy Act 2013.”*
- National Grid legal team will check legal text is correct (4.1.3.9A)
- Process and/or SO system changes may be necessary to apply the cost reflective REP

Principal impact on applicable CUSC Objectives

- Positive impact for Applicable Objective (b) Facilitating effective competition
 - Cost reflective REP
 - Level playing field - removing a barrier to competition for units with low or negative marginal costs

Request to Panel

Self Governance -*Feedback is welcome as in the view of the proposer the self-governance criteria should apply*

Discrimination

- Remedies discrimination between different classes of CUSC Parties
 - The modification purpose is to ensure that discriminatory treatment of CUSC parties with low or negative marginal costs is remedied
 - Enable generators with a CfD that have low or negative marginal costs equivalent treatment with other low or negative marginal cost generators

Materiality

- Unlikely to have a **material effect** on: (i) (iii) (iv) (v)
- Likely to have a **beneficial non-material** effect on (ii) Competition
 - Enhance the principle of a cost reflective REP
 - Potentially improve competition in the MFR

Proceed to Code Administrator Consultation

Thank you

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Additional information – Consideration of materiality

Area that the Proposed Modification deals with	Aspects that are likely to require Authority decision if your proposal covers:	Impact of CMP300
Existing or future electricity customer	<ul style="list-style-type: none"> • Changes any activity being considered by a Significant Code Review; • Changes any process / obligation required for the delivery of Ofgem’s Strategic Work Plan (or Strategic Direction); • Increases switching timescale; • Materially increases costs that are passed on to consumers, or may be in future 	<ul style="list-style-type: none"> • No Impact • No Impact • No Impact • No Impact
Competition in Generation, Distribution or Supply of electricity or any commercial activities connected with the Generation, Distribution or Supply of electricity	<ul style="list-style-type: none"> • Reduces competition, or choice, in the marketplace • Prevents parties competing on equal terms • Significantly increases complexity of processes (where this potentially leads to confusion for consumers) • Entails one or more CUSC Parties incurring significant additional cost (e.g. >£100k in any one single financial year) • Introduces different treatment according to class of parties 	<ul style="list-style-type: none"> • No Impact • Improvement - Cost reflective • No Impact • No Impact • Improvement -Cost based treatment
The operation of the NETS	<ul style="list-style-type: none"> • Has the potential to create stranded regulated assets • Mandates increased investment in network assets or systems • Creates, modifies or transfers obligations or rights on/or the Transmission and Distribution System Operators 	<ul style="list-style-type: none"> • No Impact • No Impact • No Impact
Security of Supply	<ul style="list-style-type: none"> • Changes to any activity connected with Electricity Transmission Standard Licence Condition (SLC) Condition B11 ‘Security arrangements’ or Condition C17 ‘Transmission system security standard and quality service’ • Reduces the availability of electricity supply or generation 	<ul style="list-style-type: none"> • No Impact • No Impact
Governance of the CUSC	<ul style="list-style-type: none"> • Reduces the rights of industry parties to be engaged in proposed changes to the CUSC • Changes provisions relating to the constitution or composition of the CUSC Panel and the obligations placed on its members (collectively and individually) • Changes the decision-making capacity of the CUSC Panel in relation to CUSC Modifications • Changes any decision-making capacity of the Authority 	<ul style="list-style-type: none"> • No Impact • No Impact • No Impact • No Impact
Proposers should also remember that modifications likely to introduce any kind of discrimination between classes of parties across the industry normally require Authority direction		<ul style="list-style-type: none"> • Improvement – aligns rules no technology distinction –

Proposed Timetable: CMP300



straight line.



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Code Administrator

Code Administrator Proposed Progression

- The Panel is asked to consider:
 - If they agree that this modification should progress as Self Governance with no Workgroup
 - Where this modification sits in terms of Prioritisation