

<b>CUSC Amendment Proposal Form</b>	<b>CAP: 107</b>
<b>Title of Amendment Proposal:</b> Redefinition of Response Energy Payment (REP) for Mandatory Frequency Response	
<b>Description of the Proposed Amendment (mandatory by proposer):</b> A change to the calculation of Response Energy Payment under section 4.1.3.9A of the CUSC so that a generator pays, or is paid, its first Bid Price ( $PB_{ij}^1$ under the BSC) for changes in energy output which occur as a result of delivering frequency response.	
<b>Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):</b> <p>Presently, a generator who provides frequency response under Section 4 of the CUSC is paid a Holding Payment for the ability to provide the service and is paid, or pays, a Response Energy Payment for changes in output which result when the generator actively responds to a change in frequency. The Response Energy is priced at a reference price which is the average of the time weighted average System Buy Price and time weighted average System Sell Price for the preceding calendar month.</p> <p>Given the average and retrospective nature of its calculation and the significantly differing costs of different types of generating unit, this price is unlikely to reflect the true costs that individual generators face. Therefore, there is an incentive for generators to cover the associated risk by increasing the Holding Payment rates. These can only be changed once a month by generators for use in the successive calendar month. Therefore, the level of risk premium has to reflect the uncertainty of the level of usage of the service and the degree of uncertainty as to how an individual BMU's costs will differ from the Reference Price.</p> <p>By paying, or charging, the relevant BMU a price equivalent to its first Bid Price, the generator concerned is able to more closely reflect its actual costs. Clearly, the precise solution would be to pay the generator its Offer Price when the delivery of response results in additional output from the BMU during the relevant period and require it to pay its Bid Price when the response results in reduced output from the BMU. However, we propose that the first Bid Price is used in order to simplify the solution.</p>	
<b>Impact on the CUSC (this should be given where possible):</b> We anticipate that this will require a change to Section 4 of the CUSC.	
<b>Impact on Core Industry Documentation (this should be given where possible):</b> None anticipated.	
<b>Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):</b> Not known.	
<b>Details of any Related Modifications to Other Industry Codes (where known):</b> None known.	

**Justification for Proposed Amendment with Reference to Applicable CUSC Objectives\*\***

*(mandatory by proposer):*

*(a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence.*

National Grid is obliged by its licence to control frequency within the limits specified in the Electricity Supply Regulations. The amendment will allow this obligation to be met more efficiently as Holding Payment rates will not need to be inflated to reflect the risk associated with the present Reference Price.

<b>Details of Proposer:</b> Organisation's Name:	Paul Jones E.ON UK plc
<b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Paul Jones E.ON UK plc 024 7642 4829 <a href="mailto:paul.jones@eon-uk.com">paul.jones@eon-uk.com</a>
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Claire Maxim E.ON UK plc 024 7642 5378 <a href="mailto:claire.maxim@eon-uk.com">claire.maxim@eon-uk.com</a>
<b>Attachments: No</b>	