

# **CMP275**

## Transmission Generator Benefits in the Provision of Ancillary and Balancing Service

## What is the defect?

Currently some BM units can access revenue streams from multiple balancing or ancillary services that overlap in their scope, this gives them a competitive advantage through over compensation when taking part in the provision of Ancillary Services auctions as they are able to undercut other BM and non BM units through accessing duplicate Ancillary Service payments.

### ➤ Market Distortion

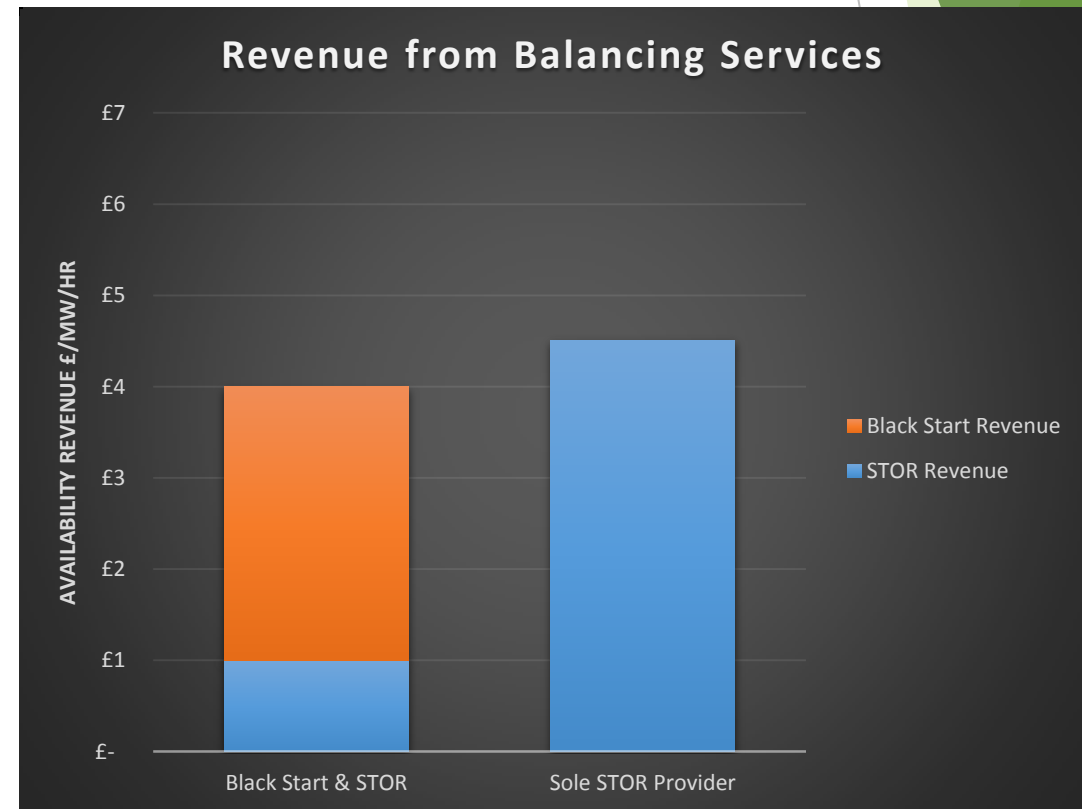
Some parties able to undercut others in the tendering and provision of balancing and ancillary services by using duplicate revenue streams to cross subsidise themselves. This is especially disruptive when some ancillary or balancing services are restricted to only certain types of asset (namely transmission connected units) or where negotiations are not carried out through an open tender process which is the case for Black Start.

### ➤ Inefficient despatch decisions

Where this distortion exists on utilisation pricing as is the case with Fast Start this can lead to unintended costs being levied upon the market by National Grid through actions it is taking in the BM.

### ➤ Cost to the end consumer

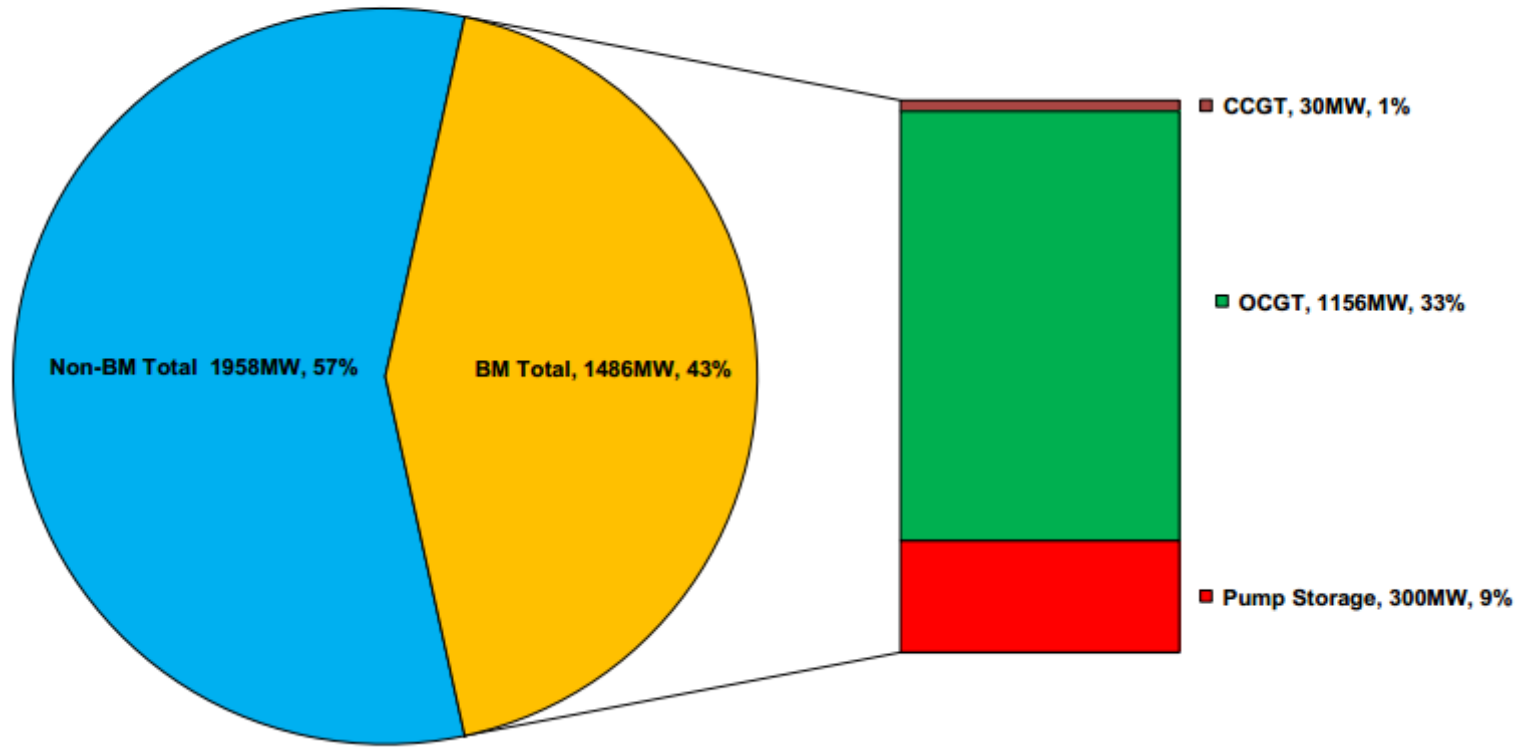
Both of the above issues are potentially leading to the over rewarding of certain generating assets and as such are responsible for a negative outcome both in terms of allowing economic tenders on a level playing field as well as in the total costs the end consumer is exposed to through duplicate payments for services.



### How much is effected?

The scope of what generation is impacted by this modification is to some extent concealed by the bilateral nature of the Black Start product, however a significant proportion of the STOR market is comprised of OCGT units (1156MW) that potentially are tendering into Black Start Revenue to supplement their STOR Revenue, we believe this to represent some 750MWs of generation capacity.

**Figure 2: All STOR Providers – Fuel Type Composition of BM STOR Providers – Season 8.5**



## What can be done about it?

As part of this CUSC modification we propose that a new section should be introduced under section 4.4 of the CUSC that implements a principle of financial mutual exclusivity for BM Units in receipt of multiple sources of ancillary services revenue. The core of this concept should be that both the availability and utilisation streams of revenue for balancing and ancillary services should net off so as to prevent duplicate revenue being paid to providers. National Grid would subsequently introduce this as a component of future tender rounds on all eligible ancillary services.

We identify that Black Start and other such schemes offer vital services to National Grid and do genuinely impose additional costs on participants providing them, this is why we have proposed a solution based on netting of revenue rather than of mutual exclusivity.

We welcome National Grids view on the best methodology for the implementation for this modification but believe a simple additional clause in section 4.4 of the Charging Principles could achieve the stated aim of preventing this distortion throughout the entire ancillary and balancing market.

### Charging Objective A

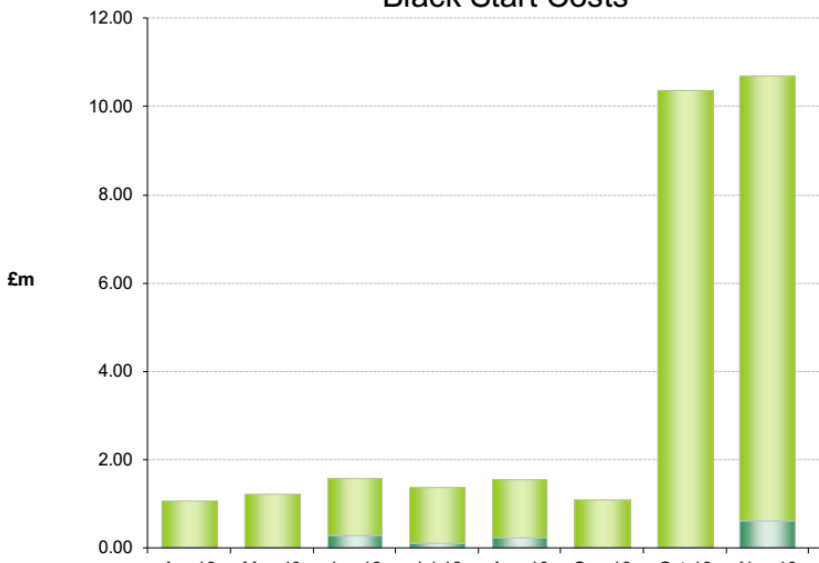
This modification will address the benefit being enjoyed by some BM Units that are able to access duplicate revenue streams for the same asset and as such enjoy a competitive advantage over comparable assets that do not enjoy such an advantage. This will improve competition in the market as well as reducing the cost to the end consumer through the removal of its current payment for the same service multiple times.

## Savings to the end consumer?

The exact relationship between Black Start units taking part in other balancing and ancillary services is hidden by the bilateral nature of these relationships, however with the sharp spikes in the Black Start cost of provision of services there is a strong growth in the cost to the end consumer.

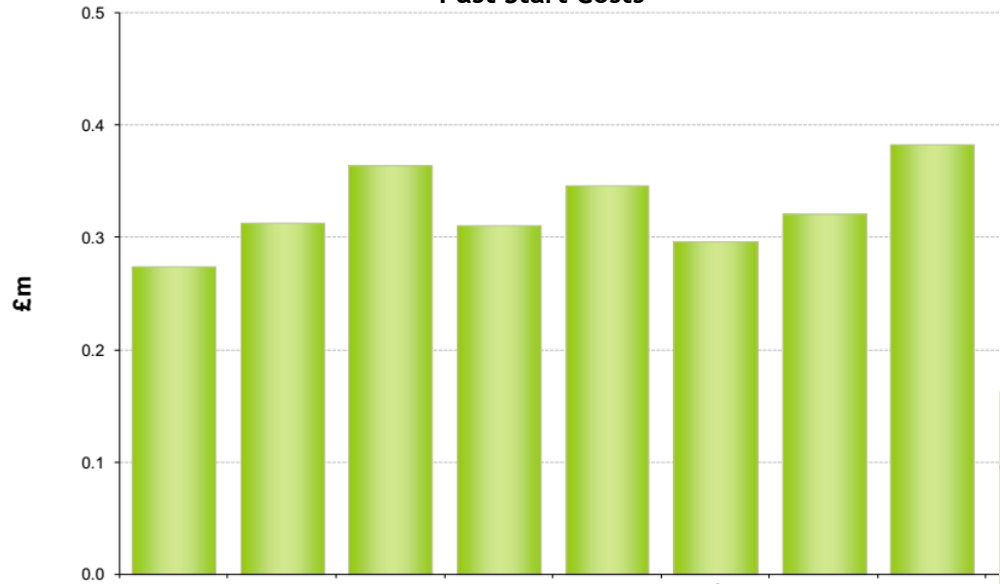
We believe that the consumer could see significant savings resulting from a reduction in double payment for the provision of services at these assets and with a potential budget of £43.5m from just these two services there is a large material impact on the end consumer as well as other parties that could see significant reductions

Black Start Costs



	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Black Start Contract costs (£m)	1.06	1.22	1.28	1.25	1.31	1.08	10.37	10.10
Other Black Start Costs (£m)	0.00	0.00	0.30	0.12	0.24	0.00	0.00	0.61

Fast Start Costs



	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Fast Start (£m)	0.27	0.31	0.36	0.31	0.35	0.30	0.32	0.38

## Urgency

One of the largest elements of the defect we have identified is the disruption it causes to the level playing field of STOR and other balancing service tenders with some participants able to take account of significant other revenue streams

As these tenders are run on a set time table this provides an operational deadline where the implementation of this modification would have the maximum benefit. It is likely unfeasible to achieve a system change in time for STOR TR32 but though our requested urgency status we believe it would be possible to achieve a change in time to impact STOR TR33.

Tender Round	Tender Milestones					
	ITT Pack Published	Framework Agreements Deadline	Market Day	Results Day	Market Report Published by	Service Start Date
TR31	16-Dec-16	06-Jan-17	13-Jan-17	24-Feb-17	24-Mar-17	01-Apr-17
TR32	21-Apr-17	19-May-17	26-May-17	07-Jul-17	11-Aug-17	21-Aug-17
TR33	14-Jul-17	04-Aug-17	11-Aug-17	15-Sep-17	20-Oct-17	30-Oct-17

- A) It has significant commercial impact upon both the Transmission Company, industry parties and customers.
- B) The Modification Proposal is linked to an imminent date-related event in that many ancillary services are due for tender which would propagate the defect further if unaddressed.

## Next Steps – CMP275



Heena Chauhan – Code Administrator

# Code Administrator - Proposed Progression

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- The Panel is asked to agree:
  - whether CMP275 should be progressed using either;
    - A Standard timetable
    - An Urgent timetable



## Urgency Criteria

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- Ofgem's current view is that an urgent modification should be linked to **an imminent issue** or a **current issue** that if not urgently addressed may cause:
  - a) **A significant commercial impact** on parties, consumers or other stakeholder(s); or
  - b) **A significant impact on the safety and security** of the electricity and/or gas systems; or
  - c) A party to be in breach of any **relevant legal requirements**.

## Proposed timeline – standard timetable 1/2

18 January 2017	CUSC Modification Proposal and request for Urgency submitted
27 January 2017	CUSC Panel meeting to consider proposal and urgency request
27 January 2017	Panel's view on urgency submitted to Ofgem for consultation
27 January 2017	Request for Workgroup members (10 Working days) (responses by 10 February 2017)
3 February 2017	Ofgem's view on urgency provided (5 Working days)
w/c 13 February 2017	Workgroup meeting 1
w/c 6 March 2017	Workgroup meeting 2
w/c 27 March 2017	Workgroup meeting 3
10 April 2017	Workgroup Consultation issued (15 days)
5 May 2017	Deadline for responses
w/c 15 May 2017	Workgroup meeting 4
w/c 5 June 2017	Workgroup meeting 5 (agree WACMs and Vote)
22 June 2017	Workgroup report issued to CUSC Panel
30 June 2017	CUSC Panel meeting to approve WG Report

## Proposed timeline – standard timetable 2/2

3 July 2017	Code Administrator Consultation issued (15 Working days)
24 July 2017	Deadline for responses
31 July 2017	Draft FMR published for industry comment (5 Working Days)
8 August 2017	Deadline for comments
17 August 2017	Draft FMR circulated to Panel
25 August 2017	Panel meeting for Panel recommendation vote
31 August 2017	FMR circulated for Panel comment (3 Working day)
5 September 2017	Deadline for Panel comment
8 September 2017	Final report sent to Authority for decision
13 October 2017	Indicative Authority Decision due (25 working days)
20 October 2017	Implementation date

## Proposed timeline – Urgent timetable 1/2

18 January 2017	CUSC Modification Proposal and request for Urgency submitted
27 January 2017	CUSC Panel meeting to consider proposal and urgency request
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27 March 2017	Deadline for responses
30 March 2017	Workgroup meeting 4
w/c 3 April 2017	Workgroup meeting 5 (agree WACMs and Vote)
20 April 2017	Workgroup report issued to CUSC Panel
28 April 2017	CUSC Panel meeting to approve WG Report

## Proposed timeline – Urgent timetable 2/2

28 April 2017	Code Administrator Consultation issued (5 Working days)
8 May 2016	Deadline for responses
11 May 2017	Draft FMR published for industry comment (3 Working Days)
16 May 2017	Deadline for comments
18 May 2017	Draft FMR circulated to Panel
26 May 2017	Panel meeting for Panel recommendation vote
9 June 2017	FMR circulated for Panel comment (3 Working day)
14 June 2017	Deadline for Panel comment
16 June 2017	Final report sent to Authority for decision
7 July 2017	Indicative Authority Decision due (15 working days)
14 July 2017	Implementation date