

## Response Energy Payment



BSSG 30<sup>th</sup> October 2013

# Response Energy Payment

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- **Current CUSC provision**

- Low Frequency – energy delivered (MWhr) x Market Index Price x 1.25 – paid by National Grid to generator
  - High Frequency – energy reduction (MWhr) x Market Index Price x 0.75 – paid by generator to National Grid
- Designed to reflect fuel cost incurred or saved in relation to response energy – does not work for renewable generation

- **2012/13 Frequency Response Payment Analysis**

- **Holding Payment: £67M**
  - **Energy Payment: £12.6M**
    - Low Frequency: £24M
    - High Frequency: -£12M

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- National Grid has proposed three options for the industry to consider
- National Grid's current view:

Option	Formula*	Advantage	Disadvantage
<b>1. Keep the existing methodology</b>	LF: $MWhr * MIP * 1.25$	<ul style="list-style-type: none"> <li>No changes are required</li> </ul>	<ul style="list-style-type: none"> <li>REP is not reflective for renewables</li> <li>Potential high cost to the industry</li> </ul>
	HF: $-(MWhr * MIP * 0.75)$		
<b>2. Reverse the current methodology</b>	LF: $-(MWhr * MIP * 0.75)$	<ul style="list-style-type: none"> <li>Renewables are compensated to some degree</li> <li>Minimal changes required</li> <li>Future proof</li> </ul>	<ul style="list-style-type: none"> <li>Does not fully address the loss of ROCs</li> </ul>
	HF: $MWhr * MIP * 1.25$		
<b>3. Incorporate specific ROC</b>	LF: $-(MWhr * (ROC - MIP * 1.25))$	<ul style="list-style-type: none"> <li>ROCs are correctly reflected in calculations</li> </ul>	<ul style="list-style-type: none"> <li>Cause optimisation despatch issue</li> <li>Value of ROCs change annually</li> <li>Not future proof</li> </ul>
	HF: $MWhr * (ROC - MIP * 0.75)$		

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### ■ Proposed Next Steps

- Consent from the BSSG to take one option further for detailed analysis
- Present the findings and the proposal in December BSSG
- Develop the proposal for CUSC Change Panel for decision by April 2014