

CUSC Modification Proposal Form		At what stage is this document in the process?												
<h1 style="color: #00a651;">CMP275:</h1> <p style="color: #00a651;"><b>Mod Title:</b> Transmission Generator Benefits in the provision of ancillary and balancing services – levelling the playing field.</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #00a651; color: white; text-align: center;">01</td> <td style="background-color: #00a651; color: white; text-align: center;">Initial Written Assessment</td> </tr> <tr> <td style="text-align: center;">02</td> <td style="text-align: center;">Workgroup Consultation</td> </tr> <tr> <td style="text-align: center;">03</td> <td style="text-align: center;">Workgroup Report</td> </tr> <tr> <td style="text-align: center;">04</td> <td style="text-align: center;">Code Administrator Consultation</td> </tr> <tr> <td style="text-align: center;">05</td> <td style="text-align: center;">Draft CUSC Modification</td> </tr> <tr> <td style="text-align: center;">06</td> <td style="text-align: center;">Final CUSC Modification</td> </tr> </table>		01	Initial Written Assessment	02	Workgroup Consultation	03	Workgroup Report	04	Code Administrator Consultation	05	Draft CUSC Modification	06	Final CUSC Modification
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<p><b>Purpose of Modification:</b> CMP275 seeks that a principle of financial mutual exclusivity is introduced to prevent BM units from accessing multiple sources of duplicate and overlapping revenue from ancillary services on the same asset.</p>														
	<p><b>The Proposer recommends that this modification should be:</b></p> <ul style="list-style-type: none"> <li>be treated as <b>urgent</b> and should proceed as such under a timetable agreed with the Authority</li> <li>This modification was raised <b>18 January 2017</b>, and will be presented by the Proposer, <b>Ian Tanner of UK Power Reserve Ltd</b>, to the Panel on <b>27 January 2017</b>. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</li> </ul>													
	<p><b>High Impact:</b> Generators Transmission Company Ancillary Service Providers</p>													
	<p><b>Medium Impact</b></p>													
	<p><b>Low Impact</b></p>													

**Guidance on the use of this Template:** *Please complete all sections unless specifically marked for the Code Administrator. Green italic text is provided as guidance and should be removed before submission.*

**Contact us:** *The Code Administrator is available to help and support the drafting of any modifications, including guidance on completion of this template and the wider modification process. If you have any questions or need any advice on how to fill in this form please contact the Panel Secretary: e-mail: [heena.chauhan@nationalgrid.com](mailto:heena.chauhan@nationalgrid.com) or [cusc.team@nationalgrid.com](mailto:cusc.team@nationalgrid.com) ; phone: 01926654028*

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Timetable		
<i>The Code Administrator will update the timetable.</i>		
<b>The Code Administrator recommends the following timetable:</b> <i>(amend as appropriate)</i>		
Initial consideration by Workgroup	dd month year	
Workgroup Consultation issued to the Industry	dd month year	
Modification concluded by Workgroup	dd month year	
Workgroup Report presented to Panel	dd month year	
Code Administration Consultation Report issued to the Industry	dd month year	
Draft Final Modification Report presented to Panel	dd month year	
Modification Panel decision	dd month year	
Final Modification Report issued the Authority	dd month year	
Decision implemented in CUSC	dd month year	

## 1 Summary

### What

It is proposed that a principle of financial mutual exclusivity is introduced to prevent BM units from accessing multiple sources of duplicate revenue from ancillary services on the same asset.

### Why

Currently BM units can access revenue streams from multiple ancillary services that overlap in their scope; this gives them a competitive advantage through over compensation over competitor parties.

### How

It is proposed 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.

## 2 Governance

### Requested Next Steps

This modification should:

- be treated as **urgent** and should proceed as such under a timetable agreed with the Authority

We consider this an urgent modification because:

- A) It has significant commercial impact upon 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.

The next STOR tender round will take place on the 26/05/17 with the following one on the 11/08/17 so there is some urgency for National Grid to take account of this issue to prevent its further impact on the provision of balancing services.

Table 1: National Grid STOR tender milestones

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

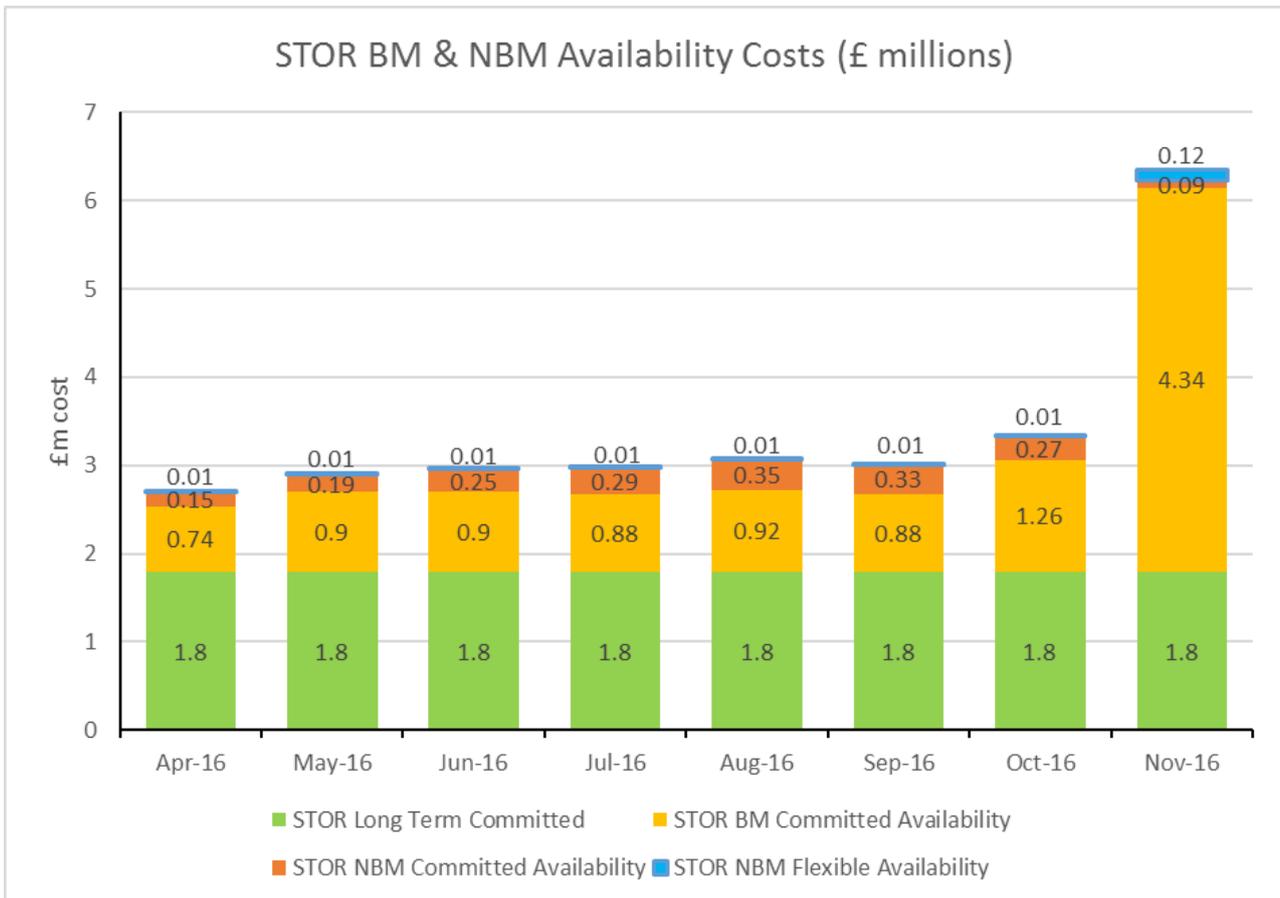
This modification should not be treated as a self-governance due to its material impact on some parties.

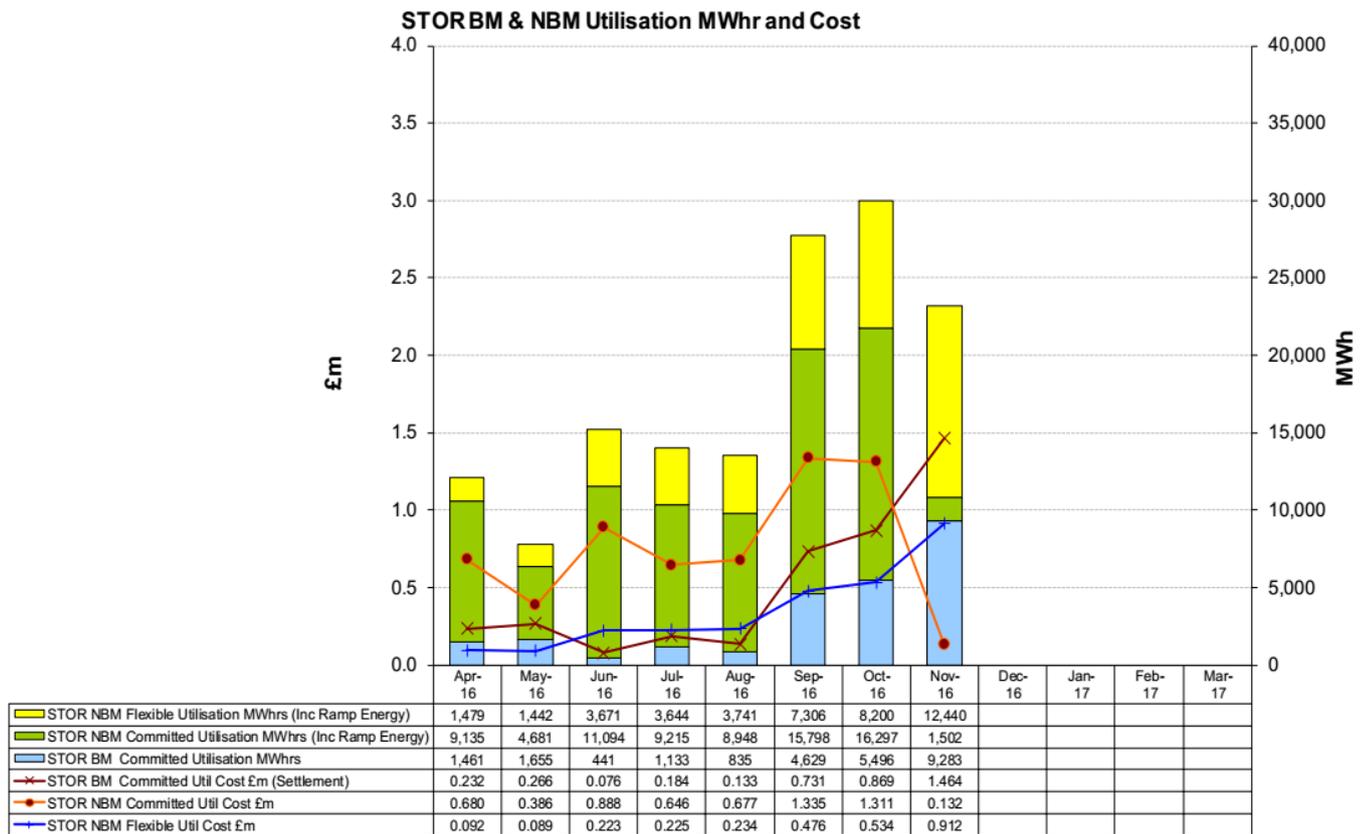
### 3 Why Change?

Currently BM units can access revenue streams from multiple 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 (i.e. not mutually exclusive).. This is a distortion to the market and has a severe material impact in preventing a level playing field as well as increasing the cost to the end consumer and unduly rewarding some generating units above others.

This distortion is present in both availability and utilisation payments associated with the provision of balancing services such as Short Term Operating Reserve (STOR) from National Grid and is most pronounced where units are able to enter and/or tender into multiple ancillary services such as Black Start and Fast Start which do not exclude participants from taking part in other services such as STOR.

The below charts are extracted from the Monthly Balancing Services Summary show clearly the split of availability and utilisation payments between BM and NBM.





Black Start units are currently paid to be available for restoring the National Grid to operation after a serious disconnection or power loss event, this represents a large amount of revenue in the form of availability payments to the plant to allow it to stockpile fuel and maintain independent operational capacity mainly in the form of Open Cycle Gas Turbines which can be gas oil fired to allow it to power up the main station capacity to respond to a Black Start request from National Grid to block load and reenergise the transmission system. As these units are unlikely to ever need to respond to a Black Start instruction except for scheduled testing (there has never been a requirement for a Black Start in the UK) they are therefore commonly tendered into other services such as STOR where they are able to tender in and receive additional availability payments to support and maintain the exact same capacity as they are already receiving payment for under their Black Start contracts. Black Start payments can cover both operational costs and capital costs for black start capacity.

This represents a duplicate source of availability revenue and allows such benefiting units to receive account for a second or more additional revenue streams to cross subsidise their tender strategies in competitive tenders compared to other parties by having paid for plant maintenance and overheads through availability from other sources, leading to a distortion of the market as well as added expense to the end consumer through paying for a service twice.

This distortion is also present in the Fast Start service where units are paid an additional utilisation revenue source as a benefit on their ramp profiles. Such units are however permitted to tender into STOR and other ancillary services and as such are able to achieve higher utilisation revenue streams for their generated MWh than comparable units that are purely tendered into STOR and not in receipt of duplicate revenue. This allows comparable cross subsidisation to the above example of Black Start where a such benefiting unit would be able to tender into competitive auctions at a lower rate than similar competing plant due to its benefit of double revenue stream.

This effectively allows BM participants to take account of a second income stream when submitting tenders for other balancing services. Since this income stream is not taken into account in the procurement of STOR, this subsequently leads to inefficient procurement and also inefficient despatch decisions by the SO. It also places non BM STOR providers in a disadvantageous position compared to BM STOR providers who are able to access either Black Start or Fast Start revenues to subsidise their STOR tendering strategy.

In many cases the same transmission capacity is in receipt of black start and fast start payments as well as STOR payments meaning the prices tendered are not cost reflective. Thus creating a significant distortion in the STOR market and providing a significant competitive advantage to the units in receipt of these additional payments compared with other participants whom do are not in receipt of these revenue streams.

## 4 Code Specific Matters

### Technical Skillsets

The Proposer believes that the following technical skillset are required to assess this Modification:

CUSC code (mostly section 4.4)

Black Start

Ancillary Services

### Reference Documents

NA

## 5 Solution

It is proposed 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 principle of this concept should be that both the availability and utilisation streams of revenue for 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.

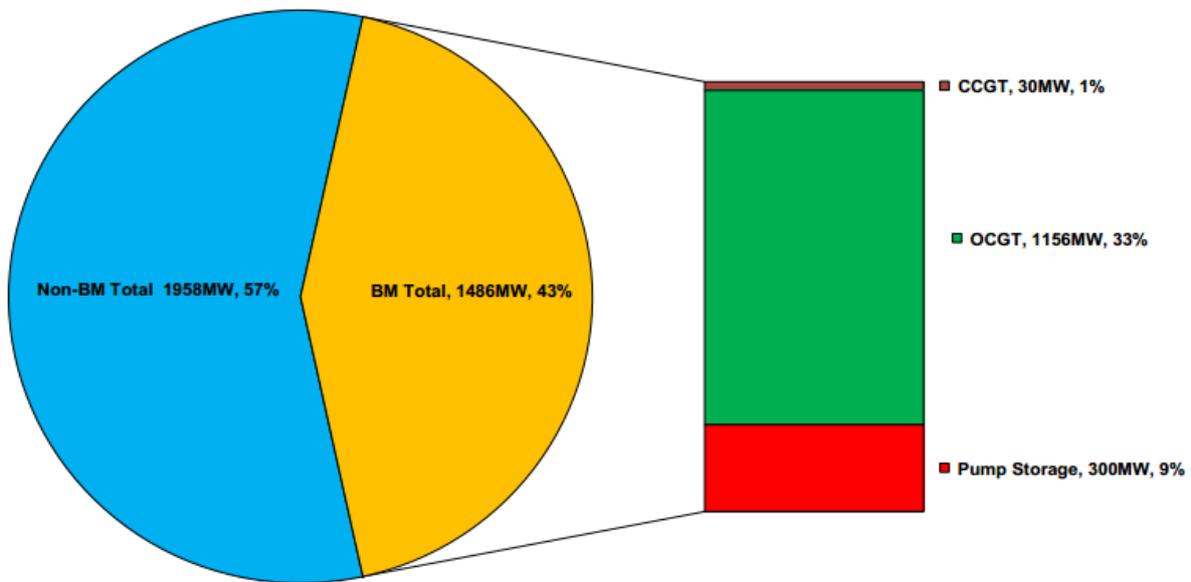
It is proposed that a principle of financial mutual exclusivity is introduced to prevent BM units from accessing multiple sources of duplicate and overlapping revenue from

ancillary services on the same asset. This would be achieved through the introduction of a new principle as part of section 4.4 of the CUSC which would then be featured in future tender round standard terms.

The basis of this principle is that units should not be paid for the same service twice; this would not prevent BM Units from taking part in multiple services simultaneously or receiving revenue from both simultaneously as well. However, it would introduce a netting process whereby duplicate revenue from additional ancillary services such as STOR would be netted off or retained by National Grid until they exceeded the availability revenue from Black Start or the utilisation revenue from Fast Start.

As an example, of this a site receiving £100,000 in availability on an annual basis from a Black Start contract that was also tendered into the STOR market and received £130,000 in availability payments over the same period would only receive £130,000 in availability from both products, £100,000 of its revenue from STOR availability would be netted against its Black Start revenue. This would be a removal of duplicate revenue and a direct saving to the consumer from paying for the availability of a generation asset twice over.

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



The above chart from the STOR fuel type analysis carried out by National Grid shows over 1GW of STOR is provided by BM unit OCGTs of which it’s likely the vast majority benefit from Black Start or Fast Start payments in addition to STOR payments on both availability and utilisation. This represents almost 30% of the capacity secured in the STOR market.

This will then allow non-BM and BM providers to compete efficiently for the delivery of services with resulting consumer benefits driven by improved levels of competition and optimal despatch decisions from the system operator.

**Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

No

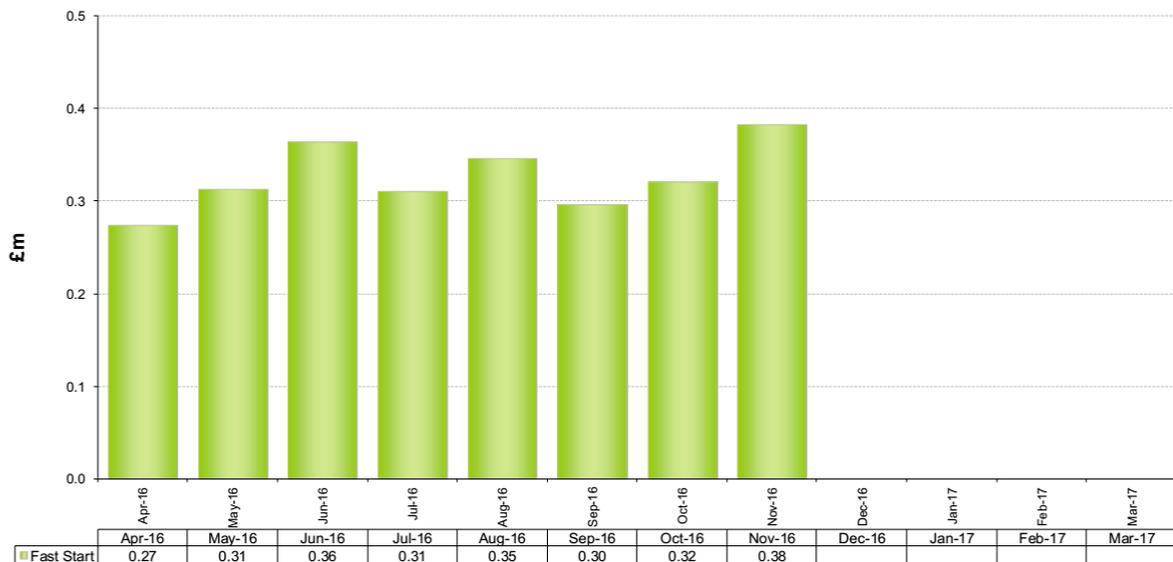
## Consumer Impacts

We are of the view that there would be significant savings to the end consumer from stopping the over payment of these services. As National Grid contracts these service on a bilateral agreement basis and does not publish any breakdown due to security concerns we are unable to identify what the exact savings would be but believe National Grid would be able to calculate this via cross referencing with their other balancing services.

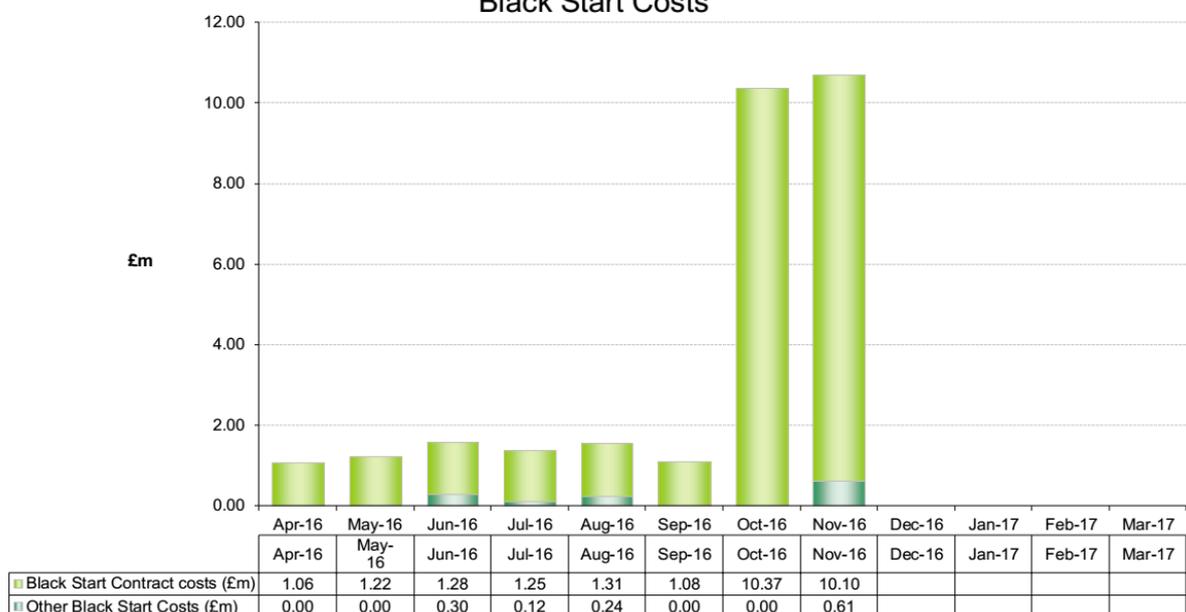
As the current black start contracting costs has risen so sharply (£10.1m on a monthly basis as per the most recent MBSS summary publication for November) we believe this will pose a growing issue to the end customer and therefore will present a growing opportunity for cost reductions as reflected in the below extracts of the Monthly Balancing Services Summary document produced by National Grid.

### 3.3.1 Fast Start Details

Fast Start Utilisation



Black Start Costs



## 6 Relevant Objectives

### Impact of the modification on the Applicable CUSC Objectives (Charging):

Relevant Objective	Identified impact
(a) That compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;	Positive

#### 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.

We believe the modification is neutral of other objectives.

## 7 Implementation

Minimal impact to computer systems, the modification would simply be one of contractual changes and then a relatively simple process of National Grids settlement taking eligible revenues into account on specified ancillary products. As National Grid is the source of all the impacted revenues this should not pose a problem outside of the SO.

## 8 Legal Text

*The Proposer is welcome to put forward suggested legal text. If this is a proposed Fast Track Self-Governance modification then legal text and commentary must be provided. Otherwise the legal text will be provided in conjunction with the Workgroup Report to the CUSC Panel before progressing to the Code Administrator Consultation.*

### **Text Commentary**

Insert text here *In support of the legal text provided, the legal representative will provide a plain English explanatory note setting out the approach taken to converting the Solution into legal text, illustrating how the legal text delivers the intent of the Solution.*

## 9 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Refer this proposal to a Workgroup for assessment.

## 10 Proposer Details

<b>Details of Proposer:</b> (Organisation Name)	UK Power Reserve Ltd
<b>Capacity in which the CUSC Modification Proposal is being proposed:</b> (i.e. CUSC Party, BSC Party or "National Consumer Council")	CUSC & BSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Ian Tanner UK Power Reserve Ltd 01217121977 ian.tanner@ukpowerreserve.com
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	Sam Wither UK Power Reserve Ltd 01217121975 Sam.wither@ukpowerreserve.com
<b>Attachments (No):</b>	