

Section 2: Amending the Standard Contract Terms

Q1: Do you consider that the response time permitted for Reserve Providers to respond to an OCP should be increased from the current 10 Business Days, to 20 Business Days? If not, could you recommend a more appropriate timescale?

This is a positive step and we support alignment of STOR STC amendments with CUSC timescales.

Q2: Do you consider that a period of 20 Business Days following receipt of responses to an OCP from Reserve Providers is an appropriate timescale for National Grid to give due consideration to these responses and notify of its intention to either withdraw or modify the proposals, or implement them via the publication of a DCP? If not could you recommend a more appropriate timescale?

An increase to 20 business days on both parties appears to be reasonable at this time.

Q3: Do you consider that an increased period of 20 Business Days would be more appropriate than the current timescales in the interest of arranging at a mutually beneficial negotiation of Special Condition(s) or contract prices? If not, could you recommend a more suitable timescale?

I think this will be dependent on how widespread and significant the impact of the DCP is and the likely impact on the resources within the National Grid contracts team more than the provider however the current arrangements do appear to be too short.

This process could possibly be made more efficient if National Grid provided financial analysis to the individual Reserve Providers (to supplement their own) which would demonstrate the level at which the DCP impact is negated at the same time as the publication of the DCP.

In general, when considering OCPs and DCPs in general, should the process be started earlier as while the proposed changes do allow more time for consideration and negotiation, the process will be concluded too close to Market Day as indicated by Figure 2 on page 8 of the OCP.

Section 3: Notice to Terminate

Q4: Do you consider that a period of 60 Business Days is appropriate when considering the timescales within which National Grid should notify a Reserve Provider that a contract will be terminated following circumstances of multiple Events of Default which could lead to termination?

The 'use it or lose it' approach will remove the hanging threat of termination and given that National Grid are unable to report Events of Default faster, a figure of 60 business days rather than 40 business days is clearly more acceptable.

If this approach is adopted an alternative approach to setting 'the consideration period' could be considered. The 'starting point' would be the date on which National Grid notifies the Reserve Provider of their EoDs for the previous month and their desire to terminate the contract rather than the date of the first EoD. As the date at which this report is sent falls outside of the Reserve Providers control this would be a more sensible reference point, with then perhaps 20 working days for negotiation and implementation of the Remedial Plan.

As an additional consideration, a mechanism which would lead to the 'automatic resetting' of the EoDs and the immediate loss of National Grid's termination right for the Reserve Provider might be worth consideration, for example in cases where;

1. The Reserve Provider has successfully delivered a call following the EoDs.
2. The Reserve Provider has successfully passed a Repeating Test.
3. If National Grid do not request a Repeating Test or serve a termination notice within [the month] following any service month during which a relevant number of EoDs were incurred.

Section 4: Suspension of STOR Contract

Q5: Would you consider a Remedial Plan to be a welcome introduction to the Standard Contract Terms?

We welcome the introduction of a Remedial Plan.

Q6: Do you have any comments with regards to the proposed process presented in Figure 3, particularly on the timescales?

As has been recognised and experienced, it is very easy for Reserve Providers to incur sufficient EoDs to reach a position of breach which previously, provided they have shown willingness and openness to quickly rectify the fault and conduct a Repeating Test, has not, in the experience of GDF SUEZ Energy UK, led to contract termination to date.

The historic process has therefore been discretionary and we have concerns that if the process becomes more defined that National Grid will lose flexibility in how they interpret this performance which may lead to more contract terminations through their need to be seen to apply the letter of the contract fairly and consistently across all Reserve Providers.

Q7: Would you consider the introduction of Cure Plan to be a welcome introduction to the STOR contractual framework?

Yes, although as presented, this simply defers National Grid's decision to terminate by 1 step as it remains within their rights to reject the Reserve Providers Cure Plan.

Q8: Do you have any comments on the proposed process presented above, particularly with regard to the timescales?

1. The Remedial provisions do introduce concerns that this mechanism, particularly as it includes non-payment of availability during discussions, could be employed by National Grid to reduce costs. This could be used in particularly where the Reserve Provider holds a committed contract which cannot be rejected on a week-ahead basis as is the case with Flexible providers and we look to National Grid for assurances in this area.

2. Where cases are referred to Expert Determination and the outcome is in favour of the Reserve Provider, we would expect National Grid to return all withheld availability payments.

3. We would also welcome discussions into the actual impact of EoDs with a view to categorising them into major and minor

a). Minor EoDs which impact availability payments only;

~ Declaration error

~ Delivery when called over 70% of contractual, e.g MW at the end of notice period, volume over the call etc

b). Major EoDs which impact availability payments and which can be counted towards termination.

~ Delivery under 70% of contract

~ Available in a window but unable to deliver the contracted MWs

This would reduce the number of cases where the termination route has activated for minor contractual infractions.

Q9: Do you consider that long-term Reserve Providers should have the opportunity to 'opt out' of the provision of STOR during the extended period(s) of Availability Windows?

Yes, although we would welcome National Grid's views on how this would be managed operationally given the limitations of the STOR software.

Q10: Do you consider a period of 15 Business Days following publication of a relevant ITT Pack appropriate for Reserve Providers to notify National Grid of the intention to 'opt out' of expanded Availability Windows?

Yes.

Would a Reserve Provider be able to 'opt out' of expanded Availability Windows only on a seasonal basis or have a more ad-hoc approach e.g. just window 2?

Q11: Do you consider that it would be appropriate for National Grid to amend the STCs such that a BM Provider is required to submit an Offer Price identical to the Contract Bid-Offer Price, with an Event of Default to be incurred for failure?

Q12: Do you consider it appropriate that National Grid should be giving consideration to developing the non-BM despatch system to facilitate a STOR market whereby all Reserve Provider can reduce their utilisation prices within day?

The process should not favour BM and non-BM participants regardless of approach. At present BM providers have a clear advantage over non-BM which needs to be addressed as a matter of urgency.

In the short term it may be simpler to require BM participants to have to input correct offer prices (this should incur an EoD, and exclude them from STOR availability payments and any despatches over the period of incorrect pricing) rather than amending the STOR software.

Out of the 2 options above, we would favour moving towards the scenario in Q12 which is a more market based mechanism for setting utilisation prices.

Q13: Do you have any comments with regards to National Grid's proposals to introduce tri-partite Direct Agreements in the interests of facilitating the necessary funding for new STOR plant and apparatus?

This may be necessary for long term contracts which have backing from financial institutions and I do not feel will have an overall impact to the scheme for those that operate STOR under the traditional arrangement.

Q14: Would you welcome publication of a draft set of 'standard' Aggregator terms on the National Grid website?

We would support this. All aggregators should operate on the same commercial terms.

Q15: Do you consider that Aggregator Terms should be developed as part of Workstream 1A of the wider reserve review?

Yes

Q16: Would you welcome further detail of the Assessment Principles applied to the week-ahead assessment of flexible STOR tenders?

Yes

Rather than a flat rejection of Flexible contracts at week-ahead, would National Grid entertain offering a utilisation rate which the customer would be accepted at for the coming week in preference?

Q17: Would you consider the inclusion of an annual utilisation limit based on the number of running hours to be a useful development?

Yes

If consideration is being given to volume related limits, we would encourage National Grid to open discussions on flexible declarations (rather than all or nothing) with contractual compliance being calculated on a volume basis.

Q18: Do you have any comments with regards to the housekeeping amendments proposal?

No.

Q19: Do you have any comments with regards to the proposed Tender Round dates for 2011 and the Seasons/ Years that are proposed to be available for tender in each?

Yes. In order to finalise our pricing assumptions before each tender, we require that National Grid makes public the volume of new participants in STOR by the Framework Agreements Deadline who have stated intent to participate in the next available tender round. This will allow us to better assess the competition for the coming season and price accordingly.