

Contract Development update

Agenda

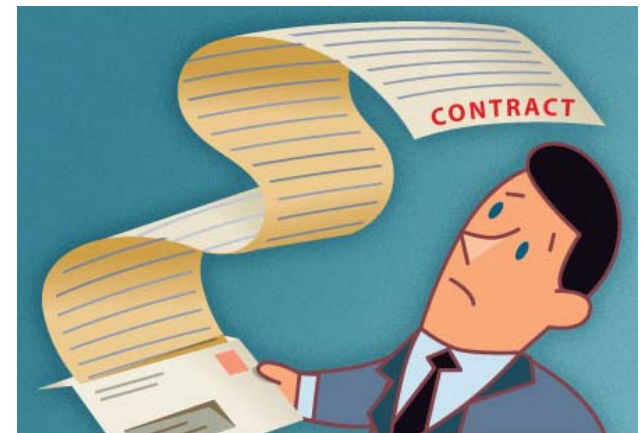
- ◆ STOR
- ◆ Reactive
- ◆ Constraint Management Service
- ◆ Firm Frequency Response / Fast Reserve
- ◆ Improvements to contract transparency
 - ◆ Constraints
 - ◆ Commercial Frequency Response
- ◆ Balancing Mechanism System Replacement

STOR Annual Review

- ◆ General STOR Standard Contracts Terms Review
- ◆ Develop longer-term services in STOR
 - meet future reserve requirement
 - promote competition
 - enhance efficiency

STOR Annual Review

- ◆ Key Areas of Review
 - timescale of the longer-term services
 - use of indexation for utilisation payments
 - dealing with uncertain future STOR windows



STOR Annual Review

Indicative Timetable of the Review

- ◆ June - August 08
Develop the proposal of STOR longer-term services
- ◆ September - October 08
Invite the industry to comment on the proposal
- ◆ November - December 08
Consider the feedback, finalise and publish the Standard Contract Terms

- ◆ We would welcome feedback on current STOR service and suggestions on longer-term services in STOR.

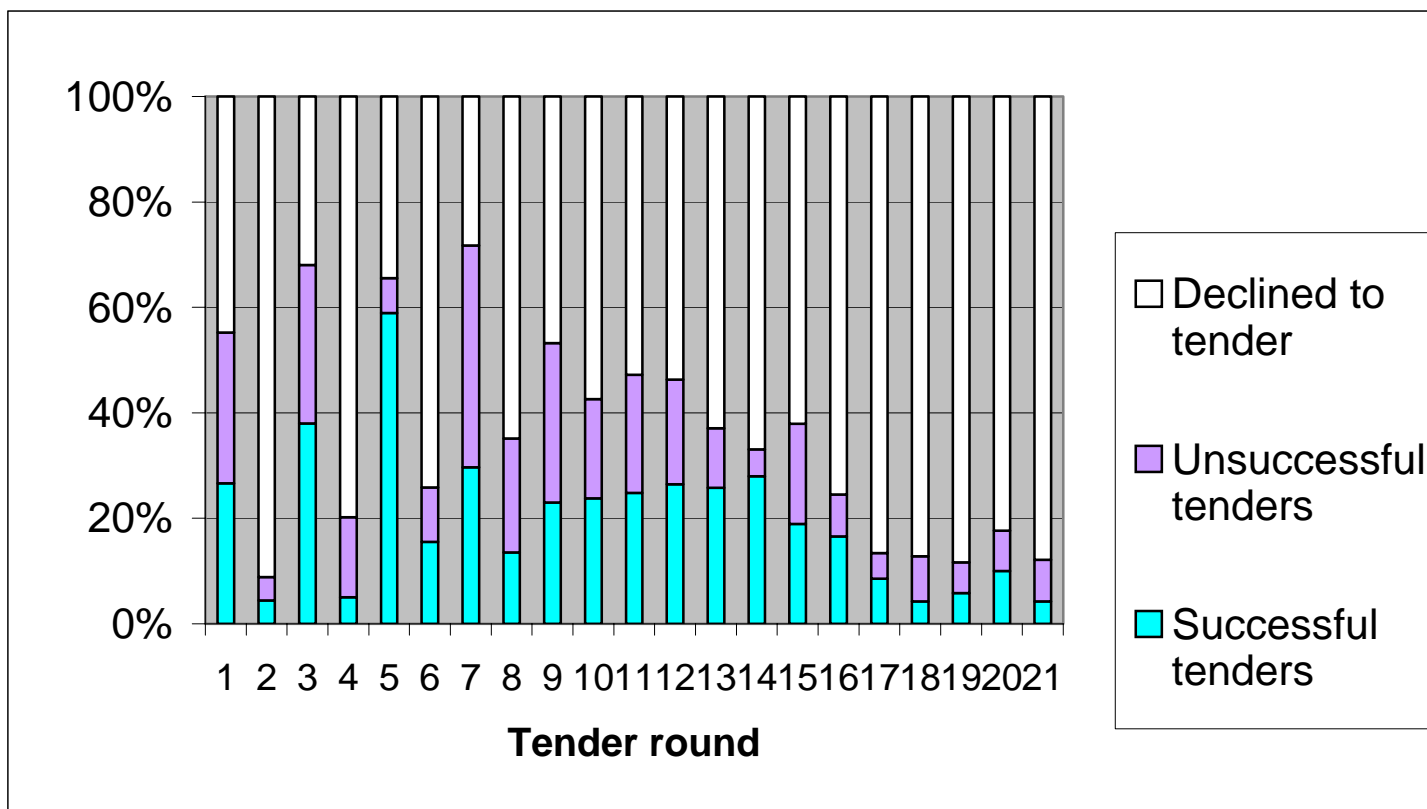
- ◆ Contact Rebecca Yang on 01926 656716 or rebecca.yang@uk.ngrid.com

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Reactive Power Market Review

- ◆ Reasons for review:
 - ◆ Low and decreasing number of participants



Reactive Power Review

- ◆ Reasons for review:
 - ◆ Low and decreasing number of participants
 - ◆ Comments received regarding long lead times between submission of tenders and commencement of Market Agreement
 - ◆ Minimal participation in Enhanced Reactive service
 - ◆ Complex and onerous assessment process



Reactive Power Review (Cont.)

- ◆ Scope of Review:
 - ◆ Tender process – timescales, frequency
 - ◆ Simplification of tender process
 - ◆ Simplification of assessment process
 - ◆ Consider use of Framework Agreements



Reactive Power Review (Cont.)

- ◆ Indicative Timescales:

- ◆ June - August 08: Develop proposals for Reactive Power market
- ◆ September - October 08: Seek feedback from industry on proposals
- ◆ November 08 - January 09: Raise CUSC Amendment Proposal

- ◆ Feedback

- ◆ We would welcome further feedback on the current Reactive Power service
- ◆ Contact Katharine Clench on 01926 656036 or katharine.clench@uk.ngrid.com

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Constraint Management Service: Update

- ◆ Keen to encourage participation in the service
- ◆ Feedback suggests potential service modifications:

'BMU level' rather than 'station level'

Standardised fuel efficiency factors

- ◆ Would allow tenders for a proportion of site output
- ◆ Would allow representation of different economics within a site, e.g. on different BMUs

- ◆ Would allow greater transparency of price caps/collars and aid understanding of assessment decisions (gets around confidentiality issues associated with actual efficiencies)

- ◆ Also reviewing tender process timescales
- ◆ Comments and feedback welcome
- ◆ Contact Ian Pashley (ian.pashley@uk.ngrid.com, 01926 653446)

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Review to date

Fast Reserve

- ◆ New Standard Terms and Conditions Posted on the website for comment October 2007
 - ◆ Specified tender months for longer-term tenders
 - ◆ Additional flexibility for providers who need to invest

Firm Frequency Response

- ◆ New Standard Terms and Conditions Posted on the website for comment April 2008
 - ◆ Specified tender months for longer-term tenders
 - ◆ Additional flexibility for providers who need to invest
 - ◆ Review of optional service parameters

Comments received

Fast Reserve

- ◆ The ability to tender more frequently for longer-term tenders
- ◆ Timing of multi month tenders should be five days earlier
- ◆ For longer-term tenders indexation should be considered (RPI or market index)

Firm Frequency Response

- ◆ The ability to tender more frequently for longer-term tenders
- ◆ Query over possible indexation of nomination and availability fees
- ◆ Flexibility over multiple tenders
- ◆ Review of terms to better facilitate dynamic demand to enter service

FFR/Fast Reserve Review 2008

- ◆ Way Forward
 - ◆ More work required to establish revised terms
 - ◆ Partnership between Fast Reserve and FFR review to ensure consistency
 - ◆ Working Group 4th July, in Warwick to debate relevant enhancements to both services

- ◆ Please direct queries / request place on working group to:
 - ◆ Fast Reserve – Sam Wither on 01926 656 492
(sam.wither@uk.ngrid.com)
 - ◆ Firm Frequency Response – Hannah Morgan on 01926 653 444
(hannah.morgan@uk.ngrid.com)

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Improvements to contract transparency

- ◆ Industry feedback to improve transparency **but**
- ◆ Need to balance between commercial confidentiality and transparency
 - ◆ Less interest to offer services due to sensitive information being shared
 - ◆ Failure to agree amendments to existing agreements



Balanced against

- ◆ Helping to facilitate competition
- ◆ Giving more information for industry to scrutinise National Grid actions and costs



Improvements to contract transparency

- ◆ Need to ensure data items that may be published are specified in agreement
- ◆ Limit data items to those necessary and only to better facilitate licence conditions
 - ◆ efficient, economic and facilitate competition
- ◆ Two areas presently being reviewed
 - ◆ Constraints
 - ◆ Commercial Frequency Response

Proposal to publish constraints data

- ◆ Constraints data published monthly on the National Grid website
- ◆ Data based on Settlement data
- ◆ Data published within 2 weeks of receipt of Settlement data, or 6 weeks after end of month

Proposal to publish constraints data

- ◆ Data will be aggregated into
 - ◆ Within Scotland
 - ◆ 'Cheviot' Scotland – England boundary
 - ◆ Within England & Wales (broken down as necessary)
- ◆ Data will be separated into import and export constraints
- ◆ Separate tables will be provided for
 - ◆ BM actions
 - ◆ Trades
 - ◆ SO – SO Trades
 - ◆ Contract data (including intertrips)

Proposal to publish constraints data

- ◆ BM actions and Trade data will cover
 - ◆ Energy Costs
 - ◆ Constrained Volume
 - ◆ Average Price of Action
 - ◆ Average Energy Replacement Price
 - ◆ Total Direct Cost
 - ◆ Sterilised Headroom Costs
 - ◆ Margin Replaced
 - ◆ Average Margin Replacement Price
 - ◆ Average Energy Reference Price for Margin Replacement
 - ◆ Total Margin Costs
 - ◆ Additional Transferred Costs
 - ◆ Total Costs

Proposal to publish constraints data

- ◆ Constraint Contract data
 - ◆ Constrained Volume
 - ◆ Time and dates active
 - ◆ Cost
- ◆ Intertrip data
 - ◆ No of times armed
 - ◆ Arming hours
 - ◆ Availability payments
 - ◆ Cost

Commercial Frequency Response – What is it?

- ◆ Established prior to CAP047
- ◆ Allows providers to offer an alternative more cost effective frequency service
 - ◆ Where the cost of providing the mandatory service was prohibitively high, a lesser more cost effective service could be offered
 - ◆ If plant was sufficiently flexible they could offer an enhanced service
- ◆ Negotiated bilaterally



Commercial Frequency Response – Why Change?

- ◆ CAP047 introduced to provide a competitive market for Mandatory Service
 - ◆ It established a mechanism to allow monthly price changes and publication of these prices and capabilities
 - ◆ Transparency allows providers to adjust their prices in response to market signals
- ◆ Firm Frequency Response
 - ◆ Information published in line with mandatory service
 - ◆ Tenders submitted before mandatory prices published
- ◆ The Commercial Frequency Response service
 - ◆ Prices and capabilities are confidential

Commercial Frequency Response – Why Change?

- ◆ Feedback from service participants
 - ◆ Unable to see prices and capabilities of Commercial Frequency Response
 - ◆ Further transparency will lead to more efficient pricing and facilitate better competition

Commercial Frequency Response – What Changes are required?

- ◆ Commercial Frequency Response clauses in the providers agreements will need to be changed to:-
 - ◆ Limit price changes to once a month with a cut-off date co-incident with the closure of the FRPS system
 - ◆ To allow publication of the prices and capabilities to be published on our website
- ◆ A new page on our website to publish information on service in line with mandatory service



Next Steps

- ◆ Further feedback is requested before moving forward with any changes
 - ◆ Are we proposing to publish too much / too little data?
 - ◆ Do you feel this will better facilitate our licence objectives?
 - ◆ Do you feel this will impact service provision?
- ◆ Please direct feedback to David Smith on 01926 655534 (david.m.smith@uk.ngrid.com) by 8th July



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National Grid Balancing Mechanism (BM) System Replacement

Current BM System

- BM system is the tool used by the System Operator for the real-time management of supply and demand
- It interfaces with market participant systems and settlement systems, and delivers data to the BMRS
- Current system coming towards the end of its lifecycle. Starting to think about form and function of replacement

National Grid BM System Replacement (cont.)

Industry views

- A number of significant industry changes on the horizon
- National Grid wishes to gain an understanding of what this means for industry participants in terms of what the BM system needs to achieve
- Industry views will enable us to more fully understand the requirements for BM system replacement and assess relative costs and benefits

National Grid BM System Replacement (cont.)

Industry Engagement Process

- Initiate industry engagement process – June '08
Ops Forum
- Industry workshop – July '08
- Issue consultation – August '08