

Short Term Operating Reserve (STOR) Development

Detailed Change Proposals Document (DCP-02)

25th October 2010

nationalgrid

THE POWER OF ACTION

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Executive Summary

On 27th September 2010, National Grid published an Outline Change Proposals Document (OCP-02) relating to Short Term Operating Reserve (STOR). In summary, the document proposed the following main areas for consideration:

- Process for making changes to the Standard Contract Terms;
- Notice to terminate;
- Suspension of contract;
- Changes to availability windows;
- Submission of BM Offer Prices; and
- Introduction of Direct Agreement;

Additionally, OCP-02 invited the views of the industry regarding the publication of Aggregator terms and week-ahead assessment principles, the ability to notify maximum utilisation in terms of hours, general housekeeping amendments, future Tender Round dates and any other issues that respondents considered worthy of raising with a view to improving the way in which the STOR service currently operates.

National Grid received 15 responses to OCP-02. Of those, 6 were non-Confidential and have been published on the Balancing Services website:

<http://www.nationalgrid.com/uk/Electricity/Balancing/services/reserveservices/STOR/>

Having given due consideration to the responses received to OCP-02, National Grid intends to implement the proposals highlighted in this Detailed Change Proposals Document from 1st April 2011.

Section 1

Introduction

Short-Term Operating Reserve (STOR)

- 1 National Grid, as the National Electricity Transmission System Operator (NETSO) requires access to extra power in the form of either generation or demand reduction during certain periods of the day in order to ensure the ability to be able to deal with actual demand being greater than forecast demand and/or unforeseen generation unavailability. These additional sources of power are referred to as 'Reserve' and comprise synchronised and non-synchronised sources.
- 2 National Grid procures the non-synchronised requirement primarily by contracting for Short Term Operating Reserve (STOR) via a competitive tender process from a range of service providers, for example in the form of standby generation and/or demand reduction from parties that may or may not participate in the Balancing Mechanism (BM).
- 3 STOR is a contracted Balancing Service whereby the service provider delivers a contracted level of power when instructed by National Grid, within pre-agreed parameters. The requirement for STOR varies depending on the time of year, week and day, being a function of the system demand profile at that time. The minimum capability requirements for the service are as follows:
 - a minimum contracted capability of 3MW;
 - a maximum response time for the delivery of the minimum contracted MW within 240 minutes of receipt of an instruction from National Grid; and
 - the ability to deliver the contracted MW for a continuous period of not less than 2 hours.
- 4 The contractual provisions relating to the STOR service are contained in the *Short Term Operating Reserve Standard Contract Terms Issue #3* which is available on the National Grid website.¹ Issue #4² of the STOR Standard Contract Terms (SCTs) includes those amendments proposed by DCP-01³ following the 2009 Review. These amendments are scheduled to become effective on 1st April 2011, although they will be immediately superseded by the developments proposed as part of this Detailed Change Proposals (DCP) Document which are incorporated into Issue #5.

Amending the Standard Contract Terms

- 5 Paragraph 1.2 of the STOR SCTs obliges National Grid to review the SCTs from time to time, and where at any time National Grid wishes to propose one or more amendments, then it may at its sole discretion do so by formulating an Outline Change Proposal (OCP), the contents of which shall include without limitation:-

¹ http://www.nationalgrid.com/NR/rdonlyres/CA693E1A-1C09-40A5-A69E-1707D1FB70CB/30820/STOR_SCTs_Issue_3_Final_Dec_08.pdf

² <http://www.nationalgrid.com/NR/rdonlyres/91BFA609-8B6A-4FF7-80F6-A77B4B26BFB8/38610/SCTDrafting.pdf>

³ <http://www.nationalgrid.com/NR/rdonlyres/29AEFF55-2467-4A4E-A71F-DEED60DDFC1A/38609/STORDetailedChangeProposalsDraftDCP01vFINAL.pdf>

- i) the rationale for the amendment(s), including whether or not required as a result of a Proposed Legal Requirement or Change in Law;
- ii) if applicable, details of the Proposed Legal Requirement or Change in Law; and
- iii) the Proposed Implementation Date.

Comments from Reserve Providers

- 6 Each OCP shall be notified by National Grid to all signatories of STOR Framework Agreements (Reserve Providers) in writing, giving a reasonable opportunity and, in any event, not less than 10 Business Days to review and provide National Grid with written comments. National Grid shall then consider in good faith, any written comments submitted by the Reserve Provider and shall, insofar as is reasonably practicable, address such comments in any DCP.

Detailed Change Proposal

- 7 If National Grid decides to implement an OCP, then it shall formulate a DCP, which shall specify a final implementation date and shall be accompanied by a copy of the SCTs with the amendments specified in the DCP incorporated.
- 8 Each DCP shall be notified by National Grid to all reserve providers in writing as soon as reasonably practicable and in any event within 20 Business Days of notification by National Grid of the OCP which, will ordinarily be no later than the date of issue of the Invitation To Tender (ITT) Pack which immediately precedes the final implementation date.
- 9 Amendments to the SCTs set out in a DCP notified by National Grid shall become effective from the final implementation date, whereupon amendments shall be incorporated automatically into each STOR Framework Agreement.
- 10 With respect to a DCP, each and any affected reserve provider may, no later than 15 Business Days after notification by National Grid of that DCP, elect by notice in writing to National Grid, to either:
- a) where the affected reserve provider is of the reasonable opinion that its ability to provide STOR and/or comply with such affected STOR contract(s) will be materially prejudiced by the amendments to the SCTs described in such DCP, reject the application of such amendments to each of such affected STOR contracts; or
 - b) where the affected reserve provider is of the reasonable opinion that the net cost to it of providing STOR and/or complying with such affected STOR contract(s) has increased as a result of such amendments, seek an increase to any or all of the contract prices in respect of each of such affected STOR contracts.

Implementation

- 11 On 27th September 2010, National Grid published an OCP Document (OCP-02)⁴. In summary, the document considered the following main areas for development:
- 1. Process for making changes to the Standard Contract Terms;
 - 2. Notice to terminate;

⁴ http://www.nationalgrid.com/NR/rdonlyres/9B5EC953-38F8-4607-B120-52D24190A30A/43239/STOR_Outline_Change_Proposals.pdf

3. Suspension of contract;
 4. Changes to availability windows;
 5. Submission of BM Offer Prices; and
 6. Introduction of Direct Agreement.
- 12 Additionally, the OCP invited the views of the industry regarding the publication of Aggregator terms and week-ahead assessment principles, the ability to notify maximum utilisation in terms of hours, general housekeeping amendments, future Tender Round dates and any other issues that respondents considered worthy of raising with a view to improving the way in which the STOR service currently operates.
- 13 This DCP Document takes into consideration the 15 industry responses received to the OCP Document and details those elements of the OCP that will be taken forward for implementation. The required amendments to the SCTs are published on the Balancing Service website as Issue #5⁵ and will become effective from 1st April 2011.
- 14 This version of the SCTs will replace and supersede Issue #4 of the SCTs, which was otherwise due to come into effect on that date. Those changes included in Issue #4 now appear in Issue #5.
- 15 None of the amendments proposed in this DCP are considered by National Grid to be required as a result of any Proposed Legal Requirement or Change in Law.
- 16 It should be noted by Reserve Providers and other interested parties that this DCP, insofar as it summarises the SCTs, is intended for guidance only and should not be relied upon, and Reserve Providers and other interested parties are directed to the SCTs available on the Balancing Services website.

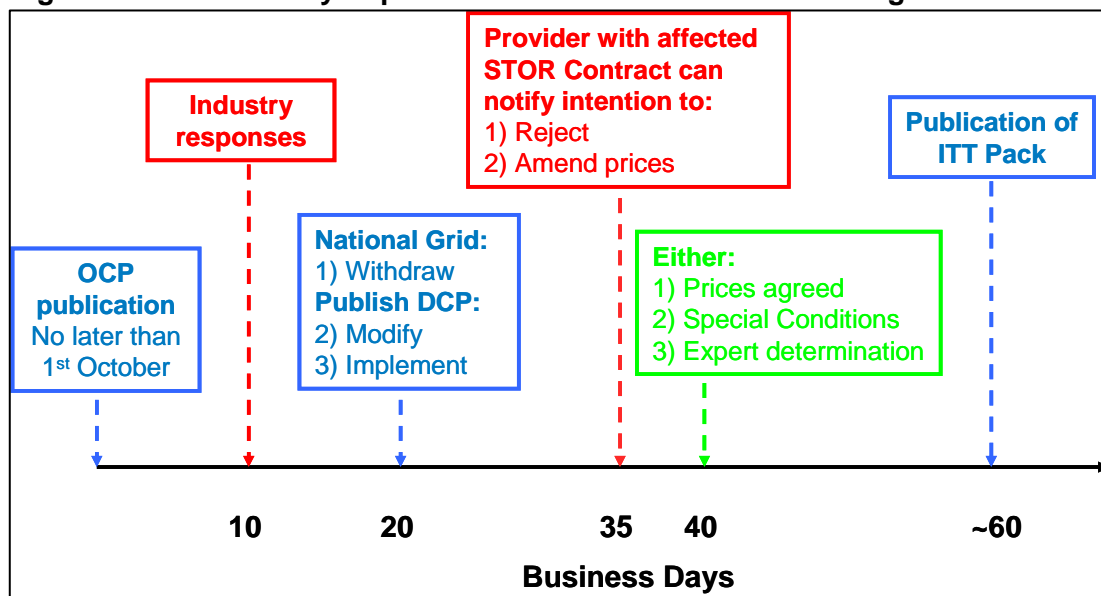
⁵ <http://www.nationalgrid.com/uk/Electricity/Balancing/services/reserveservices/STOR/>

Section 2

Amending the Standard Contract Terms

- 17 The current process for amending the SCTs was introduced into paragraph 1.2 of the SCTs following the 2008 STOR review. Consequently, the process was used for the first time in October 2009, during which potential areas for improvement were identified, particularly with regards to the timescales associated with some parts of the process. A high-level summary of the process and the key timescales is included in Figure 1 below.

Figure 1 Summary of process and timescales for amending SCTs



- 18 Following publication of an OCP, sub-paragraph 1.2.4 of the SCTs obliges National Grid to give all Reserve Providers a reasonable opportunity and, in any event, not less than 10 Business Days, to review and provide National Grid with written comments on the content of that OCP.
- 19 Whilst the drafting indicates that there may be scope for National Grid to provide in excess of 10 Business Days for a Reserve Provider to respond with written comments, sub-paragraph 1.2.5 of the SCTs then dictates that where National Grid fails to make a decision as to withdrawal, modification or implementation of that OCP within 20 Business Days of its publication, then the OCP shall be deemed to have been withdrawn with immediate effect.
- 20 Very little scope is therefore provided for a period in excess of 10 Business Days to be afforded to Reserve Providers, whilst furthermore, it limits National Grid to a maximum of 10 Business Days to give due consideration to all of the points raised in response to the OCP prior to deciding to either withdraw, modify or implement it via the publication of a DCP.
- 21 In view of this, National Grid proposed in OCP-02 that the SCTs should be amended to provide for a minimum of 20 Business Days for a Reserve Provider to respond to an OCP. This would align with the current 28-day period

(including non-Business Days) which industry respondents have to respond to Proposals relating to Industry Codes and proposed modifications to the suite of Charging Methodologies.

- 22 Additionally, National Grid also proposed in OCP-02 that a further 20 Business Days should be provided for National Grid to give consideration to all of the issues raised by Reserve Providers in their responses, which would therefore extend the overall timescales associated with National Grid's decision to proceed with a DCP to 40 Business Days subsequent to the publication of an OCP.
- 23 Sub-paragraph 1.2.10(a) of the SCTs sets out the process for the rejection of Detailed Change Proposals to subsisting STOR contracts. This process allows Affected Reserve Providers a period of 15 Business Days after publication of a DCP to notify National Grid that it wishes to reject the application of those changes to a subsisting STOR Contract. Sub-paragraph 1.2.13 of the SCTs then allows 5 Business Days for National Grid and an Affected Reserve Provider to negotiate in good faith, amendments to the STOR Framework Agreement by way of Special Condition(s) in order to negate the impact of a DCP with respect to the STOR Contract in question such that the Reserve Provider is in no better/worse position after the coming into effect of the DCP than it would have been had that DCP not come into effect. In the event that no such agreement is reached within that period of 5 Business Days, then the matter(s) may be referred to Expert Determination.
- 24 Similarly, sub-paragraphs 1.2.10(b) and 1.2.16 of the SCTs provides the same timescales for an increase in contract prices to be negotiated in limited circumstances to reflect any increase in net costs of the Reserve Provider.
- 25 In OCP-02, National Grid considered that a period of 5 Business Days is insufficient time for these issues to be negotiated and resolved consequent upon a DCP and therefore proposed to increase the timescales to 20 Business Days to facilitate the possibility of a successful resolution.

Responses to OCP-02

- 26 Of the 15 respondents to OCP-02, 13 considered that the time permitted for Reserve Providers to respond to an OCP should be increased from the current 10 Business Days. Of these, one Reserve Provider considered that this should be extended even beyond the proposed 20 Business Days to 30 Business Days. One Reserve Provider did not consider it necessary to extend the timescales on the basis that the current 10 Business Days afforded is sufficient for Reserve Providers to formulate a response to an OCP. One respondent did not comment on these timescales.
- 27 13 respondents considered that a period of 20 Business Days following receipt of responses to an OCP from Reserve Providers is more appropriate 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 a DCP. Two respondents did not comment on these timescales.
- 28 With regards to the 5 Business Day period afforded for issues to be negotiated and resolved consequent upon a DCP, 14 respondents supported the proposal to increase this to 20 Business Days and 1 respondent did not comment.

National Grid's Proposal

- 29 Having given consideration to the responses received to OCP-02, National Grid intends to amend the timescales associated with Reserve Providers responding to an OCP and the time afforded to National Grid for the subsequent consideration of these prior to implementing an appropriate course of action to those proposed in OCP-02, of 20 Business Days respectively.
- 30 Additionally, it is proposed that a period of 20 Business Days is afforded for issues to be negotiated and resolved consequent upon a DCP.
- 31 It is proposed that these changes will become effective on 1st April 2011.

Section 3

Notice to Terminate

- 32 National Grid has various rights to terminate a STOR Contract under the SCTs. Under sub-paragraph 2.5.4 and 3.5.4 these include upon various multiple Events of Default, namely:-
- where the Reserve Provider incurs in excess of 3 Events of Default in any Season; or
 - where the Reserve Provider incurs in excess of 8 Events of Default within any 12 month period during the term of that STOR Contract.
- 33 Following discussions with Reserve Providers throughout the year and in particular, those Reserve Providers considering tendering for long-term STOR contracts, it was highlighted that there is currently no long stop date by which National Grid must exercise such a termination right.
- 34 Reserve Providers considered that this should be reviewed as without the inclusion of a defined timescale within which notice must be served, National Grid would effectively retain the right to terminate a STOR Contract at any point during the remainder of its term. For example, where a Reserve Provider had a 10-year STOR Contract and circumstances led to the ability for National Grid to terminate in Year 2, a Reserve Provider would effectively have a period of uncertainty for the remaining 8-years of the STOR Contract.
- 35 In planning and financing any remedial works necessary to rectify the circumstances that led to the ability to terminate, Reserve Providers noted that certainty over whether the STOR Contract would be terminated or not would greatly assist in this process and provide a clear signal as to whether further investment should be undertaken.
- 36 In view of this, National Grid proposed in OCP-02 to introduce a long stop date of 60 Business Days within the SCTs by when National Grid must notify of its intention to terminate a STOR Contract in the circumstances of multiple Events of Default referred to above.

Responses to OCP-02

- 37 14 respondents considered that this proposal would be a welcome introduction to the SCTs, whilst a respondent did not comment.

National Grid's Proposal

- 38 Having given consideration to the responses, National Grid intends to implement this proposal to be effective from 1st April 2011.

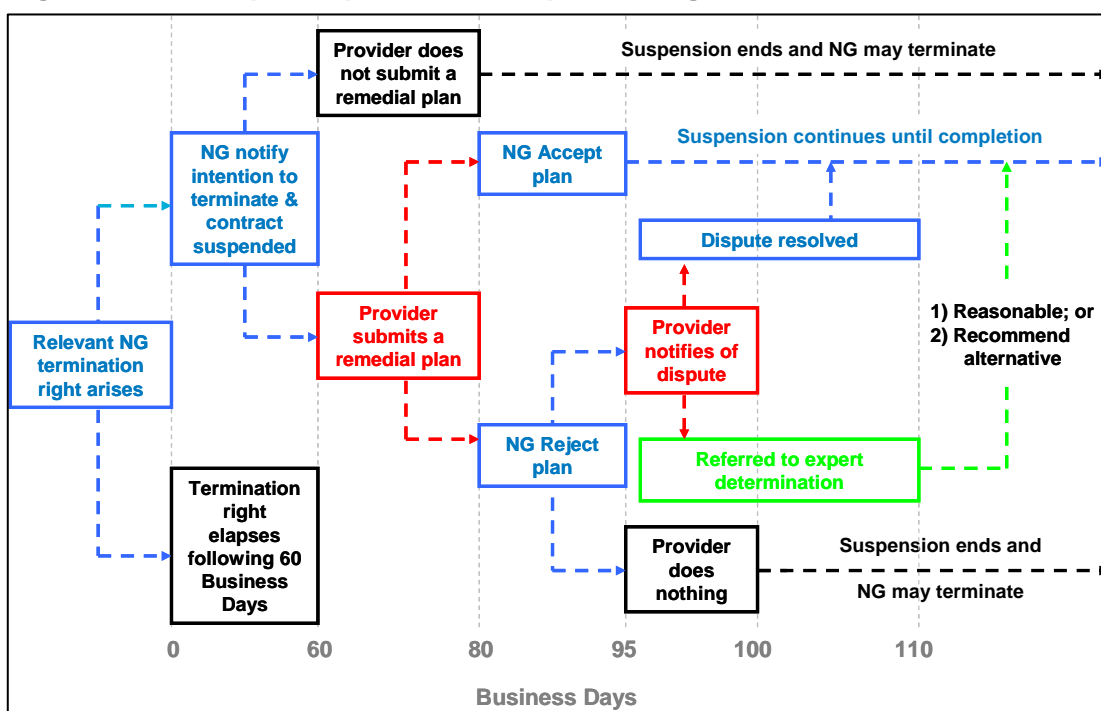
Section 4

Suspension of STOR Contract

Remedial Plan

- 39 Reserve Providers noted that within the SCTs presently, there is no explicit opportunity for a Reserve Provider to rectify the issues which may have led to Events of Default, failed Repeating Assessments and Force Majeure entitling National Grid to terminate a STOR Contract.
- 40 For example, it was noted that a Reserve Provider could very quickly accumulate in excess of 3 Events of Defaults within any single Season which, in accordance with either 2.5.4 (BM providers) or 3.5.4 (Non-BM Providers) of the SCTs, would provide National Grid with the absolute discretion to terminate a STOR Contract. This was noted to be a particular problem for long-term STOR providers that have secured funding for the investment in plant and apparatus on the back of guaranteed availability payments over the duration of a STOR Contract.
- 41 In view of this, National Grid proposed in OCP-02 to introduce the concept of a 'Remedial Plan' within the SCTs for both BM and Non-BM providers that would set out the steps that a Reserve Provider may undertake in order to prevent National Grid from exercising its right to terminate.
- 42 The introduction of a Remedial Plan would facilitate the suspension of a STOR Contract whilst the plan was being carried out, in which time no availability payments would be made. In addition to this, in circumstances of Force Majeure, the period of suspension would be excluded from the seasonal availability payment reconciliation to ensure that the Reserve Provider was not unduly penalised during the period within which the Remedial Plan was in effect. National Grid's proposed process for implementing the Remedial Plan is summarised in Figure 2 below.

Figure 2 Proposed process for implementing a Remedial Plan



- 43 The proposed process set out in Figure 2 above, requires that, before exercising any termination right for multiple Events of Default, failed Repeating Assessments or Force Majeure, National Grid must notify the Reserve Provider of its intention to terminate. The Reserve Provider then has 20 Business Days to prepare, at its own cost, and submit a Remedial Plan. Within 15 Business Days of receiving that Remedial Plan, National Grid will then be required to either accept or reject it.
- 44 As soon as National Grid gives this notice of its intention to terminate, the STOR Contract is suspended, and availability payments cease.
- 45 Where National Grid notifies the Reserve Provider that it rejects the Remedial Plan, then the Reserve Provider has 5 Business Days to dispute, whereupon the parties are required to attempt to resolve the dispute failing which after 15 Business Days following National Grid's notice of rejection the Reserve Provider may refer the dispute to Expert Determination. The Expert will be asked to determine a reasonable Remedial Plan.
- 46 Suspension of the STOR Contract ends if/when:
- the Reserve Provider fails to submit a Remedial Plan within the timescale required;
 - National Grid rejects the Remedial Plan and the Reserve Provider takes no steps to dispute that decision within the timescale required;
 - the Remedial Plan is completed to National Grid's reasonable satisfaction;
 - National Grid determines acting reasonably that the Reserve Provider has abandoned the remedial works or is otherwise in non-compliance with the Remedial Plan; or
 - the long stop date is reached, being 6 months after the STOR Contract was first suspended (or any later date set out in the Remedial Plan).
- 47 Once the STOR Contract ceases to be suspended, then unless the reason for the suspension ending is completion of the Remedial Plan to National Grid's reasonable satisfaction, then National Grid may go ahead and terminate the STOR Contract.

Responses to OCP-02

- 48 14 respondents considered that the Remedial Plan would be a welcome introduction to the SCTs, whilst a respondent did not comment.
- 49 Whilst a respondent believed that the proposals are a useful formalisation of processes that are perhaps currently undertaken on an informal basis, the respondent raised concerns about the impact of a Remedial Plan on the "reliability rating" of the provider which can be taken into account through subsequent tender assessments.
- 50 Another respondent welcomed the proposal, but noted a preference for the process to be iterative and negotiable to an extent, believing that the proposal implies a "one-shot" approach to preparing a Remedial Plan, which introduces unnecessary risk.
- 51 Two respondents considered that the ability to fall back on a formalised corrective process is welcome, but raised concerns that this would be the default arrangement every time a pre-defined number of Event of Defaults is reached.

A respondent noted a preference for other informal avenues to be explored first and the Remedial Plan to be a fall-back only.

- 52 Two respondents did not support the suspension of the STOR contract from the point at which National Grid serves notice. Of these, a respondent considered that suspension should only come into effect once the remedial plan is in place, whilst another respondent considered that the submission of a Remedial Plan should not automatically trigger the suspension of Availability fees.

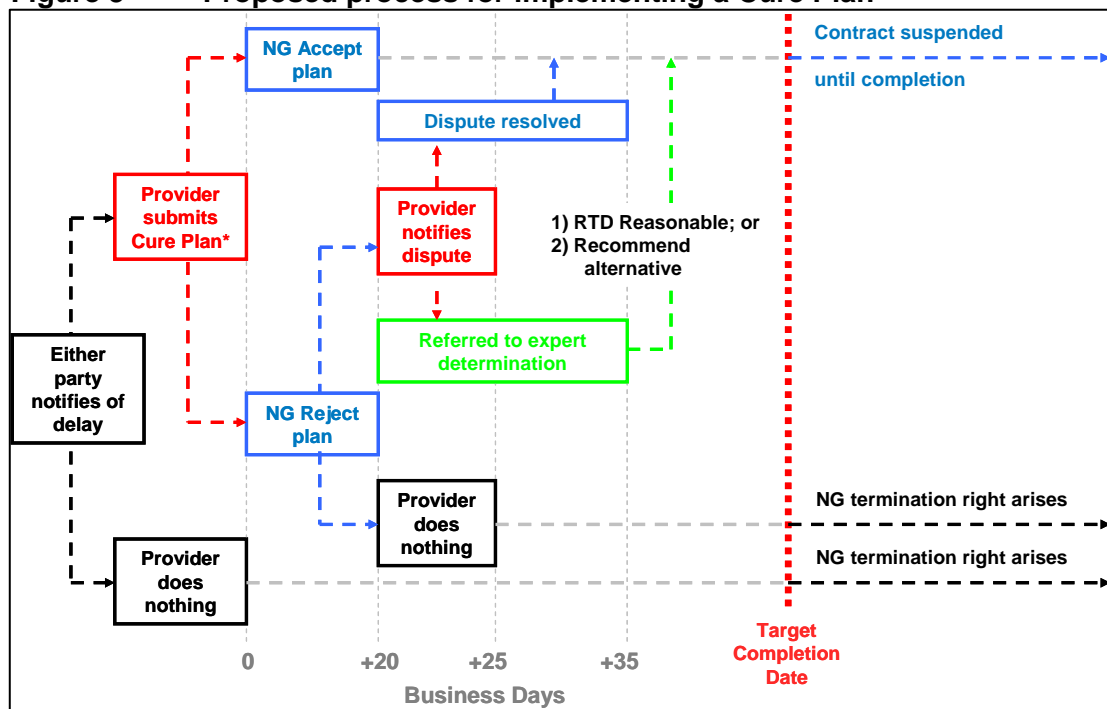
National Grid's Proposal

- 53 National Grid considers that the implementation of a Remedial Plan would not impact negatively on the "reliability rating" of a Reserve Provider whose ability to provide a reliable service would continue to be assessed on the same basis as is currently the case. The implementation of a Remedial Plan is more likely to impact positively on this area of assessment as the level of transparency of the works being undertaken by a Reserve Provider to remedy performance issues is increased.
- 54 National Grid considers that there is no reason why in practice, the development of a Remedial Plan should not be an iterative process developed by both parties, with the Reserve Provider and National Grid working together to develop a Remedial Plan which is acceptable to both parties. National Grid also considers however, that the formal, definitive timescales which were proposed in OCP-02 are necessary to ensure that an appropriate course of action is undertaken within reasonable timescales.
- 55 National Grid considers that in practice, the avoidance of a requirement for a formal Remedial Plan would be beneficial if both parties could agree on an appropriate course of action to rectify performance issues. The proposed Remedial Plan however, represents the introduction of a formal process by which both parties can work towards addressing performance issues of a Reserve Provider in circumstances which under the current SCTs, could lead to the termination of a STOR Contract.
- 56 National Grid considers that the provision of notice should trigger the suspension of a STOR Contract (and Availability Payments) as this is the point at which the Contract would otherwise be terminated and Availability Payments might cease. Furthermore, the suspension of Availability Payments at this stage prevents a situation whereby payments continue to be made for the period leading up to the deadline for the submission of a Remedial Plan, when a Reserve Provider may have no intention to submit such a plan.
- 57 Having given consideration to the responses received, National Grid intends to implement the Remedial Plan as presented in OCP-02, to become effective on 1st April 2011.

Cure Plan

- 58 Similar to the rationale for the introduction of provisions regarding a Remedial Plan described above, potential future Reserve Providers expressed a concern that the provisions in a STOR Framework Agreement dealing with construction works (referred to in the SCTs as Mandatory Works Provisions) should include an explicit process for submission by the Reserve Provider of a Cure Plan to rectify delays before National Grid should be entitled to terminate the STOR Contract.
- 59 In this instance, it was noted that delays to commissioning works could result in the termination of a STOR Contract, despite significant investment having been incurred to progress the development of a new STOR site. Given this, National Grid proposed in OCP-02 to introduce the concept of a 'Cure Plan' which would facilitate the suspension of a STOR Contract from the Target Completion Date. It was proposed that these provisions be introduced via the Reserve Providers' STOR Framework Agreements.
- 60 During the suspension period, it was proposed that no availability payments would be made and, as with the Remedial Plan, for delays due to Force Majeure the period of suspension would be excluded from the seasonal availability payment reconciliation to ensure that the Reserve Provider was not unduly penalised during the period within which the Cure Plan was in effect. National Grid's proposed process for implementing the Cure Plan is summarised in Figure 3 below.

Figure 3 Proposed process for implementing a Cure Plan



* The requirement is to submit any Cure Plan as soon as reasonably practicable after the notification of delay.

- 61 The proposed process set out in Figure 3 above, would require either National Grid or the Reserve Provider to notify the other in writing if it has reason to believe that the works are unlikely to be commissioned by the Target Completion Date.

- 62 In such circumstances, the Reserve Provider would be entitled to prepare at its own cost, and submit to National Grid a Cure Plan. It was proposed that this would be submitted ordinarily no later than 30 Business Days prior to the Target Completion Date. This Cure Plan would set out the proposed actions that the Reserve Provider intended to undertake to remedy the delays or, where this was not possible, specify a reasonable extension to the Works Programme.
- 63 Following receipt of a Cure Plan, National Grid proposed that a period of 20 Business Days should be permitted for it to make a decision as to whether the Cure Plan should be accepted or rejected. In the event that National Grid did not provide notification either way, it was proposed that the Cure Plan would be deemed to have been accepted.
- 64 Where National Grid notified the Reserve Provider that it has rejected the Cure Plan, a period of 5 Business Days was proposed for the Reserve Provider to notify National Grid that it intends to dispute the decision. In this instance, it was proposed that an additional 10 Business Days would then be provided for National Grid and the Reserve Provider to either resolve the dispute, or for the Reserve Provider to refer the dispute to Expert Determination.
- 65 It was proposed that the STOR Contract would be suspended, and availability payments will not accrue, from the Target Completion Date until the earlier of:-
- successful commissioning;
 - National Grid determined (acting reasonably) that the Reserve Provider had abandoned the works or was otherwise non-compliant with the Cure Plan;
 - any revised Target Completion Date determined by the Expert; or
 - a long stop date, being 6 months after the Target Completion Date, or 12 months for Force Majeure.
- 66 It was proposed that once the STOR Contract ceases to be suspended, then unless the reason for the ending of the suspension was successful commissioning of the works, National Grid should be entitled to terminate.
- 67 It was proposed that should a Reserve Provider decide to abandon works and fail to prepare and submit a Cure Plan within the required timescales, then the current STOR Framework Agreement entitles National Grid to terminate a STOR Contract. In practice, National Grid would expect that the Reserve Provider would approach National Grid at its earliest convenience to request the termination of the STOR Contract by mutual consent.

Responses to OCP-02

- 68 13 respondents considered that the Cure Plan would be a welcome introduction to the SCTs, whilst 2 respondents did not comment.
- 69 A respondent considered that a period of 10 Business Days to refer to expert determination was insufficient and that this should be extended to 15 Business Days.
- 70 A respondent expressed concerns that Availability Payments would be withheld for the duration of a Cure Plan and was worried that National Grid may use this as a tool to withhold Availability Payments under committed contracts.

National Grid's Proposal

- 71 National Grid considers that under the proposals of OCP-02, a Reserve Provider already has 15 Business Days to refer a matter to expert determination. This is on the basis that 5 Business Days are afforded for the Reserve Provider to notify National Grid that it intends to refer the matter to expert determination, and then it has a further 10 Business Days for that referral to be made. On the basis that in practice, this period will follow ongoing discussions regarding the progress of Works as and when these occur, the discussions of the circumstances which have led to the requirement of a Cure Plan and the development of such a Plan, National Grid considers that these timescales are more than sufficient for a Reserve Provider to refer an issue to expert determination if required.
- 72 The circumstances which may lead to the requirement for the implementation of a Cure Plan involve a Reserve Provider being unable to provide the contracted STOR service at the Target Completion Date. In such circumstances, National Grid does not consider it appropriate that Availability Payments should be made to a Reserve Provider that is not available.
- 73 In view of the responses received to OCP-02, National Grid intends to implement the Cure Plan as presented in the OCP, to become effective on 1st April 2011.

Section 5

Changes to Availability Windows

- 74 The current contractual framework enables Reserve Providers to tender for the provision of a Committed STOR service up to 15-years ahead. This is facilitated by the Invitation To Tender (ITT) Pack that is published in advance of each tender round and contains all of the STOR Windows for which a Provider is eligible to tender. The latest ITT Pack published prior to Tender Round 12⁶ (Market Day 27th August, 2010) sets out all of the relevant STOR windows for each of the 6 Seasons in each STOR Year as far forward as 1st April 2025.
- 75 It is foreseeable that the introduction and use of new technologies combined with a changing demand curve could result in the requirement for National Grid to either make changes to the Availability Windows in the longer-term or indeed, to introduce new Availability Windows. The process for both of these instances is set out in paragraphs 1.6 and 1.7 of the SCTs respectively. In relation to changes to Windows, National Grid proposed in OCP-02 to clarify that the start and end times of a Window may not be put back or moved forward by more than one hour on any occasion.
- 76 In accordance with the formula in Annex 1 to Section 1 of the SCTs, any such change by National Grid which reduces the length of a Window would result in a pro rata increase in the availability fee for the applicable Season, so as to preserve the Reserve Provider's revenue over that Season.
- 77 Potential long-term STOR providers expressed a concern that the extension of a Window might nonetheless be problematic insofar as the extended Window might overlap into a period when the Reserve Provider was otherwise committed to a third party.
- 78 In order not to thereby place the Reserve Provider in breach of warranty in the SCTs, National Grid proposed in OCP-02 that the SCTs be amended so as to permit the Reserve Provider, if it wishes, to declare STOR unavailable in the extended part of such Window without incurring any Event of Default.
- 79 It was proposed that the Reserve Provider should be able to "opt out" of any such extended Window in this way within 15 Business Days of publication of the ITT Pack in which the change in Window is announced.
- 80 Conversely, National Grid may consider it uneconomic to be exposed to a Reserve Provider's availability fees with respect to the extended part of such an extended Window, and so it was also proposed that the SCTs be amended so as to entitle National Grid to deem STOR unavailable in that extended part of a Window, again without incurring any Event of Default on the part of the Reserve Provider.

⁶ http://www.nationalgrid.com/NR/rdonlyres/59BF792E-62BF-4DFA-9C9B-5430936C890A/42444/TR12_Tender_Sheets_Final.DOC

Responses to OCP-02

- 81 12 respondents considered that long-term Reserve Providers should have the opportunity to “opt out” of the provision of STOR during extended Availability Windows. 3 respondents did not comment.
- 82 8 respondents considered that a period of 15 Business Days following publication of a relevant ITT Pack was appropriate for Reserve Providers to notify National Grid of their intention to opt out of expanded Availability Windows. 3 respondents considered that 15 Business Days was insufficient and that an extended period of between 20 and 25 Business Days should be permitted, particularly in the case of Aggregators who may have multiple customer interfaces for which 15 Business Days may be insufficient to canvass the views of all. A respondent considered that 15 Business Days was reasonable, but that the period afforded could actually be shorter than this. 4 respondents did not comment.

National Grid’s Proposal

- 83 Having given consideration to the responses received to OCP-02, National Grid considers that in the majority of cases, a period of 15 Business Days would be sufficient for a Reserve Provider to notify of its intention to “opt out” of providing STOR during the extended period of an Availability Window.
- 84 In consideration of the fact that Aggregators are likely to have to canvass multiple customer interfaces in making such a decision however, National Grid is proposing to extend the timescale to 20 Business Days. It is proposed that this will become effective on 1st April 2011.

Section 6

BM Offer Prices

- 85 Sub-paragraph 2.3.1 '*BM Unit Data Submission*' of the SCTs requires BM Providers to submit an Offer Price of not more than the Contract Bid-Offer Price. In the event that a Reserve Provider fails to comply with this requirement, an Event of Default is incurred in accordance with sub-paragraph 2.3.2 '*Event of Default – Submission of BM Unit Data*' of the SCTs.
- 86 Accordingly, it could be implied that the SCTs do not prevent a BM Provider from submitting an Offer Price of less than the Contract Bid-Offer Price. The consequence of this is to increase the likelihood of the BM Provider receiving an increased frequency of utilisation hours (given its enhanced position in the Utilisation Price (£/MWh) "stack" relative to other Reserve providers), and on the basis of that balancing action alone, this would represent a more economic solution in the operation of the transmission system.
- 87 However, this is problematic in that, whilst BM systems currently enable Reserve Providers to submit Offer Prices below Contracted Bid-Offer Price in this way, the systems for non-BM Reserve Providers do not have this functionality. The ability of a BM Reserve Provider to alter its position in the "stack" via the submission of a Bid-Offer Price which is less than the Contracted Price is a flexibility for BM Providers which is not afforded to non-BM Providers.
- 88 In line with National Grid's Licence Objectives of operating the transmission system in an economic and efficient manner, National Grid considered in OCP-02 that the development of the STOR service so as to allow all Reserve Providers to submit a competitive utilisation price within-day below the contracted utilisation price, would very much be in the interests of arriving at the most economic solution in the procurement of STOR.
- 89 National Grid is therefore currently investigating the scope for the development and implementation of non-BM despatch systems that would facilitate the submission of reduced utilisation prices and a more competitive within-day reserve market. The development of such systems however, if implemented, will not be in place from 1st April 2011.
- 90 For these reasons, National Grid provided clarification in OCP-02 of its expectation of how the SCTs should currently operate, which is that BM Reserve Providers should submit an Offer Price which is identical to the Contract Bid-Offer Price. Indeed, the Explanation and Tender Guidance Document⁷ specifically requires the Tenderer to specify a single energy price for each BM Unit which will set the Bid and Offer prices when available for STOR.
- 91 Accordingly, National Grid therefore proposed in OCP-02 to amend sub-paragraph 2.3.1 of the SCTs such that BM Providers are required to submit an Offer Price identical to the Contract Bid-Offer Price, with an Event of Default to be incurred for failure to meet this obligation, with "Ramping" Settlement Periods being excluded from this requirement.

⁷ http://www.nationalgrid.com/NR/rdonlyres/0B06E3A8-FA34-4324-832E-E1F0145C21B5/42443/TR12_Explanation_and_Tender_Sheets_Guidance_Final.pdf

Responses to OCP-02

- 92 11 respondents supported National Grid's proposal to amend the SCTs 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. Of these, 5 respondents noted that this approach should be adopted as an interim measure only, to ensure a level playing field between BM and non-BM Providers whilst the relevant systems are developed to facilitate the ability for all Reserve Providers to modify the Utilisation Price within a STOR season.
- 93 2 respondents opposed National Grid's proposals, whilst 2 respondents did not comment.
- 94 Of the 2 respondents that opposed the proposals, a respondent agreed that the long-term aspiration should be to allow non-BM Providers to vary their prices, but that the ability for BM Providers to do this should not be removed in the interim. The respondent cited a number of differences between the two contract forms (e.g. flexible tenders for non-BM only) and did not believe that it is justified to remove one area of difference in the absence of all others being addressed. The respondent noted that many non-BM Providers could register as BM Parties should they desire.
- 95 A further respondent considered that the proposal would place National Grid in breach of its Licence Obligations to operate an economic and efficient transmission system. The respondent accepted that the functionality does not exist for non-BM providers to amend their Utilisation Price within season, but could not understand why manual workarounds have not been investigated in this instance, when they have been implemented in other areas. The respondent did not believe that offering BM Providers the ability to vary utilisation prices when non-BM cannot, is discriminatory and argued that there are benefits and disadvantages to each and a holistic decision needs to be made by a Reserve Provider.
- 96 12 respondents supported the development of non-BM despatch systems to facilitate a STOR market whereby all Reserve Providers can reduce their utilisation prices within day. 2 respondents did not support this proposal and a respondent did not comment. A respondent strongly opposed the developments on the grounds of the additional complexity that this would bring to the non-BM market which could restrict the growth in this area. A further respondent considered that such developments would likely require the additional overhead of an energy manager to manage utilisation price submissions and this may discourage smaller new entrants from entering the market.

National Grid's Proposal

- 97 National Grid agrees with the majority of respondents that the most appropriate long-term solution towards delivering the most economic sources of STOR would be to facilitate a framework by which both BM and non-BM providers could adjust their Utilisation Price in a downward direction subsequent to acceptance of a tendered Utilisation Price.
- 98 National Grid is currently undertaking a wider Reserve Review which is giving consideration to the most appropriate framework for contracting for all reserve products in the future, details of which can be found on the Balancing Services Website.⁸ As part of this review, the scope for the development and

⁸ <http://www.nationalgrid.com/uk/Electricity/Balancing/services/reserveservices/ReserveReview/>

implementation of the necessary systems to facilitate a solution with proportionate complexity will be considered.

- 99 In the meantime, National Grid considers that creating a level playing field between BM and non-BM providers in terms of their ability to modify Utilisation Prices better enables National Grid to meet its Licence Obligation to operate an economic and efficient transmission system. Whilst restricting the ability of BM Providers to reduce their prices might result in a less economic solution based on a single balancing action, the increased competition in the STOR tender process derived from enabling both BM and non-BM providers to compete on a level playing field results in the more economic procurement for STOR overall. National Grid therefore considers that it is important that both are able to compete for the provision of STOR on this basis.
- 100 National Grid acknowledges that there are currently differences in the STOR services between BM and non-BM Providers. This is demonstrated in the example provided, where only non-BM providers can submit a STOR tender on a flexible basis. This has been used historically to facilitate the entry into the STOR market of non-BM Providers who may not necessarily have the required degree of certainty that a BM Provider may have, in their ability to provide a STOR service on a committed basis over defined periods. National Grid does not consider that this is to the detriment of BM Providers, but in the event that BM Providers consider this to be the case, then National Grid would be amenable to more closely aligning the SCTs for both BM and non-BM where appropriate if Reserve Providers considered this to be a useful development.
- 101 For the avoidance of doubt, National Grid does not consider that this proposal constitutes a change to the way in which the STOR market operates for BM providers. It has always been the intention that the Offer Price submitted should be that of the Contract Price as is clearly detailed in the Explanation and Tender Guidance Document. This proposal merely seeks to remove the ambiguity in the current drafting of the SCTs which might afford BM Providers a competitive advantage over non-BM STOR Providers.
- 102 In view of this, National Grid proposes to amend sub-paragraph 2.3.1 of the SCTs such that BM Providers are required to submit an Offer Price identical to the Contract Bid-Offer Price, with an Event of Default to be incurred for failure to meet this obligation, with "Ramping" Settlement Periods being excluded from this requirement. It is proposed that this will become effective on 1st April, 2011.

Section 7

Direct Agreement

103 National Grid has been involved in a number of discussions with potential long-term STOR Providers and their funder(s). One of the areas highlighted as a perceived barrier in the securing of the necessary finance to fund a new STOR project, was the current contractual framework governing STOR, which provides only for a contractual relationship between National Grid and the Reserve Provider.

104 It was noted that in order to secure the necessary finance, a tri-partite agreement between National Grid, the Reserve Provider and the potential funder(s) may be required. The rationale for this was to provide a funder with a right to step into a contract and protect its investment if necessary.

105 In view of this, National Grid proposed in OCP-02 to introduce the option in the STOR Framework Agreement for such a tri-partite agreement to be entered into where requested by a Reserve Provider, in the form of a "Direct Agreement".

106 A draft Direct Agreement was included within Appendix 1 of OCP-02 and whilst the exact content of such an Agreement would be subject to tri-partite discussions, National Grid noted an expectation that such agreement would substantially be in the form of that contained in the Appendix.

Responses to OCP-02

107 6 respondents supported National Grid's proposals to introduce a tri-partite Direct Agreement in the interests of facilitating the necessary funding for new STOR plant and apparatus. A respondent did not support the proposal and 8 respondents did not comment.

National Grid's Proposal

108 In considering the views presented in response to OCP-02 and on the basis that a Direct Agreement would not be a compulsory requirement, but merely an option available to a Reserve Provider if this was perceived to assist in the securing of necessary finance, National Grid considers that it is appropriate that the option of a Direct Agreement is available to Reserve Providers.

109 All Direct Agreements would sit outside of the SCTs as either standalone Agreements or incorporated in the Framework Agreement of relevant Reserve Providers.

Section 8 Other Issues

Aggregator Terms

110 The Aggregation model is currently facilitated by the inclusion of Special Conditions within an Aggregator's STOR Framework Agreement, of which there is no transparency to the wider industry. Given the increasing participation of Aggregators within the STOR market, National Grid proposed in OCP-02 to publish a standard set of draft terms on the Balancing Services website, with the intention of providing greater transparency.

Responses to OCP-02

111 12 respondents supported the publication of a draft set of Aggregator terms in the interests of increasing transparency and ensuring that all Aggregators operate with the same terms. A respondent considered that these terms should be included within the SCTs, and 3 respondents did not comment.

National Grid's Proposal

112 National Grid intends to publish a draft set of terms on the Balancing Services website in the coming weeks. These will be used as the basis to develop them in conjunction with the industry as part of Workstream 1A of the wider Reserve Review which will be developed in early 2011. It is anticipated that following this development, Aggregator terms will form part of the 2011 STOR Review, with a view to incorporating them within the SCTs to be effective from 1st April 2012.

Week-Ahead Assessment Principles

113 A number of Reserve Providers have noted that the Assessment Principles applied to the week-ahead assessment of flexible STOR tenders are not sufficiently detailed within the STOR Assessment Principles⁹. National Grid proposed in OCP-02 to review this area of the Assessment Principles Document and provide further clarification where required.

Responses to OCP-02

114 13 respondents welcomed the proposal for further detail of the Assessment Principles applied to the week-ahead assessment of flexible STOR tenders and 2 respondents did not comment.

National Grid's Proposal

115 Given the responses to OCP-02, National Grid intends to provide further clarification within the Assessment Principles Document and this will be updated in due course.

Maximum utilisation in hours

116 Currently, the STOR ITT Pack enables Reserve Providers to submit a maximum limit on both a weekly and annual basis, in terms of the frequency of utilisations. A number of Reserve Providers have noted that environmental legislation is likely to impact on the number of running hours, not the frequency of start-ups.

⁹ http://www.nationalgrid.com/NR/rdonlyres/7B8CA1AB-4964-4965-B5A2-126C8C202A11/40677/STOR_Assessment_Principles.pdf

In OCP-02, National Grid invited the views of the industry as to whether the inclusion of an additional parameter whereby Reserve Providers could place a limit on the frequency of utilisations in terms of running hours would be a welcome addition to the ITT Pack.

Responses to OCP-02

117 13 respondents supported the inclusion of an additional parameter on the basis of running hours whilst 2 respondents did not comment. A Reserve Provider noted that the ability to still elect for a number of utilisations limit should be retained.

National Grid's Proposal

118 In view of this, National Grid is currently in the process of ascertaining the scope for the inclusion of a maximum annual limit based on the number of running hours within the ITT Pack at the earliest opportunity. Any inclusion in a future ITT Pack will be done so in addition to the existing parameter which limits utilisation based on frequency.

Housekeeping

119 In OCP-02, National Grid proposed a number of housekeeping amendments.

Responses to OCP-02

120 In response to the housekeeping amendments proposed, a Reserve Provider proposed to change the definition of Affected Reserve Provider. The respondent considered that the definition should be "a Reserve provider which is party to one or more Affected STOR Contracts". The respondent noted that all other tests are dealt with elsewhere in Paragraphs 1.2.10 (a) and (b). This defined term is used in paragraph 1.2 of the SCTs to qualify a Reserve Provider who may seek to reject the application of changes to the SCTs to an existing STOR Contract or seek to increase prices.

National Grid's Proposal

121 Currently, the definition of Affected Reserve Provider reads as follows:

Means, with respect to any **Detailed Change Proposal**, a **Reserve Provider** which is a party to one or more **Affected STOR Contracts**, and which is of the reasonable opinion that:-

- (1) its ability to provide **Short Term Operating Reserve** and/or comply with such **Affected STOR Contract(s)** will be materially prejudiced by the amendments to this **Document** described in such **Detailed Change Proposal**; and/or
- (2) the net cost to it of providing **Short Term Operating Reserve** and/or complying with such **Affected STOR Contract(s)** is materially increased as a result of such amendments.

122 National Grid considers that limbs 1 and 2 of this definition duplicate in part 1.2.10(a) and (b), and accordingly proposes to amend the definition of Affected Reserve Provider to mean, in respect of any DCP a Reserve Provider that is a party to one or more Affected STOR Contract. National Grid also intends to include in 1.2.10(a) the test currently contained in limb 1 of the definition and replace the net cost test in 1.10.2(b) with the no more or less favourable criterion that was originally proposed.

2011/12 Tender Rounds Dates

123 In OCP-02, National Grid proposed those dates identified in Figure 4 below for the Tender Rounds taking place in 2011. As an addition to the key dates that have been applicable historically, National Grid proposed the inclusion of an additional date by which STOR Framework Agreements (new or amending) must be signed in order to facilitate a tender in a forthcoming Tender Round. This was noted as having been driven by the increasing requirement for new/amending agreements from both new and existing Reserve Providers and was considered a necessity in order to enable National Grid to effectively manage this process.

Figure 4 2011/12 Tender Round Dates

Tender Round	Key Tender Round Dates					
	Tender sheets available by	Framework Agreements Deadline	Market Day	Results Day	Market Report Published by	Service Start Date
2011 TR13	10-Dec-10	07-Jan-11	14-Jan-11	04-Mar-11	15-Apr-11	01-Apr-11
2011 TR14	06-May-11	03-Jun-11	10-Jun-11	22-Jul-11	12-Aug-11	15-Aug-11
2011 TR15	29-Jul-11	19-Aug-11	26-Aug-11	30-Sep-11	11-Nov-11	31-Oct-11

Responses to OCP-02

124 A respondent considered that Market Reports should be published as soon as is practicable following a Tender Round and that the proposed dates offer no more than 10 working days between publication of the market report for the previous tender round in advance of the August tender.

National Grid Proposal

125 Operating three Tender Rounds in each year inevitably squeezes the timescales for Reserve Providers to give consideration to the Market Information published, especially for the second and third tender rounds in each year which are in fairly close proximity due to the varying length of the STOR Seasons. National Grid endeavours to publish the Market Information Report at the earliest opportunity following a Tender Round and where possible, does so in advance of the pre-determined publication dates and will continue to do so.

Years/Seasons Available for Tender

126 In view of the extremely tight timescales between Tender Round 14 and Tender Round 15, within which tenders must be submitted, assessed and notified as accepted/rejected, in addition to the preparation and publication of the Market Information Report for Tender Round 14, National Grid proposed in OCP-02 that only two opportunities will be provided for the submission of long-term STOR tenders in 2011, in Tender Rounds 13 and 15 respectively.

Responses to OCP-02

127 4 respondents considered that the current process which offers 3 opportunities for Reserve Providers to tender for long-term STOR should be maintained at least, with a respondent proposing that more opportunities should be offered for long-term STOR. The respondent noted that there is considerable risk for developers and that one way of reducing this risk is to provide every opportunity to secure these contracts.

128 A respondent supported the move towards 2 Tender Rounds in 2011 and beyond, whilst 10 respondents did not comment on this proposal.

National Grid's Proposal

129 Since the publication of OCP-02, National Grid outlined its intentions with regards to the proposed process to facilitating long-term STOR tenders at the Operational Forum held at the Ardencote Manor Hotel, Claverdon on Wednesday 20th October, 2010. The presentation slides are available on the Balancing Services website.¹⁰

130 Since the ability for Reserve Providers to tender for STOR for a period up to a maximum of 15 years was introduced on 1st April 2010, National Grid has received an outstanding response from the industry in terms of the level of interest shown in the provision of this service. National Grid has subsequently contracted for a total of 393MW of STOR out to 1st April 2025 from Tender Rounds 11 and 12.

131 In order to manage this level of interest efficiently and ensure that the process for procuring long-term STOR results in the most economic procurement of the service, National Grid noted its intention to temporarily withdraw the opportunity for Reserve Provider to tender for long-term STOR in Tender Round 13. National Grid intends to publish an open letter to the industry in the coming weeks which will outline National Grid's proposals for contracting longer-term STOR in 2011 and beyond.

132 National Grid remains committed to the development of the long-term STOR service on the basis that it will contribute towards National Grid's strategy for contracting for the future reserve requirement in the most economic manner. This strategy is likely to involve an increase in the volume of STOR contracted from new, existing, generation and demand side providers on both a short-term and long-term basis.

133 At this juncture however, National Grid considers that it is necessary to take stock of the current contracted position, perform further analysis of the future reserve requirement and put in place a procurement process which will deliver the most economic provision of STOR, whilst giving due consideration to the regulatory environment within which the service will operate.

134 National Grid therefore intends to offer the opportunity for Reserve Providers to submit tenders for shorter-term STOR in 2011 for those Seasons identified in Figure 5 below.

Figure 5 Years/Seasons Available for Tender

Tender Round	Seasons Available in Tender Round											
	11/12-1	11/12-2	11/12-3	11/12-4	11/12-5	11/12-6	12/13-1	12/13-2	12/13-3	12/13-4	12/13-5	12/13-6
2011 TR13	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2011 TR14			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2011 TR15					✓	✓	✓	✓	✓	✓	✓	✓

¹⁰http://www.nationalgrid.com/NR/ronlyres/0D733369-B228-4483-83B4-F2621154AD37/43599/05_ReserveUpdate.pdf

Section 9

Notice of Election

135 In accordance with Section 1.2.10 of the STOR Standard Contract Terms Issue #3, with respect to this Detailed Change Proposals Document, Reserve Providers with a STOR Contract impacted by such amendments may, in certain circumstances (see below), no later than 15 Business Days after publication, elect by notice in writing to National Grid, to either:-

- a) reject the application of such amendments to each of such affected STOR contracts; or
- b) where the affected reserve provider is of the reasonable opinion that the net cost to it of proving STOR and/or complying with such affected STOR contract(s) has increased as a result of such amendments, seek an increase to any or all of the contract prices in respect of each of such affected STOR contracts.

Each notice of election shall be accompanied by a full and detailed justification, and upon receipt National Grid will open a dialogue with the reserve Provider.

136 A Reserve provider may only make an election as described above, if it is of the reasonable opinion that its ability to provide STOR will be materially prejudiced or the net cost to it of doing so would be materially increased.

137 Any questions regarding the content of this Document should be directed to **Craig Maloney** on **01926 655896**. Any affected reserve providers wishing to provide notice of election, should do so in writing to craig.maloney@uk.ngrid.com by no later than **Monday 15th November, 2010**.