

Short Term Operating Reserve (STOR) Development

Outline Change Proposals Document (OCP-02)

27th September 2010

nationalgrid

THE POWER OF ACTION

CONTENTS

Executive Summary

1	Introduction to STOR Service	4
2	Amending Standard Contract Terms	6
3	Notice to Terminate	9
4	Suspension of STOR Contract	11
5	Changes to Availability Windows	15
6	BM Offer Prices	17
7	Direct Agreement	19
8	Other Issues	20
9	Responses	23
	Appendix 1 – Direct Agreement	25
	Glossary of Terms	38

Executive Summary

National Grid is currently in the process of undertaking a comprehensive review of all reserve products, giving consideration to the potential sources of future reserve. The rationale for this is both the current forecasts of a significant rise in the Short Term Operating Reserve Requirement driven in the main, by a greater penetration of intermittent generation; and a higher infrequent loss risk of 1800MW (up from the current value of 1320MW). A pre-consultation document was published by National Grid in July 2010 setting out the objectives of the Reserve Review, with comments invited from the industry by Friday 10th September, 2010. All information relating to the Reserve Review can be found on the National Grid website:

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

Whilst the medium to longer-term developments of the STOR service will be developed in conjunction with the industry through the 'Workstream: 1A' element of the Reserve Review, the purpose of this Outline Change Proposals Document (OCP-02) is to identify those areas within the existing STOR service that would benefit from refinement that can feasibly be implemented from 1st April 2011.

Based on industry feedback throughout the year, this document identifies 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;

Views are invited from the industry on each of the issues highlighted in this document, in addition to any other issues that industry members consider worthy of raising with a view to improving the STOR service.

**Responses to this consultation should be sent to
energy.operations@uk.ngrid.com**

by 5pm on Monday 11th October 2010

Section 1

Introduction to STOR Service

Short-Term Operating Reserve (STOR)

- 1 In order to ensure the ability to be able to deal with actual demand being greater than forecast demand and/or unforeseen generation unavailability, as system operator of the transmission network, National Grid requires access to extra power in the form of either generation or demand reduction during certain periods of the day. 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 any developments as part of this Review which will be incorporated into Issue #5.

Amending the Standard Contract Terms

- 5 Paragraph 1.2 of the STOR Standard Contract Terms 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>

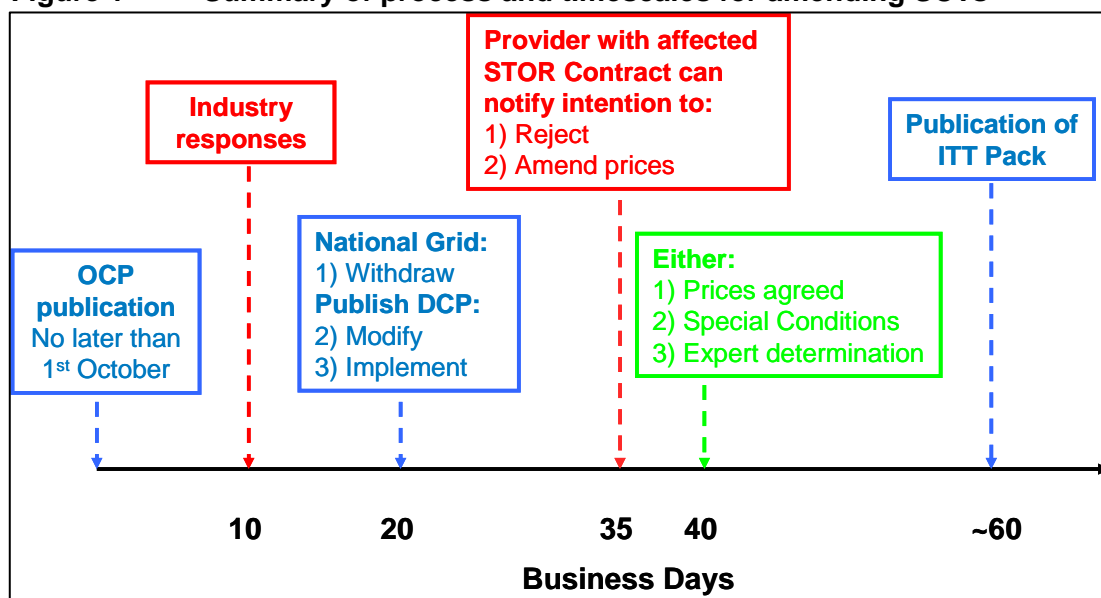
- i) the rationale for the amendment(s), including whether or not required as a result of a Proposed Legal Requirement or Change in Law;
 - ii) if applicable, details of the Proposed Legal Requirement or Change in Law; and
 - iii) the Proposed Implementation Date.
- 6 Each OCP shall be notified by National 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 Detailed Change Proposal (DCP).
- 7 This OCP considers a range of areas within the SCTs with a view to proposing amendments with an Implementation Date of 1st April 2011, and invites responses from both existing, and potential future Reserve Providers.
- 8 None of the amendments proposed in this OCP are considered by National Grid to be required as a result of any Proposed Legal Requirement or Change in Law.
- 9 It should be noted by Reserve Providers and other interested parties that this OCP, 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 National Grid website.

Section 2

Amending the Standard Contract Terms

- 10 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



- 11 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.
- 12 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 it shall be deemed to have been withdrawn with immediate effect.
- 13 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.
- 14 In view of this, National Grid proposes 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 proposal is consistent with the current 28-day period (including

non-Business Days) which industry respondents have to respond to CUSC Amendment Proposals and proposed modifications to the suite of Charging Methodologies.

- 15 Following this, National Grid also proposes 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 the OCP.

Question 1 – 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?

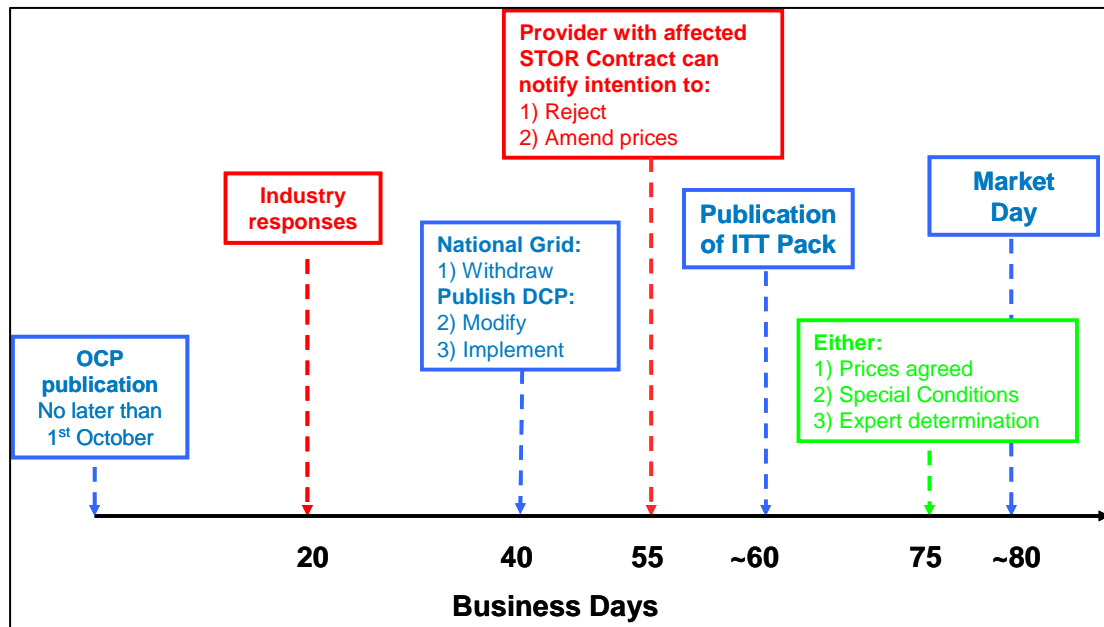
Question 2 – Do you consider that a period of 20 Business Days following receipt of responses to an OCP from Reserve Providers is an appropriate timescale for National Grid to give due consideration to these responses and notify of its intention to either withdraw or modify the proposals, or implement them via the publication of a DCP? If not, could you recommend a more appropriate timescale?

- 16 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.
- 17 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.
- 18 National Grid considers that a period of 5 Business Days is insufficient time for these issues to be negotiated and resolved consequent upon a DCP. National Grid therefore proposes to increase the timescales to 20 Business Days to facilitate the possibility of a successful resolution.

Question 3 – Do you consider that an increased period of 20 Business Days would be more appropriate than the current timescales in the interests of arriving at a mutually beneficial negotiation of Special Condition(s) or contract prices? If not, could you recommend a more suitable timescale?

- 19 If each of National Grid's proposals contained in this Section were to be implemented, the process would look like that summarised in Figure 2 below. The reference to the next Market Day is included to provide some context for the timescales proposed.

Figure 2 Summary of proposed process/timescales for amending SCTs



- 20 Sub-paragraph 1.2.11 of the SCTs specifies that the Reserve Provider may only seek an increase in contract prices consequent upon a DCP in limited circumstances. Where those circumstances do not apply, and the Reserve Provider is unable to reject the application of the DCP to a subsisting STOR Contract (because the DCP reflects a change in law), then it is proposed that the Reserve Provider should be entitled to terminate the STOR Contract. A new termination right is therefore proposed for the Reserve Provider, to be included in the termination provisions of the SCTs.

Section 3

Notice to Terminate

- 21 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.
- 22 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.
- 23 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.
- 24 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.
- 25 In view of this, National Grid proposes to introduce a long stop date 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.
- 26 At the Reserve Review seminar held at National Grid House, Warwick on Friday 6th August, National Grid raised this issue and indicatively proposed that a period of 40 Business Days be appropriate for serving notice. Having given further consideration to this however, it is proposed that a period of 60 Business Days is more appropriate given the timescales associated with notifying a Reserve Provider of Events of Default and providing sufficient opportunity for the Reserve Provider to dispute any Events of Default.
- 27 For example, if a Reserve Provider was to incur 4 Events of Default in the first week of April in a given year, the Provider would not be notified by National Grid until mid-May. It is foreseeable that in the order of 30 Business Days will therefore have lapsed before the Reserve Provider is aware of the circumstances that could lead to the termination of the STOR Contract. This then only provides 10 Business Days for a Reserve Provider to respond.

Question 4 - 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 that termination?

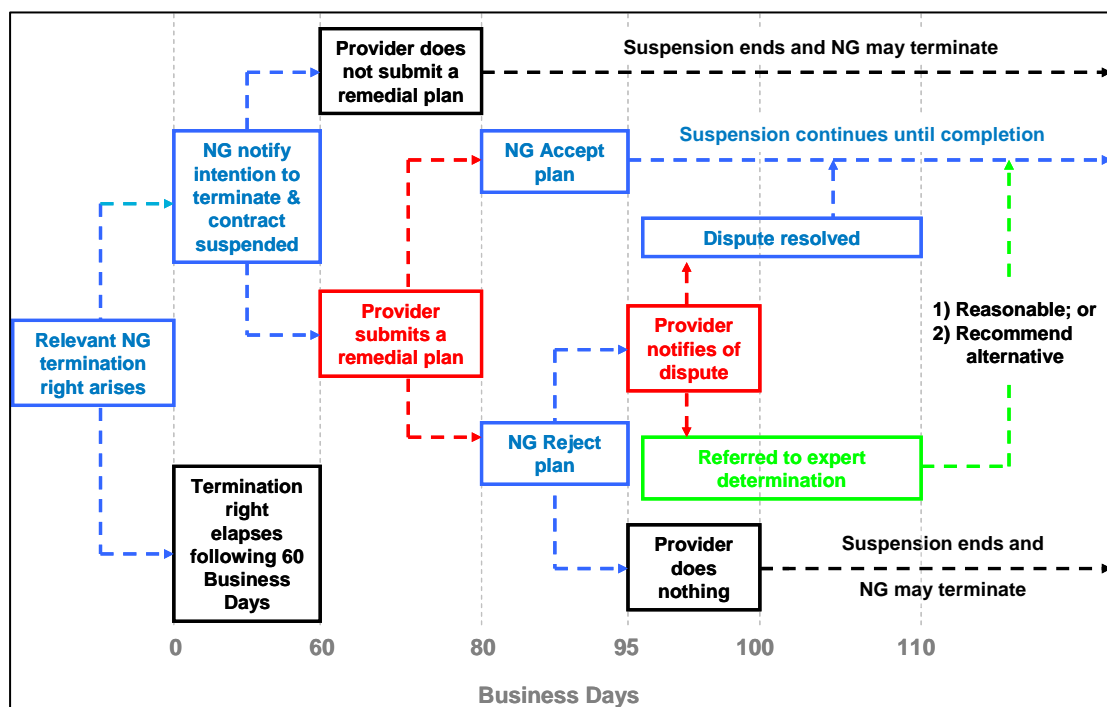
Section 4

Suspension of STOR Contract

Remedial Plan

- 28 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.
- 29 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.
- 30 In view of this, National Grid proposes 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.
- 31 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 3 below.

Figure 3 Proposed process for implementing a Remedial Plan



- 32 The proposed process set out in Figure 3 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.
- 33 As soon as National Grid gives this notice of its intention to terminate, the STOR Contract is suspended, and availability payments cease.
- 34 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.
- 35 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).
- 36 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.

Question 5 - Would you consider a Remedial Plan to be a welcome introduction to the Standard Contract Terms?

Question 6 - Do you have any comments with regards to the proposed process presented in Figure 3, particularly on the timescales?

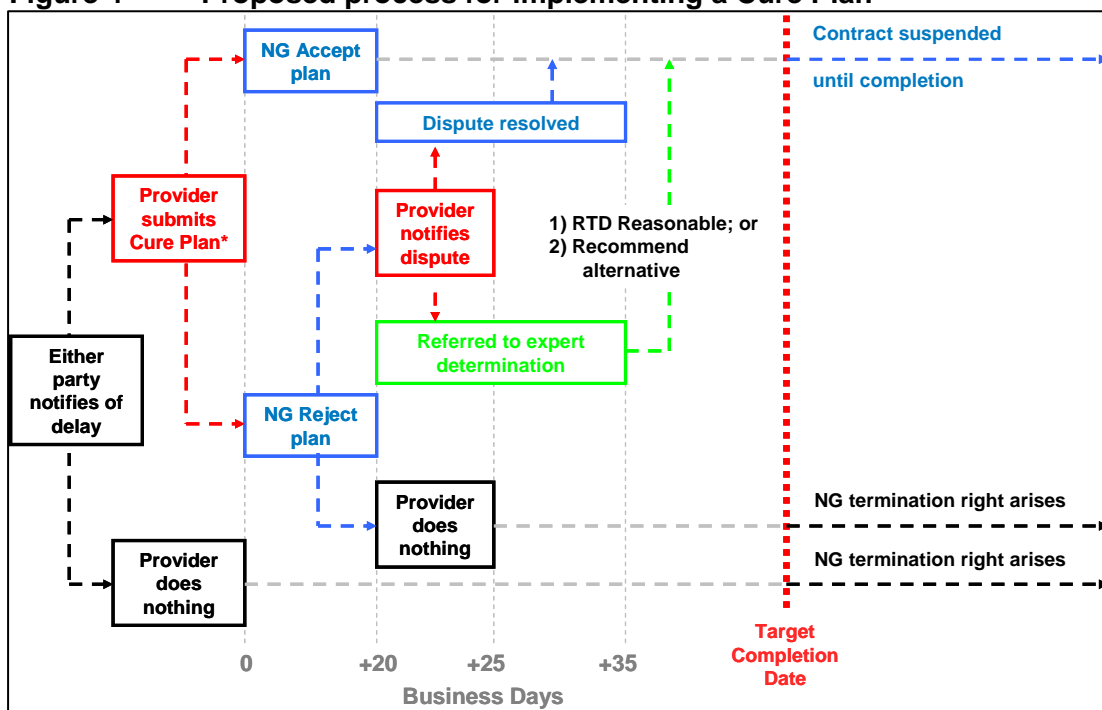
Cure Plan

- 37 Similar to the rationale for the introduction of provisions regarding a Remedial Plan described above, potential future Reserve Providers have 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.

38 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 proposes to introduce the concept of a 'Cure Plan' which would facilitate the suspension of a STOR Contract from the Target Completion Date. National Grid proposes that these provisions be introduced via the Reserve Providers' STOR Framework Agreements.

39 During the suspension period, it is 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 4 below.

Figure 4 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.

40 The proposed process set out in Figure 4 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.

41 The Reserve Provider would then be entitled to prepare at its own cost, and submit to National Grid a Cure Plan, and National Grid proposes that this would be submitted ordinarily no later than 30 Business Days prior to the Target Completion Date. This plan would set out the proposed actions that the Reserve Provider intends to undertake to remedy the delays or, where this is not possible, specify a reasonable extension to the Works Programme.

42 Following receipt of a Cure Plan, National Grid proposes 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 does

not provide notification either way, then it is proposed that the Cure Plan will be deemed to have been accepted.

- 43 Where National Grid notifies the Reserve Provider that it has rejected the Cure Plan, a period of 5 Business Days is proposed for the Reserve Provider to notify National Grid that it intends to dispute the decision. In this instance, it is proposed that an additional 10 Business Days will 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.
- 44 The STOR Contract will be suspended, and availability payments will not accrue, from the Target Completion Date until the earlier of:-
- successful commissioning;
 - National Grid determines (acting reasonably) that the Reserve Provider has abandoned the works or is 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.
- 45 Once the STOR Contract ceases to be suspended, then unless the reason for the ending of the suspension is successful commissioning of the works, National Grid shall be entitled to terminate.
- 46 Should a Reserve Provider decide to abandon works and fail to prepare and submit a Cure Plan, 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.

Question 7 - Would you consider the introduction of Cure Plan to be a welcome introduction to the STOR contractual framework?

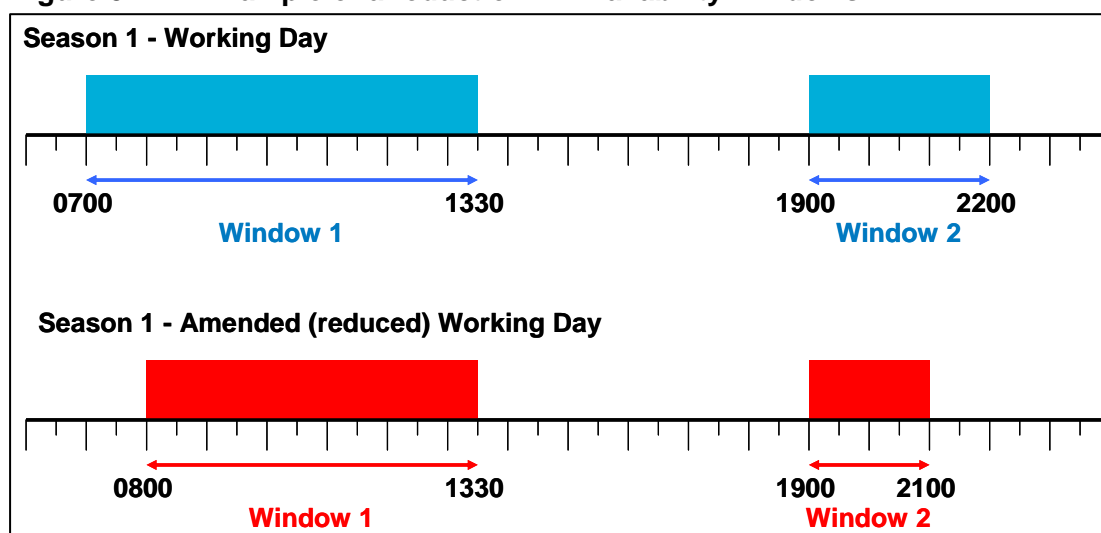
Question 8 - Do you have any comments on the proposed process presented above, particularly with regard to the timescales?

Section 5

Changes to Availability Windows

- 47 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 12⁴ (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.
- 48 Whilst National Grid does not currently envisage a change to the STOR Windows in the short-term, 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. As explained in paragraph 71 below, in relation to changes to Windows, National Grid proposes 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.
- 49 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. Figure 5 below, provides an illustration of how the Windows might be reduced in length, using a Working Day of Season 1 of the 2010/11 STOR Year as an example.

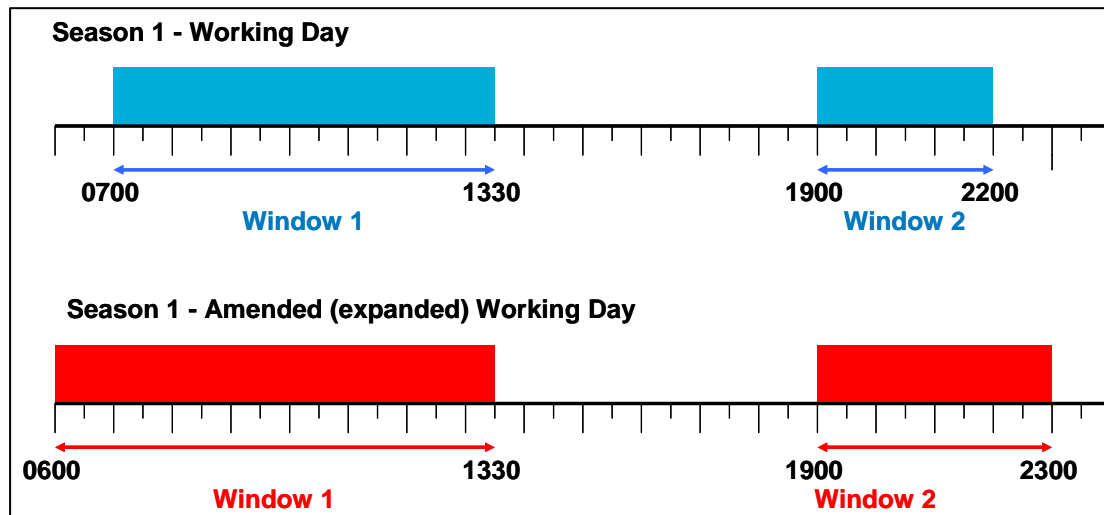
Figure 5 Example of a reduction in Availability Windows



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

50 Potential long-term STOR providers however, had 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. Figure 6 below, provides an illustration of how the Windows might be extended in length, using a Working Day of Season 1 of the 2010/11 STOR Year as an example.

Figure 6 Example of an expanded Availability Window



- 51 In order not to thereby place the Reserve Provider in breach of warranty in the SCTs, National Grid proposes 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.
- 52 It is 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.
- 53 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 is also proposed by National Grid 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.

Question 9 - 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?

Question 10 - 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 their intention to ‘opt out’ of expanded Availability Windows?

Section 6

BM Offer Prices

- 54 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.
- 55 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.
- 56 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.
- 57 In line with National Grid's Licence Objectives of operating the transmission system in an economic and efficient manner, National Grid considers 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.
- 58 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.
- 59 For these reasons, National Grid wishes to clarify 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 Document⁵ 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.
- 60 Accordingly, National Grid therefore 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. It is proposed that 'Ramping' Settlement Periods will be excluded from this requirement.

⁵ http://www.nationalgrid.com/NR/rdonlyres/0B06E3A8-FA34-4324-832E-E1F0145C21B5/42443/TR12_Explanation_and_Tender_Sheets_Guidance_Final.pdf

- 61 In the interim, prior to implementation of any revised terms, it is National Grid's intention not to despatch a BM Reserve Provider that fails to submit an Offer Price in line with Contract Bid-Offer Price.
- 62 In this way, National Grid can best ensure that the STOR market operates in a non-discriminatory manner as between BM and non-BM Reserve Providers.

Question 11 - Do you consider that it would be appropriate for National Grid 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?

Question 12 - Do you consider it appropriate that National Grid should be giving consideration to developing the non-BM despatch systems to facilitate a STOR market whereby all Reserve Provider can reduce their utilisation prices within day?

Section 7

Direct Agreement

- 63 Throughout the past year, National Grid has been involved in a number of discussions with potential long-term STOR Providers and their potential 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.
- 64 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.
- 65 In view of this, National Grid proposes 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'. A draft Direct Agreement is included within Appendix 1 of this document and National Grid intends to publish this on the National Grid website shortly.
- 66 One of the key elements of the Direct Agreement is to provide the funder(s) with the ability to step into a contract and remedy any performance issues which may lead to the possible suspension or termination of the STOR Contract. Following entry into a Direct Agreement, it is proposed that National Grid would then serve all relevant suspension or termination notices to the funder, in addition to the Reserve Provider.
- 67 Whilst the exact content of a Direct Agreement will be subject to tri-partite discussions, National Grid expects that any such agreement will substantially be in the form of that contained in Appendix 1.

Question 13 - Do you have any comments with regards to 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?

Section 8 Other Issues

Aggregator Terms

68 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 proposes to publish a standard set of draft terms on the Balancing Services website, with the intention of providing greater transparency. It is anticipated that a set of terms will be provided later this year, with a view to using these as the basis to develop them in conjunction with the industry as part of Workstream 1A of the wider reserve review.

Week-Ahead Assessment Principles

69 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 Principles⁶. National Grid proposes to review this area of the Assessment Principles Document and provide further clarification where required.

Maximum utilisation in hours

70 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. 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.

Housekeeping

71 Further amendments to the SCTs of a clarificatory or "housekeeping" nature are also proposed by National Grid, and described below:

Sub-paragraph 1.1.1 - to clarify that issue #5 of the SCTs will supersede issue #4, and that the SCTs are subject to any amendments agreed in a STOR Framework Agreement.

Sub-paragraphs 1.2.10 and 1.2.16 and associated definition of "Affected Reserve Provider"- replacement of the "net cost" test with a more rounded test of "no more or less favourable".

Sub-paragraph 1.2.11 - delete, so that tenders subject to works programmes can be accepted so as to create an unconditional STOR Contract, albeit subject to termination rights for delays.

⁶ http://www.nationalgrid.com/NR/rdonlyres/7B8CA1AB-4964-4965-B5A2-126C8C202A11/40677/STOR_Assessment_Principles.pdf

Sub-paragraph 1.6.1 - clarification that National Grid is not entitled to bring forward or put back the start or end time of a Window by more than one hour on any single occasion.

Sub-paragraph 1.6.2 - clarification of the intention of the formula, being to compensate the Reserve Provider with a corresponding increase in availability fees for the affected Season.

Annexure 1 to Section 1 - clarification that the "TAP(S)" variable is subject to indexation.

Sub-paragraphs 2.2.8, 2.2.10, 3.2.14 and 3.2.16 - introduction of reasonableness and objectivity into National Grid's discretion to accept substitute and replacement units.

Sub-paragraph 3.3.11 - to align with the treatment in the BSC for BM sites, clarification that over provision of MW when delivering STOR will not incur an Event of Default for non-BM site.

Sub-paragraph 3.5.3, 3.7.2 and 4.4.4 - removal of National Grid's right of termination when a non-BM site becomes an active BM site, and instead an obligation on parties to agree amendments to the STOR Contract to enable STOR to continue to be provided from the site in question.

Sub-paragraphs 3.9.1 to 3.9.3 - minor amends to clarify intent.

Sub-paragraphs 3.10.1 and 3.10.3 - clarification that warranty relates to committed windows only.

Annexure 1 to Section 2/3 - amend the definition of $\sum_{j \in Ay}$ so that any reconciliation payments are neutralised during any suspension of a STOR Contract in certain circumstances (force majeure).

Paragraph 4.3 - insertion of text from CUSC to clarify that Act and licence obligations etc prevail.

Sub-paragraph 4.5.1 - carve out from assignment prohibition where pursuant to Direct Agreement.

Sub-paragraph 4.6.2.1 - additional carve outs from non-disclosure obligations on Reserve Provider on a "need to know" basis.

Section 5 (definitions) - replacement of references to GB Transmission System and GB System Operator with references to National Electricity Transmission System etc.

2011/12 Tender Rounds Dates

72 Figure 7 below, identifies the dates that National Grid proposes for the Tender Rounds taking place in 2011 and invites views from the industry on their suitability. As an addition to the key dates published historically, National Grid proposes 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 has been driven by the increasing requirement for new/amending agreements from both new and existing Reserve Providers and is considered a necessity in order to enable National Grid to effectively manage this process.

Figure 7 Future Tender Round Dates

Tender Round	Key Tender Round Dates						
	Tender sheets available by	Framework Agreements Deadline	Market Day	Results Day for Short-Term Service	Results Day for Long-Term Service	Market Report Published by	Service Start Date
2011 TR13	10-Dec-10	07-Jan-11	14-Jan-11	04-Mar-11	25-Mar-11	15-Apr-11	01-Apr-11
2011 TR14	06-May-11	03-Jun-11	10-Jun-11	22-Jul-11	N/A	12-Aug-11	15-Aug-11
2011 TR15	29-Jul-11	19-Aug-11	26-Aug-11	30-Sep-11	21-Oct-11	11-Nov-11	31-Oct-11

73 Figure 8 below, identifies the STOR Seasons/Years which National Grid proposes to be available for tender in each of the Tender Rounds. 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 proposes that only two opportunities will be provided for the submission of long-term STOR tenders in 2011, in Tender Rounds 13 and 15 respectively.

Figure 8 Tender Availability

Tender Round	Short-term Service 2011/12 Seasons Available						Longer-term Service 2012/13 - 2025/26 Years Available														
	1	2	3	4	5	6	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	
2011 TR13	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2011 TR14			✓	✓	✓	✓															
2011 TR15					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Question 14 – Would you welcome the publication of a draft set of ‘standard’ Aggregator terms on the National Grid website?

Question 15 – Do you consider that Aggregator terms should be developed as part of Workstream 1A of the wider reserve review?

Question 16 – Would you welcome further detail of the Assessment Principles applied to the week-ahead assessment of flexible STOR tenders?

Question 17 – Would you consider the inclusion of an annual utilisation limit based on the number of running hours to be a useful development?

Question 18 – Do you have any comments with regards to the housekeeping amendments proposed?

Question 19 – Do you have any comments regarding the proposed Tender Round dates for 2011 and the Seasons/Years that are proposed to be available for tender in each?

Section 9

Responses

- 74 National Grid welcomes responses from the industry regarding any of the issues raised in this OCP, in addition to any other issues that industry members consider worthy of raising with a view to improving the way in which the STOR service currently operates. More specifically, National Grid would welcome responses to the following questions:

Question 1 – 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?

Question 2 – 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?

Question 3 – Do you consider that an increased period of 20 Business Days would be more appropriate than the current timescales in the interests of arriving at a mutually beneficial negotiation of Special Condition(s) or contract prices? If not, could you recommend a more suitable timescale?

Question 4 - 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 that termination?

Question 5 - Would you consider a Remedial Plan to be a welcome introduction to the Standard Contract Terms?

Question 6 - Do you have any comments with regards to the proposed Remedial Plan process, particularly with regard to the timescales?

Question 7 - Would you consider the introduction of Cure Plan to be a welcome introduction to the STOR contractual framework?

Question 8 - Do you have any comments with regards to the proposed Cure Plan process, particularly with regard to the timescales?

Question 9 - 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?

Question 10 - 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 their intention to 'opt out' of expanded Availability Windows?

Question 11 - Do you consider that it would be appropriate for National Grid 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?

Question 12 - Do you consider it appropriate that National Grid should be giving consideration to developing the non-BM despatch systems to facilitate a STOR market whereby all Reserve Provider can reduce their utilisation prices within day?

Question 13 - Do you have any comments with regards to 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?

Question 14 – Would you welcome the publication of a draft set of 'standard' Aggregator terms on the National Grid website?

Question 15 – Do you consider that Aggregator terms should be developed as part of Workstream 1A of the wider reserve review?

Question 16 – Would you welcome further detail of the Assessment Principles applied to the week-ahead assessment of flexible STOR tenders?

Question 17 – Would you consider the inclusion of an annual utilisation limit based on the number of running hours to be a useful development?

Question 18 – Do you have any comments with regards to the housekeeping amendments proposed?

Question 19 – Do you have any comments regarding the proposed Tender Round dates for 2011 and the Seasons/Years that are proposed to be available for tender in each?

- 75 Any questions regarding the content of this Outline Change Proposals Document should be directed to either **Craig Maloney** on **01926 655896** or **Mark Duffield** on **01926 654971**. All responses to this Document should be emailed to energy.operations@uk.ngrid.com by no later than **5pm on Monday 11th October, 2010**. Please note that unless marked as 'Confidential', all responses will be published on the National Grid website.

Appendix 1

Direct Agreement

DIRECT AGREEMENT

DATED _____ 20[]

- (1) NATIONAL GRID ELECTRICITY TRANSMISSION PLC
- (2) [] (as Security Trustee)
- (3) [RESERVE PROVIDER]

DIRECT AGREEMENT

-relating to-

**THE PROVISION OF SHORT TERM
OPERATING RESERVE (“STOR”)**

1. INTERPRETATION
2. CONSENT TO SECURITY
3. NOTICE OF TERMINATION AND EXISTING LIABILITIES
4. REPRESENTATIVE
5. STEP-IN PERIOD
6. STEP-OUT
7. NOVATION
8. MISCELLANEOUS
9. DURATION
10. ASSIGNMENT
11. ENTIRE AGREEMENT
12. WAIVER
13. SEVERABILITY
14. COUNTERPARTS
15. CONFIDENTIALITY
16. NOTICES CONSENTS AND APPROVALS
17. SURVIVORSHIP
18. THIRD PARTY RIGHTS
19. GOVERNING LAW

THIS AGREEMENT is made on []

BETWEEN:

1. **NATIONAL GRID ELECTRICITY TRANSMISSION PLC**, a company registered in England and Wales (registered number 2366977) whose registered office is at 1-3 Strand, London (“**National Grid**”);
2. [] a company registered in [England and Wales] (registered number []) whose registered office is at [] (the “**Security Trustee**” for the Senior Lender); and
3. [] a company registered in England and Wales (registered number []) whose registered office is at [] (the “**Reserve Provider**”).

WHEREAS:

- (a) The Reserve Provider has entered into a STOR Framework Agreement with National Grid under which from time to time the Reserve Provider and National Grid may enter into STOR Contracts.
- (b) The Provider has entered into a Credit Agreement with the Senior Lender and it is a condition precedent of that Credit Agreement that the parties enter into this Deed.
- (c) This is the “STOR Direct Agreement” referred to in the Credit Agreement.

IT IS AGREED AS FOLLOWS

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement, unless the context otherwise requires, the following terms shall bear the following meanings:

“Appointed Representative”	means a Representative that has assumed the Reserve Provider’s rights under the STOR Framework Agreement and/or any STOR Contract under Clause 4.1.
“Credit Agreement”	means the credit agreement dated [] between, inter alia, the Reserve Provider, the Security Trustee and the Senior Lender a certified copy of which has been provided to National Grid on or before the date of this Agreement.
“Event of Default”	has the same meaning as in the Credit Agreement.
“Relevant Termination Provision”	has the meaning given in the SCTs.

	any action under Clause 4.1
“Step-In Period”	means the period from the Step-In Date up to and including the earlier of: <ul style="list-style-type: none"> (a) the Step-Out Date; (b) the date of any transfer under Clause 7; (c) the date of any termination for breach under Clause 5; and (d) the date of expiry of the STOR Framework Agreement and all STOR Contracts.
“Step-Out Date”	means the date falling 30 days after the date of the notice given under Clause 6.
“Step-In STOR Contract”	means a STOR Contract in respect of which the Security Trustee has exercised its rights under Clause 4.1.
“STOR Framework Agreement”	means the Short Term Operating Reserve Framework Agreement dated [] between National Grid and the Reserve Provider under which the Reserve Provider has the right to tender to provide Short Term Operating Reserve and in consequence of which the Reserve Provider and National Grid may enter into STOR Contracts.
“Suitable Substitute Provider”	means a person approved by National Grid (such approval not to be unreasonably withheld or delayed) as having the legal capacity, power and authority to become a party to and perform the obligations of the Reserve Provider under the STOR Framework Agreement and each STOR Contract.
“Suspension Notice”	means a notice given by National Grid to the Security Trustee of National Grid’s intention to issue a notice under paragraph 4.4.6.1 of the SCTs or any STOR Contract.
“Termination Notice”	means a notice given by National Grid to the Security Trustee under Clause 3.1.

Interpretation

- 1.1.1 Capitalised terms defined in the STOR Framework Agreement shall have the same meaning in this Agreement.
- 1.1.2 The clause and paragraph headings in this Agreement are for ease of reference only and are not to be taken into account in the construction or interpretation of any provision to which they refer.

- 1.1.3 Unless the context otherwise requires:
- 1.2.3.1 a reference in this Agreement to any clause or sub-clause is, except where it is expressly stated to the contrary, a reference to such clause or sub-clause of this Agreement;
 - 1.2.3.2 references to this Agreement or to any other such document shall include any permitted variation, amendment or supplements to such document;
 - 1.2.3.3 references to any enactment, order, regulation or other similar instrument shall be construed as a reference to the enactment, order, regulation or instrument (including any EU instrument) as amended or re-enacted;
 - 1.2.3.4 references to a person includes firms and corporations and their successors and permitted assignees or transferees;
 - 1.2.3.5 words in this Agreement importing any one gender include both other genders and may be used interchangeably; and
 - 1.2.3.6 words in this Agreement importing the singular meaning, include the plural meaning and vice versa.

2. **CONSENT TO SECURITY**

- 2.1 National Grid acknowledges notice of, and consents to, the security interest granted over the Reserve Provider's rights under the STOR Framework Agreement and each STOR Contract effected by the Reserve Provider in favour of the Senior Lender under the Security Documents.
- 2.2 The Reserve Provider agrees that it has not and will not grant any security interest over the Reserve Provider's rights under the STOR Framework Agreement or any STOR Contract (whether such STOR Framework Agreement and STOR Contract is subsisting at the date of this Agreement or comes into force after the date of this Agreement).
- 2.3 National Grid confirms that it has not received notice of any other security interest granted over the Reserve Provider's rights under or in connection with the STOR Framework Agreement or any STOR Contract.
- 2.4 Except as specifically provided for in this Agreement National Grid has no obligations (whether express, implied, collateral or otherwise) to the Security Trustee and/or the Senior Lender in connection with this Agreement, the STOR Framework Agreement or any STOR Contract.
- 2.5 The Reserve Provider hereby irrevocably authorises and instructs National Grid (and National Grid agrees) to pay all sums payable to the Reserve Provider under the STOR Framework Agreement and each STOR Contract to the *[account]* and the Reserve Provider and National Grid agree that upon receipt of notice from the Security Trustee of the occurrence of an Event of Default, if so directed in writing by the Security Trustee upon giving reasonable notice, National Grid shall pay any sum which it is obliged to pay to the Reserve Provider under the STOR Framework Agreement and any STOR Contract to a bank account specified by the Security Trustee. The Reserve Provider agrees that payment by National Grid in accordance with this Clause 2.5 shall discharge National Grid from its obligations to make any such payment to the Reserve Provider.

2.6 National Grid shall not be obliged to make any enquiry of the Security Trustee or the Reserve Provider in doing any act or entering into any document or making any agreement under or in connection with this Agreement and National Grid shall be entitled to assume that the Security Trustee is duly authorised by the Senior Lender to assume the obligations expressed to be assumed by it under this Agreement and to undertake on behalf of the Senior Lender in the terms of this Agreement.

3. **NOTICE OF TERMINATION AND EXISTING LIABILITIES**

3.1 Subject only to Clause 3.1.3, National Grid shall not:

3.1.1 terminate or give notice terminating the STOR Framework Agreement or any STOR Contract; or

3.1.2 give notice of its intention to suspend under Clause 4.4.6.1 of the SCTs, without giving to the Security Trustee:

3.1.2.1 at least the Required Period of prior written notice (a "Termination Notice" or "Suspension Notice" respectively) stating:

(a) in the case of a Termination Notice:

(i) the proposed Termination Date; and

(ii) the grounds for termination in reasonable detail, or

(b) in the case of a Suspension Notice, the circumstances entitling National Grid to terminate the STOR Contract under a Relevant Termination Provision;

and

3.1.2.2 not later than the date falling on the earliest of:

(a) 10 Business Days after the date of a Termination Notice;

(b) the date falling 10 Business Days after the date on which the Security Trustee informs National Grid that an Event of Default has occurred;

(c) 5 Business Days after the date of a Suspension Notice,

a notice containing details of any amount owed by the Reserve Provider to National Grid, and any other existing liabilities or unperformed obligations of which National Grid is aware (having made reasonable enquiry):

(d) at the time of the Termination Notice or the notification of an Event of Default or the time of the Suspension Notice; and/or

(e) which will fall due on or prior to the end of the Required Period, under the STOR Framework Agreement and any STOR Contract

3.1.2.3 National Grid shall update the information provided under clause 3.1.2.2(d) or 3.1.2.2(e) as soon as practicable upon becoming aware of any changes thereto.

3.1.3 Clause 3.1 shall not apply in respect of any termination notice to be issued by National Grid under Appendix 7 of the Framework Agreement where, following the issue of a Suspension Notice, the Security Trustee has exercised its rights in Clause 4.1.2.

4. REPRESENTATIVE

4.1 Without prejudice to the Security Trustee's rights under the Security Documents, at any time:

4.1.1 during which an Event of Default is subsisting (whether or not a Termination Notice or Suspension Notice has been served); or

4.1.2 during the Required Period,

the Security Trustee may procure that a Representative assumes, jointly and severally with the Reserve Provider, all the Reserve Provider's rights, powers, discretions and obligations:

(a) in the case of 4.1.1 under the STOR Framework Agreement and/or the STOR Contracts;

(b) in the case of 4.1.2 under the STOR Framework Agreement and/or STOR Contracts in respect of which the Termination Notice or Suspension Notice was issued.

4.2 The Security Trustee shall give National Grid 5 days prior written notice of any action to be taken by it referred to in this Clause 4.

5. STEP-IN PERIOD

5.1 Without prejudice to Clause 3, but subject to Clause 5.2 below, National Grid shall not terminate the STOR Framework Agreement or a Step-In STOR Contract during the Step-In Period on grounds:

5.1.1 that the Security Trustee has taken any action referred to in Clause 4 or enforced any Security Document(s); or

5.1.2 arising prior to the Step-In Date and details of which National Grid has notified to the Security Trustee under Clauses 3.1.2.2 and 3.1.2.3 (having made reasonable enquiry and whether or not continuing at the Step-In Date); or

5.1.3 arising solely in relation to the Reserve Provider,

unless, in the case of Clause 5.1.2, neither the Appointed Representative nor the Reserve Provider is using all reasonable endeavours (including implementation of any remedial programme) to remedy any breach of the STOR Framework Agreement or any STOR Contract that:

(a) arose prior to the Step-In Date; and

(b) is continuing (and capable of remedy); and

(c) would have entitled National Grid to terminate the STOR Framework Agreement and/or the Step-In STOR Contract

and fails to remedy such breach within 15 days of the Step-In Date.

5.2 National Grid shall be entitled to terminate the STOR Framework Agreement and/or any Step-In STOR Contract by written notice to the Reserve Provider and the Appointed Representative:

5.2.1 if any amount referred to in Clause 3.1.2.2(d) above has not been paid to National Grid on or before the Step-In Date;

5.2.2 if any amount referred to in Clause 3.1.2.2(e) has not been paid on or before the last day of the Required Period;

5.2.3 any breach referred to in Clause 5.1.3 has not been remedied within 15 days after the Step-In Date; or

5.2.4 on grounds arising after the Step-In Date in accordance with the terms of the STOR Framework Agreement or any Step-In STOR Contract provided that for the purposes of termination under any Step-In STOR Contract, circumstances referred to in Clauses [2.5.4, 2.5.6, 3.5.4, 3.5.6 of the Step-In STOR Contract] that arose prior to the Step-In Date shall not be taken into account during the Step-In Period but shall be taken into account after the Step-Out Date,

and this Agreement shall not apply in respect of any such termination.

5.3 During the Step-In Period:

5.3.1 the Appointed Representative shall comply with the terms of the STOR Framework Agreement and/or the Step-In STOR Contract as if the Appointed Representative were named therein in place of the Service Provider; and

5.3.2 National Grid shall deal with the Appointed Representative and not the Reserve Provider in respect of the STOR Framework Agreement and any Step-In STOR Contract;

5.3.3 National Grid shall be entitled to act on the instructions of the Appointed Representative and shall have no liability to the Reserve Provider in respect thereof; and

5.3.4 National Grid shall be liable only to the Reserve Provider for compliance with the terms of the STOR Framework Agreement and the Step-In STOR Contract.

6. **STEP-OUT**

6.1 The Appointed Representative will, on 30 days' prior written notice from the Security Trustee or the Appointed Representative to National Grid, be released from all of its obligations and liabilities to National Grid under the STOR Framework Agreement and each Step-In STOR Contract arising after the Step-Out Date.

6.2 The Reserve Provider shall continue to be bound by the terms of the STOR Framework Agreement and each STOR Contract, notwithstanding the occurrence of the Step-Out Date.

6.3 Following the Step-Out Date National Grid shall be entitled to exercise its rights of termination and suspension of the STOR Framework Agreement and any STOR Contract without being required to give notice to the Security Trustee under this Agreement and shall be entitled to rely on any breach that remains unremedied as at the Step-Out Date as a ground for termination if permitted under the Framework Agreement and the SCTs.

7. **NOVATION**

7.1 Subject to Clause 7.2, at any time:

7.1.1 during which an Event of Default is subsisting; or

7.1.2 during the Step-In Period,

the Security Trustee may, on 30 days' prior written notice to National Grid and any Appointed Representative, procure the transfer of the Reserve Provider's rights and liabilities under the STOR Framework Agreement and/or Step-In STOR Contract to a Suitable Substitute Provider.

7.2 National Grid shall notify the Security Trustee as to whether any person to whom the Security Trustee proposes to transfer the Reserve Provider's rights and liabilities under the STOR Framework Agreement and/or Step-In STOR Contract is a Suitable Substitute Provider, on or before the date falling 30 days after the date of receipt of all information reasonably required by National Grid to decide whether the proposed transferee is a Suitable Substitute Provider.

7.3 On any transfer referred to in Clause 7.1 becoming effective:

7.3.1 the Reserve Provider shall be released from any obligations arising under or in connection with the STOR Framework Agreement and/or the relevant STOR Contract from that date (but without prejudice to National Grid's rights accruing prior to that date) and the new Reserve Provider shall become liable for obligations arising on or after that date;

7.3.2 any accrued failures under Clauses [2.5.4, 2.5.6, 3.5.4, 3.5.6] shall be cancelled;

7.3.3 any then subsisting ground for termination of the STOR Framework Agreement and any STOR Contract transferred to a Suitable Substitute Provider under Clause 7.1 by National Grid shall be deemed to have no effect and any subsisting notice of termination thereof shall be automatically revoked; and

7.3.4 National Grid shall enter into a direct agreement with the Senior Lender lending to the new Reserve Provider on substantially the same terms as this Agreement.

8. **MISCELLANEOUS**

8.1 National Grid shall at the Reserve Provider's expense, take whatever action the Security Trustee, an Appointed Representative or a Representative taking a transfer in accordance with Clause 7.1 may require for perfecting any transfer or release under Clause 4 (Representative), 6 (Step-Out) and 7 (Novation) including the execution of any transfer or assignment, and the giving of any notice, order or direction and the making of any registration which, in each case, the Security Trustee, Appointed Representative or Representative reasonably requires.

8.2 National Grid shall not take any action to wind up, appoint an administrator or sanction a voluntary arrangement (or similar) in relation to the Reserve Provider without giving to the Security Trustee not less than 20 days notice in writing.

8.3 The Security Trustee shall promptly notify National Grid of any decision to accelerate the maturity of any amounts owing by the Reserve Provider to the Senior Lender under the Credit Agreement and/or to demand repayment.

- 8.4 The Reserve Provider joins in this Agreement only to acknowledge and consent to the arrangements set out and none of the provisions of this Agreement are enforceable by the Reserve Provider against the Security Trustee or National Grid.
- 8.5 The Reserve Provider agrees not knowingly to do or omit to do anything that may prevent any party from enforcing its rights under this Agreement.
- 8.6 If there is any conflict or inconsistency between the provisions of this Agreement and the STOR Framework Agreement or any STOR Contract, the provisions of this Agreement shall prevail.
- 8.7 This Agreement may only be varied by agreement in writing signed by all of the parties.

9. DURATION

This Agreement shall commence on the date hereof and shall continue in full force and effect until the termination of the STOR Framework Agreement and all STOR Contracts.

10. ASSIGNMENT

- 10.1 No party to this Agreement may assign or transfer any part of its rights or obligations under this Agreement, save that:
- 10.1.1 the Security Trustee may assign or transfer its rights and obligations under this Agreement to a successor Security Trustee in accordance with the Credit Agreement without the consent of National Grid;
- 10.1.2 the Senior Lender may assign or transfer its rights under the Credit Agreement in accordance with the terms of the Credit Agreement; and
- 10.1.3 National Grid shall assign, novate or otherwise transfer its rights and/or obligations under this Agreement to any person to which National Grid assigns, novates or otherwise transfers its rights and/or obligations under the STOR Framework Agreement and any STOR Contract in accordance with Clause 4.5.2 (Assignment) of the Framework Agreement.
- 10.2 If Clause 10.1.1 applies then National Grid shall enter into a direct agreement with the new Security Trustee on substantially the same terms as this Agreement.

11. ENTIRE AGREEMENT

Unless otherwise stated in this Agreement, this Agreement, the Credit Agreement, the STOR Framework Agreement and each STOR Contract constitutes the entire agreement between the parties in connection with its subject matter and supersedes all prior representations, communications, negotiations and understandings concerning the subject matter of this Agreement. No party has relied on any representation except as expressly set out in this Agreement.

12. **WAIVER**

12.1 The failure of any party to exercise any contractual right or remedy shall not constitute a waiver thereof until communication in writing under Clause 12.2.

12.2 No waiver shall be effective unless it is communicated in writing to the other party.

12.3 A waiver of any right or remedy arising from a breach of contract shall not constitute a waiver of any right or remedy arising from any other breach of this Agreement.

13. **SEVERABILITY**

If any term, condition or provision contained in this Agreement shall be held to be invalid, unlawful or unenforceable to any extent, such term, condition or provision shall not affect the validity, legality or enforceability of the remaining parts of this Agreement.

14. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts, all of which when taken together will constitute one and the same instrument.

15. **CONFIDENTIALITY**

15.1 The Security Trustee shall be bound to comply with the obligations on the part of the Reserve Provider contained in Clause 4.6 (Confidentiality and Announcements) of the STOR Framework Agreement in relation to all information and matters obtained from any other party under or in connection with the tendering of or provision of Short Term Operating Reserve.

15.2 In respect of any information provided to National Grid by the Security Trustee or the Senior Lender, National Grid agrees with the Senior Lender to comply with the obligations of Clause 4.6 (Confidentiality and Announcements) of the STOR Framework Agreement (subject to the provisions of such Clause 4.6) in relation to such information as if such Clause 4.6 were set out in full in this Agreement.

16. **NOTICES CONSENTS AND APPROVALS**

16.1 Any notice served under or in connection with this Agreement is to be in writing.

16.2 Any notice to be given to National Grid should be marked for the attention of the [] or other position as notified in writing to National Grid and delivered to [] or such other address as notified in writing to the Security Trustee by National Grid.

16.3 Any notice to be given to the Security Trustee should be marked for the attention of [] or other position as notified in writing to National Grid and delivered to [] or such other address as notified in writing to National Grid by the Security Trustee.

16.4 Notices shall be deemed to have been served:

- 16.4.1 in the case of delivery by hand, when delivered;
- 16.4.2 in the case of first class pre-paid post, on the second day following the day of posting or (if sent airmail from overseas) on the fifth day following the day of posting
- 16.4.3 in the case of facsimile, on acknowledgement by the addressee's facsimile receiving equipment, where such acknowledgement occurs before 1700 hours on the day of acknowledgement, and in any other case on the day following the day of acknowledgment.

17. **SURVIVORSHIP**

Notwithstanding the other provisions of this Agreement, Clause [] shall survive termination of this Agreement.

18. **THIRD PARTY RIGHTS**


No term of this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Agreement.

19. **GOVERNING LAW**

This Agreement is governed by the laws of England and Wales and the parties accept the jurisdiction of the English Courts.

THIS DOCUMENT is executed as a deed and delivered on the date stated at the beginning of this Deed.

Glossary of Terms



BM	Balancing Mechanism
CUSC	Connection and Use of System Code
DCP	Detailed Change proposals
ITT Pack	Invitation To Tender Pack
MW	MegaWatt
OCP	Outline Change Proposals
SCTs	Standard Contract Terms
STOR	Short Term Operating Reserve