

Contract Development Update

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nationalgrid

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Agenda

- ◆ Overview of service reviews
- ◆ Common areas of development
- ◆ STOR
- ◆ FFR and Fast Reserve
- ◆ LCPD Update
- ◆ What's next?

Overview of service reviews

- ◆ **Developing services to meet our future needs**
 - ◆ Balance of risk to achieve efficient provision
 - ◆ Removing barriers to new types of providers
 - ◆ Addressing the need for market signals

Common areas of development

- ◆ Long term tender process
- ◆ Allow tender submission before investment made –
new and existing
- ◆ Price indexation methodology
- ◆ Governance Provision

Common areas of development

- ◆ **Long term tender process**

- ◆ Allowing suitable time to recover capital monies
 - Refurbishment
 - New assets

Common areas of development

- ◆ **Allow tender submission before investment made – new and existing**

- ◆ Framework agreement and tender before investment
- ◆ Milestone schedule to meet contracted requirements
- ◆ Providers obliged to keep National Grid updated
- ◆ Payment commences when service provision commences



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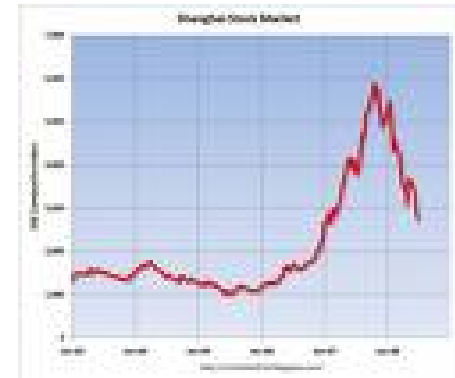


Common areas of development

◆ Price indexation methodology

- ◆ Removes risks with long term tenders
 - Uncertainty against fuel costs
 - Limited options to hedge against risk
- ◆ Not mandatory – can choose firm price
- ◆ Can be applied to contracts of >12months

- ◆ Separate methodology document
- ◆ Publish agreed indices (e.g. RPI, fuel) – transparency



Common areas of development

◆ Governance Provision

- ◆ Following feedback from workshops
- ◆ Formalising what we do now
- ◆ Impact on long term contract primarily
 - Proposals open to all participants for comment
- ◆ Protects long term contracts e.g. technical, financial

STOR

◆ Contract length

- ◆ Up to a 10 year committed service

◆ Seasons and availability windows

- ◆ Seasons and windows defined for 10yrs from current time
- ◆ Amendment to windows – minimal impact to provider
- ◆ Additional windows
 - Not accept new windows
 - Re-tender for whole contract – existing or new parameters
- ◆ Amendment to season dates – clock change

STOR

- ◆ **Long term outage planning**
 - ◆ Address risk of availability reconciliations
 - ◆ Maintain current 15% tolerance
 - c581 hours per annum
 - 55days for routine maintenance
 - ◆ No additional mechanism required



Fast Reserve & Firm Frequency Response

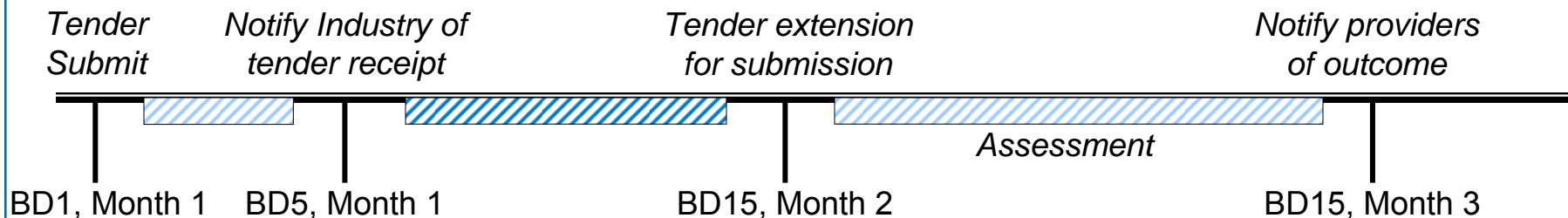
- ◆ **Tender submission – single month and medium term**
 - ◆ Market information published earlier
 - ◆ Tender submission dates brought forward
 - ◆ Reduce assessment timescales
 - ◆ Aligned tender timescales

- ◆ Right to withdraw tender

Fast Reserve & Firm Frequency Response

◆ Long term tenders

- ◆ Separate process of assessment
- ◆ Longer assessment required – additional complexity
- ◆ Activated once National Grid receives tender offer
>24months in duration



- ◆ Right to withdraw tender

Fast Reserve & Firm Frequency Response

◆ FFR Specific

- ◆ Allow tender submission for overlapping periods e.g. baseload, extended peak, overnight etc
- ◆ National Grid assess combination of options
- ◆ Choose best fit solution – not overlapping
- ◆ Increase choice and flexibility

Fast Reserve & Firm Frequency Response

- ◆ **FFR Specific – Dynamic Demand**
 - ◆ Section 4A drafted to facilitate dynamic demand
 - ◆ Based around Generator and Static Demand terms
 - ◆ Generic to accommodate distinct differences between potential providers
 - ◆ To be published in line with main review

Fast Reserve & Firm Frequency Response

◆ FFR Specific – Dynamic Demand

- ◆ Expect first tranche (Commercial load) to be offered in 2009
- ◆ Field trial of 3000 domestic fridges
 - Determine lifetime carbon savings
 - System Operator additional confidence
- ◆ DECC report on Dynamic Demand published 2nd Dec 08

Service review key dates

◆ **STOR**

- ◆ Draft of SCTs published
- ◆ Comments by 16th December 2008
- ◆ Issue 3 of SCTs to be published on 23rd December 2008

◆ **FFR / Fast Reserve**

- ◆ Final draft of SCTs to be published by Mid December
- ◆ Comments by 9th January 2009
- ◆ New SCTs to be implemented no later than 9th March 2009

Large Combustion Plant Directive

- ◆ Operational Experience
 - ◆ Background covered in February and August 2008 Ops Forum
 - ◆ More financial risk to National Grid than system security
 - ◆ Stations are pricing running a single unit up to SEL to recover potential lost opportunity of station

LCPD – Operational Experience

- ◆ Stations have contacted the control room offering to delay de-synch on two units at a significantly better price than for a single unit
- ◆ The current BM systems only allow monotonic offer prices (generators are unable to reflect lower prices for greater MW utilisation on a unit)
- ◆ If a unit is then operated above SEL or a second unit is also synchronised, this would lead to an over recovery of the lost opportunity

LCPD – Operational Experience

Next Steps

- ◆ We will develop a process to formalise the ability for stations to submit alternative pricing for multiple units
- ◆ If there is sufficient interest from the industry we would need to develop a suitable mechanism taking into consideration:-
 - How these prices could be submitted?
 - How they can be made transparent to the rest of the industry?
 - How we would then despatch units in the most economic way?
- ◆ We welcome your views and comments
- ◆ Further consultation January 2009
- ◆ Implementation from 1st April 2009

For further details please contact Andy Walden 01926 655087
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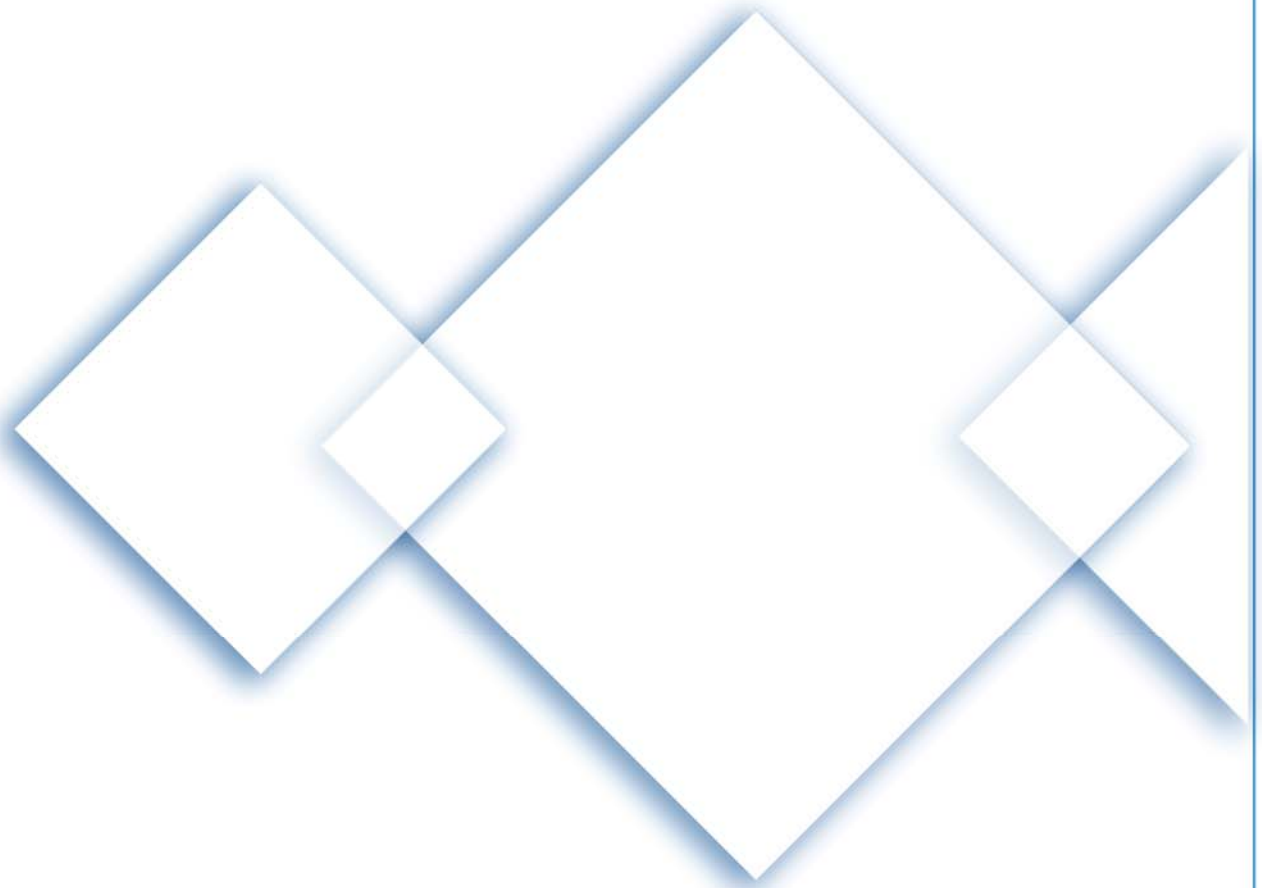
What's next?

◆ Services

- ◆ Reactive
- ◆ BM Start Up
- ◆ STOR – flexible & semi-committed

◆ General

- ◆ How will future mix of generation impact upon the System Operator?
 - What will the future Balancing Services require?
 - What changes do National Grid need to make?
- ◆ Who are the potential future providers?
 - How can we make it easier for these providers to offer a service?
 - Can we simplify the services?
 - Can we reduce minimum thresholds?



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