

FFR Review 2011 - Workshop

National Grid House, Warwick
22nd August 2011

Agenda

10:00	Registration and Coffee
10:15	Introduction to FFR / Objectives for the Day
10:30	Tender Process
12:00	Lunch
12:30	Performance Monitoring
13:30	Static BM Service
14:00	Market Information Report
14:30	Further Issues
15:00	Close

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Notes

Requirement for Firm Frequency Response (FFR)

During the initial discussions on FFR, a number of providers questioned whether the service was still required. It was pointed out that the service had been established to defend against any volatility in the prices in the Mandatory Frequency Response market introduced by CUSC Amendment Proposal (CAP) 47. This market has since matured and the risk of volatile prices has significantly lowered.

It was also noted that FFR disrupted the purity of the mandatory market as large volumes of the overall response requirement could be procured through FFR. It was suggested that the mandatory market may become more efficient if the entire requirement was being procured through a single market.

The general consensus was that an FFR style service would need to continue for demand side as this was their only route to provide Frequency Response.

National Grid agreed to take these points into consideration and reassess the more fundamental questions regarding frequency procurement going forward. However this would be a broader review outside the scope of the current review of the Standard Contract Terms (SCTs).

Tender Process

Simplification of Tender Dates -The dates for the current tender process are currently unnecessarily complex. It was proposed that these dates could be simplified by making the following changes:

SERVICE MONTH -1						
Monday	Tuesday	Wednesday	Thursday	Friday	Sat/Sun	
MARKET DAY SINGLE MONTH TENDERS		MARKET DAY SHORT-TERM TENDERS		TENDER REPORT		
				RESULTS DAY FOR SINGLE MONTH SHORT TERM		
			WINDOW NOMINATION	RESULTS DAY FOR LONG TERM		

SERVICE MONTH -1						
Monday	Tuesday	Wednesday	Thursday	Friday	Sat/Sun	
MARKET DAY		TENDER REPORT				
				RESULTS DAY WINDOW NOMINATION		

Having a single Market Day was considered beneficial. One participant suggested that moving Market Day to the 15th Business Day, to align with the Frequency Response Pricing System (FRPS), would

be beneficial. It was pointed out that this would not leave much time to perform the assessment and notify providers ahead of the tender.

One provider asked why National Grid requires so long to perform the tender assessment. It was noted that the assessment of each unit was unique due to the different response capabilities and output levels. It was also noted that given the increase in tenders not only meant there is more to assess but also the assessment is more complex where tenders overlap.

It was suggested National Grid could simplify the assessment by making it more formulaic by making more specific requirements. It was argued that making the requirements unnecessarily specific would reduce the flexibility of providers and could rule out options which may be more economic but had not been previously envisaged.

One provider suggested that only single month tenders should be continued as they envisaged that any longer term tenders would need to include a risk premium. It was noted that whilst this could improve competition in the single month tenders some providers were able to offer a cheaper contract for longer durations.

Lack of Direct Medium Term Competition – Currently tenders for up to three months ahead tend to be directly contested however tenders more than three months ahead tend to have no direct competition. Given there are 12 opportunities to tender each year this can occur due to the timing of the tenders. This could lead to a tender being accepted simply because it was the first to be received rather than being the most economic.

Two proposals were put forward to encourage tenders to be received at the same time:

- Only invite tenders for beyond three months on four occasions in the year
- Require advance notification to the market of any tenders over three months

Some participants suggested that they would not consider tendering beyond six months because the additional risk they would need to factor into their tender would be likely to make it uneconomic. A number of providers suggested they may be more likely to tender long term if they were able to tender a range of MWs which could be firmed up closer to real-time.

It was considered that rationalising the tender rounds would reduce admin and increase competition however it would reduce the flexibility of tendering. The option to have a multi round tender was considered a benefit however this would not provide the same number of opportunities to refine the price as there is under the current process.

Some participants suggested that under the notification process they may not have enough time between being aware of a tender and developing a counterproposal. They also noted that although more flexible, the timescales would mean that the opportunity for price discovery was significantly reduced.

Providers suggested that all FFR tendering could be improved by increasing the transparency of the assessment process. National Grid pointed out that there would be the opportunity to find out more about FFR assessment at the assessment Workshop on the 18th October 2011. There was also interest in being able to tender for periods of less than a month and the introduction of an electronic tender process.

Performance Monitoring

The current section in the SCTs is not clear and is different for BM and non BM providers. A new proposal for the performance monitoring of all providers was proposed.

Dynamic Delivery

Continuous monitoring

- Monitored over [X] settlement periods
- Affects payment for whole window
- 70% threshold all or nothing

Incident monitoring

- Monitored over each incident where the frequency deviates outside operational limits for greater than [2] minutes
- affects payment for entire month
- Banded penalties

Non Dynamic Delivery

Incident monitoring

- Monitored over each incident where the frequency deviates outside the preset trip level
- affects payment for entire month
- Banded penalties

For each event of default (EoD) a provider would incur an event default. After a threshold number of events of default had occurred National Grid will have the right to terminate the agreement.

The workshop split into two groups, one group felt second by second data was the correct level of detail to be used but suggested that National Grid could use minute by minute data as an initial indication of whether further investigation was required. This group also suggested that for continuous performance monitoring the whole window should be used as the sample period however for an incident monitoring during the settlement period in which the incident occurred and the settlement period afterwards would be reasonable

This group thought having banded penalties were better than a single threshold. It was suggested that any delivery over 80% could receive full payment and any delivery under 50% could receive no payment and any performance between 50% and 80% would have a linear relationship with the level of deduction. This group considered if your delivery was less than 50% you should receive an event of default. After 3 events of default there should be a review and after a further 3 National Grid should have the right to terminate the contract.

It was noted that there should be some timescales in which National Grid need to have informed the provider of any under performance. It was also suggested the number of EoDs which lead to termination should be linked to the length of the contract.

The other group suggested that incident based performance monitoring would be most appropriate. This should be monitored before and after the incident. Analysis should be done to ascertain an appropriate threshold and payment impact. It was suggested that National Grid should not have the right to terminate a single month contract however it was pointed out that even if performance was very poor it would probably take at least a whole month to stack up enough incidents to terminate an

agreement. This group suggested the number of EoDs before termination should be related to the number of hours in the contract.

Static BM Service

There is currently a blank section in the FFR Standard Contract Terms which is titled BM Non-Dynamic. There may be BM providers who can deliver a non-dynamic response service economically. It is proposed this service would have the same generic terms as the other forms of FFR, it would be triggered by a preset frequency deviation, would require a trip or fast deload in 10 seconds and must be able to remain at a new output for at least 15 mins.

Some attendees suggested that their units would not be able to ramp quickly enough to provide a low frequency response service. It may be possible to trip or deload in those timescales but it goes against the grain to trip a station and can lead to an expensive premium. In the past a tender had been run for a high frequency service and all offers were uneconomic.

Some participants suggested it may be worthwhile discussing any proposals with individual providers first and then developing standard terms. Other participants suggested that if National Grid has a strong requirement for this service having terms already in place may encourage any potential providers to come forward.

Some participants had concerns over how imbalance would be treated as ABSVD only covers the period up to gate closure and suggested National Grid may need to agree to take bid offer acceptances in the event of a trip.

Market Information Report

A new design for the Market Information Report with new branding, a highlights page and a new structure was proposed. It was also proposed that going forward all active tenders were included in the Tender report Comments and additional suggestions for the content of the reports were requested.

It was suggested it would helpful to publish the part load point in the Tender Report to give an idea of how much headroom or footroom will be taken into account during the assessment of the tenders. There were no concerns raised about publishing this information however some providers felt that simply publishing the levels of available response was enough information.

It was suggested that National Grid could publish a forecast price for reserve to help providers understand the value National Grid place on this element of the tender. Any forecast would change during the tender period so may be misleading however National Grid may be able to provide more information on how we go about calculating the forecast.

It was also suggested National Grid could publish a price which FFR tenders were competing against. Given the different capabilities and differing tender periods it would not be feasible to publish a single price.

Further Issues

Payment Simplification – The current FFR framework contains five fees:

- Availability Fee (£/h)
- Nomination Fee (£/h)
- Window Initiation Fee (£/window)
- Window Revision Fee (£/h)
- Energy Fee (£/MWh)

The Window Initiation Fee and the Window Revision Fee have not been used since April 2008. It was proposed that these fees are removed from the payment structure.

Some participants felt that the fees may be useful for demand side providers. It was suggested that the cost of having more than one window or a window alteration could be factored into the initial tender however it would be most efficient to be able to price this separately.

Some participants in the workshop felt the complexity of the payment structure could confuse new providers and initially put people off the service. It was suggested that the tender sheets could make it clearer that the use of these payments is optional.

Change Process – The maximum timescales for receiving and reviewing responses to the outline change proposal are 20 business days. These timescales will be tight where complex proposals are made. During the last STOR review these timescales were extended to 40 business days.

The general consensus was that extending the dates so that they align with STOR timescales was sensible.