

Responses Received by National Grid to the Consultation on the new BM Start-Up Service



National Grid Consultation on BM Start-up Service

Q1. Do you agree with the proposed changes to the relevant C16 documents incorporating the changes to the Procurement Guidelines as defined in Appendix A1? This version of the Procurement Guidelines would allow the publication of price related information as detailed in page 9 of this consultation “Proposed BM Start-up information provision”

International Power supports the proposed changes to the C16 documents and the publication of price related information. This will improve the transparency of balancing actions. It will also allow market participants to assess the impact of BM Start-up contracts on imbalance cashout prices in advance of gate closure. In addition to providing this price related information, it would be helpful if weekly price submissions were also published. This would further enhance transparency and improve competition for the provision of the service.

Q3. Other comments

We have a number of concerns on the draft contract terms for BM Start-Up Service.

Paragraph 1.9.3(a) of the draft contract states that if National Grid issues a BM Start-up instruction which brings forward the synchronisation time of a generator which was going to run anyway, then no payment is made. However, National Grid would still require a BM Unit's prices and operational data to be frozen at the time the instruction is issued. Therefore, a free option would be provided.

We are very strongly opposed to this element of the new proposals.

Under the current warming contract terms, no warming payment is made if a generator synchronises through a BOA or a PN within for four hours of the cancellation of a warming contract. It is unclear from para 1.9.2(a) of the BM Start-up service contract whether or not a BM that is stood down by NGET during the Start-up period risks losing its pro rata warming payment if it submits an FPN before the end of the Commitment Period. If the start-up payment does have to be re-paid, generators will have to factor the costs of loss of earnings into their BM Start-up price for potentially perhaps 16 hours (the Start-up period with, for example, a 12 hour NDZ plus a 4 hour Commitment Period. This will greatly increase the costs of providing the service and seems unnecessarily restrictive compared to the current Warming Contract.

The contract requires a BM Unit to maintain its MEL at or above the MEL in place at the time the Start-up instruction is issued otherwise the contract will be deemed to be cancelled. This is not practical; gas plant in particular will have difficulty in maintaining consistent MEL levels across the day because output decreases as

temperature rises. This requirement also contravenes the Grid Code which requires BM Units to notify changes in MEL to reflect the current state of their plant.

Libby Glazebrook
International Power-Mitsui (First Hydro Company)

**Proposed Revisions to the Procurement Guidelines, Balancing Principles Statement and Balancing Services Adjustment Data Methodology Statement
Incorporation of BM Start-up Service**

**Response to Consultation by National Grid by Barclays Bank plc
25 August 2006**

Question	Response	Rationale
1. Do you agree with the proposed changes to the relevant C16 documents incorporating the changes to the Procurement Guidelines as defined in Appendix A1. This version of the Procurement Guidelines would allow the publication of price related information as detailed in page 9 of this consultation "Proposed BM Start-up information provision".	Yes	Price information is essential to understanding the impact that advanced warning actions might have on the Buy Price Adjustment and, ultimately, System Buy Price. This understanding of the likely evolution of balancing prices is critical to market participant's short-term trading decisions and to ensuring that they have appropriate incentives to balance their positions.

<p>2. Do you agree with the proposed changes to the relevant C16 documents incorporating the changes to the Procurement Guidelines as defined in Appendix A2. This version of the Procurement Guidelines would not include the publication of price related information as detailed in page 9 of this consultation “Proposed BM Start-up information provision”.</p>	<p>No</p>	<p>We are not clear what the grounds for concern relating to the publication of the price data actually are. The proposed pricing arrangements for BM start-up would appear to provide sufficient flexibility for generators to adjust prices for the BM start-up service in the light of underlying cost changes, while at the same time retaining the required flexibility to adjust the associated BM offers in line with evolving expectations of the likely marginal balancing cost (as is required by a pay-as-bid balancing mechanism). We cannot therefore see any grounds for failing to release the pricing information for the BM Start-up at the time that the service is instructed.</p>
<p>3. Do you have any other comments to make?</p>	<p>Yes</p>	<p>There is a Potential “Double Count” in the Calculation of BPA The proposed calculation of BPA involves adding the average cost of the BM Start-Up payments per MWh of service requirement to the average cost per MWh of other reserve option fees. In example 4 shown in the BSAD methodology statement, this would involve adding £9.17 to the £2.33/MWh stemming from the other reserve option fees. (There may also be an error in the calculation of the £2.33, $315/120 = 2.625$ not 2.33.) Given that the BM Start-Up service in effect pays option fees in advance for the right to call on energy during the service requirement period, it is not clear why the relevant Start-Up Payments and volumes are not added to the numerator and denominator respectively of the original BPA calculation alongside the other reserve payments and volumes. This alternative would give the average MWh cost of reserve for each settlement period irrespective of the source of that reserve (standing reserve, forward options, warming etc). As it stands, the proposed calculation may therefore involve an element of “double-counting” the value of reserve in the calculation of BPA.</p> <p>Non-delivery rules will be crucial The consultation notes that “non-delivery rules will apply in cases where providers opt not to provide the service, or fail to provide the service in accordance with the terms”. It would have been useful to have a detailed description of these proposed rules.</p>

	<p>Specifically, there is a concern that generators accepted to provide the service might have an incentive to opt-out in those periods where the likely price of BM acceptances was sufficiently above the contracted offer price to justify the (likely) repayment of the start-up fees. For this reason, it is important that the non-delivery rules include not just the repayment of the start-up fees, but also account for the recovery of the difference between the price of any BM offers accepted and the offer price agreed as part of the BM start-up service. (For example, this might be done by a non-delivery charge equal to the maximum of the start-up fees and the difference between the cost of the BM acceptances at the contracted and actual prices respectively.) This would ensure both that generators do not have an incentive to opt-out of providing the full BM start-up service and, in doing so, also help to ensure that SBP does not double count the cost of accepting an opted-out generator (once via BPA and again via an offer price that “includes” the start-up fees).</p> <p>Hot Standby should also be Included in BPA</p> <p>Although Hot Standby does not create additional reserve, it presumably displaces a requirement to procure or use other reserve, some of which would be included within the calculation of the BPA. For consistency therefore, it would appear appropriate to include the costs of Hot Standby in the calculation of BPA for those settlement periods for which the service is used.</p>
--	--

From: ukelectricityspoc@saic.com on behalf of UK, Electricity_Spoc
[ukelectricityspoc@saic.com]

Sent: 29 August 2006 13:33

To: Macleod, Lilian; .Box.BalancingServices

Cc: MAN.KWONG.LIU@saic.com

Subject: Response: Licence Condition 16 Consultation on the new BM Start-up service

Please find attached ScottishPower's response for your consideration:

We agree that it is an appropriate time to review the provision of reserve services procured by NGET. In addition there are many aspects of the proposed amendments that we would support. Specifically, opening up this service to all plant and increasing provision of information on warming instructions could allow this area of the market to operate more efficiently. We also agree that increasing the flexibility by allowing three sets of prices to be submitted dependent on the level of NDZ applicable at the time of an instruction is an improvement as it will allow participants to more accurately reflect their costs. Allowing the participant to retain the warming payment even if the generator being warmed is called to synchronise in the BM is also an improvement. This will allow increased transparency in Balancing Mechanism activity.

However, we also feel that there are some areas of the proposed service that we cannot support. Freezing prices on receipt of a warming instruction will not allow participants to react to changes in market conditions throughout the day. This will lead to increased risk that will have to be reflected either in the price submitted for warming and hot standby services or in increased offer prices. This will mean that introducing this service may be in conflict with the BSC objective of promoting efficient competition.

The freezing of plant parameters such as MEL at the time that a warming instruction is issued is also of concern, as it seems to contradict Grid Code requirements to alter MEL to reflect the current state of the plant.

In summary we support the move to amend the current warming and hot standby services procured by NGET but feel that the anticipated improvements in market efficiency would not be realised due to the constraints on price and parameter flexibility and we would therefore seek amendments to these proposals in these areas.

Regards

John W Russell

Governance Services
SAIC Ltd. for the ScottishPower Group

Telephone: 01355-84-5209
<mailto:ukelectricityspoc@saic.com>

This e-mail may contain privileged and confidential information. If you are not the intended recipient, you are prohibited from printing, copying, disclosing, distributing or using this e-mail or its contents (as it may be unlawful for you to do so) or taking any action in reliance on it.

If you receive this e-mail by mistake, please delete it then advise the sender immediately by reply e-mail to [SAIC email address].

Without prejudice to the above prohibition on unauthorised copying and disclosure of this e-mail or its contents, it is your responsibility to ensure that any onward transmission, opening or use of this message and any attachments will not adversely affect your or the onward recipients' systems or data. Please carry out such virus and other such checks as you consider appropriate.

An e-mail reply to this address may be subject to monitoring for operational reasons or lawful business practices.

This e-mail is sent by SAIC Limited on behalf of and as agents for a Scottish Power Group Company. In sending this e-mail the sender cannot be deemed to have specified authority and the contents of the e-mail will have no contractual effect unless (in either case) it is otherwise agreed between that Scottish Power Group company and the recipient.

The ScottishPower Group companies include, among others:

Scottish Power plc, company number SC193794; Scottish Power UK Holdings Limited, company number SC232909; Scottish Power UK plc, company number SC117120; ScottishPower Generation Limited, company number SC189124; ScottishPower Energy Retail Limited, company number SC190287; ScottishPower Energy Management Limited, company number SC215843; ScottishPower Energy Management (Agency) Limited, company number SC222524; SP Dataserve Limited, company number SC215842. All of which companies are registered in Scotland and have their registered offices at 1 Atlantic Quay, Glasgow G2 8SP, UK.

SAIC Limited, company number 1396396, Registered Office 8-9 Stratton Street, London, W1J 8LF

From: Garth.Graham@scottish-southern.co.uk
Sent: 29 August 2006 17:36
To: Phillips, Guy; Graff, Ben
Cc: .Box.BalancingServices
Subject: Fw: Licence Condition 16 Consultation - Procurement Guidelines, Balancing Principles Statement and Balancing Services Methodology Statement

Attachments: BSAD Example 3 modified.xls

Guy/Ben,

I sent the following in reply to the original email and have just had an auto reply to say that Bali is out till the 4th. Could you please forward on our response to who ever is handling this consultation.

Many Thanks.

Garth

----- Forwarded by Garth Graham/TAY/SSE on 29/08/2006 17:33 -----

Garth Graham/TAY/SSE

To "Virk, Bali" <bali.virk@uk.ngrid.com>

cc

29/08/2006 17:27

Subject Licence Condition 16 Consultation - Procurement Guidelines,
Balancing Principles Statement and Balancing Services Methodology
Statement

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.

In relation to your email of 1st August 2006 with its associated Consultation regarding the "Proposed Revisions to the Procurement Guidelines, Balancing Principles Statement and the Balancing Services Adjustment Data Methodology Statement", we have the following comments to make.

If the following four changes were to be made to your proposal then we believe it would be appropriate to implement these changes; however, without these changes then it would not be appropriate to implement your proposal.

For the avoidance of doubt, without all four of these changes being implemented it would be incorrect to characterise our response as being broadly supportive of the proposal.

Furthermore, whilst we appreciate NG wish to implement these changes for this winter we note that their deliberations on this matter have been ongoing for sometime; however, market participants have had a very limited ability to formally respond to a written consultation (detailing precisely the proposed changes) on this matter.

Therefore if these four changes cannot be undertaken before this winter we would not support a 'hurried' or 'hasty' implementation of a flawed proposal just to meet an artificial (self imposed) deadline. History has taught us that such an approach is a recipe for disaster.

Our four suggested changes are (a) proportioning the payment made based on the percentage of the MEL actually achieved; (b) permitting offers to be made into the market where NG declines to take the

option; (c) alter the algebra - it calculates a time weighted sum of average cost rather than a volume weighted average cost as it claims in does; and (d) not include an uplift to the BPA associated with payments that arise under the proposed "BM Start-Up Service" .

Looking at each of these in turn:-

(a) Proportioning payments

As currently drafted it appears that if a party fails to fully meet its stated output level 'on the day' it will not be paid. This is a draconian, counter-productive and retrograde step. There are a host of technical reasons why it may not be possible to meet the output level sought. To withhold payment (whilst taking the capacity given) is inequitable and will lead to parties being reluctant to offer this service.

A far more equitable and appropriate way forward would be to pay parties the percentage of their price based on the percentage of output achieved; i.e. simplistically, if the party offers 500MW of capacity at £500 and achieves only 450MW then they should receive only £450/h. This incentives parties to be accurate in their capacity submission without unduly penalising those who, acting in good faith, are unable to achieve their desired level due to technical constraints etc.

(b) Permitting Offers

As currently drafted it appears that we would not be able to offer into the market that capacity which NG has warmed (by virtue of exercising the "BM Start-Up Service" option) even where NG has changed their mind 'at the last minute' and declined to utilise the capacity. We are mindful that in other markets where an option is exercised but not utilised 'at the last minute' that the other party is able to sell (if they can) that capacity on into the market. Classic examples of this include hotel rooms, airline seats etc. By seeking to claw-back a startup payment NG will artificially modify the service providers marginal costs and potentially sterilise this capacity. In so doing NG is neither acting in an efficient or economic manner and is, therefore, failing in its Licence obligations.

(c) Change Algebra

The algebra shown at the top of page 11 (of 22) in the consultation exercise does not give a volume weighted cost of BM Startup as the text implies (but the simplified examples do not make this obvious). The formula would be more reliably calculated as the result of (i) the total of BM start up cost divided by (ii) the average of the BM start up volume.

The modified result is shown below. In the example it does not appear materially different but only because the average costs are very similar in each period; however, the effects are significant.

BM Start Up Leadtime Period (Hours)	T-8..	T-7..	T-6..	T-5..	T-4..	T-3..
T-2.. T-1..						
Total BSU Cost incurred over this lead-time (£)	5,000	5,000	5,000	5,000	9,000	9,000
9,000 9,000 9,000 56,000 Total						
Total BSU Volume for requirement period (MWh)	2,000	2,000	2,000	2,000		
3,500 3,500 3,500 3,500 2,750 Average						
Cost / Volume	2.5	2.5	2.5	2.5	2.57	2.57
2.57 20.28 Sum of average hourly costs per MW						
				20.3636	Volume weighted average £/MWh	

However if the cost of BMSU 3 is doubled to, say, £8000/settlement period the results change

Total BSU Cost incurred over this lead-time (£)	5,000	5,000	5,000	5,000	13,000	13,000
13,000 13,000 13,000 72,000 Total						
Total BSU Volume for requirement period (MWh)	2,000	2,000	2,000	2,000		
3,500 3,500 3,500 3,500 2,750 Average						
Cost / Volume	2.5	2.5	2.5	2.5	3.71	3.71
3.71 24.86 Sum of average hourly costs per MW						
				26.18	Volume weighted average £/MWh	

Also, there is not complete clarity regarding how this element of BPA will be integrated with other elements calculated from Standing Reserve.

(d) No Uplift in the BPA

There are three principle reasons why we do not support including an uplift to the BPA associated with payments that arise under the proposed "BM Start-Up Service".

Briefly these are:-

- i) that the BM start up service is required to deliver "margin", which is a "system" service rather than an "energy" service;
- ii) the proposed BPA uplift could result in SBP that is greater than the current arrangements; and
- iii) the offer associated with the warmed BM unit may be "tagged-out" as a system acceptance yet the proposed BPA uplift will always be added onto the cash out price.

Finally we believe that NG, in reporting its finding to the Authority, should clearly identify the overall level of responses in terms of the percentage of GB MW capacity that are for/against the proposal in terms of (i) existing Warming/Hot Standby parties and (ii) new providers (of the BM Start Up Service) over and above the existing Warming/Hot Standby parties

Regards

Garth Graham
Scottish and Southern plc

*

The information in this e-mail is confidential and may be legally privileged. It may not represent the views of Scottish and Southern Energy Group.

It is intended solely for the addressees. Access to this e-mail by anyone else is unauthorised. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it, is prohibited and may be unlawful. Any unauthorised recipient should advise the sender immediately of the error in transmission. Unless specifically stated otherwise, this email (or any attachments to it) is not an offer capable of acceptance or acceptance of an offer and it does not form part of a binding contractual agreement.

Scottish Hydro-Electric, Southern Electric, SWALEC, Atlantic Electric and Gas, S+S and SSE Power Distribution are trading names of the Scottish and Southern Energy Group.

*

Balancing Services
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Name Bill Reed
Phone 01793 893835
E-Mail bill.reed@rwe.com
25th August 2006

E-mail: balancing.services@uk.ngrid.com

Proposed revisions to the Procurement Guidelines, Balancing Principles Statement and Balancing Services Adjustment Data Methodology Statement, Incorporation of BM Start Up service, Consultation by National Grid, August 2006 – RWE Response

Dear Balancing Services (?)

Thank you for the opportunity to respond to the above consultation. We have a number of broad concerns associated with the proposed changes to the relevant Condition C16 statements and the influence of the form and structure of the BM start up service on cash out prices and the balancing mechanism. These are summarised below.

General Comments

We do not support the proposed treatment of the BM Start Up service as an addition to the Buy Price Adjuster. The BPA was designed as a mechanism that would enable the cost of standing reserve option fees to be reflected into the cash out prices. It was not designed as a mechanism that would reflect the cost of a number of different services into cash out. Consequently, we do not believe that it is appropriate to use the BPA as the mechanism for reflecting BM start up costs.

If a BPA-type approach were to be adopted we believe that an additional BMU-specific parameter is required (the BMU Start Up Adjuster) that would enable the cost of the service to be reflected in the marginal cost of energy procured from that BM unit.

Furthermore we believe that a BPA-type approach is inappropriate for the treatment of warming payments for a service that is required to deliver “margin”, a “system” service rather than an “energy” service. In essence warming or hot standby is required so that NGET has the option to despatch the plant in the balancing mechanism in circumstances where there is forecast to be insufficient options to create margin for the relevant settlement periods. This margin can **only** be created if the plant is

warmed. Market participants do not trade plant for margin purposes in forward markets – indeed the energy market provides no value for margin since it cannot despatch the plant in BM timescales. Therefore there is no justification for reflecting the warming payment into cash out when the BM unit is not synchronised.

However, if a BM unit is despatched under a BM start up contract then it is appropriate that cash out prices reflect the cost of procuring the energy. Under the current contract this is the “rolled-up” offer price in the Balancing Mechanism and is incurred across the minimum non zero time (MNZT). Therefore the “rolled-up” cost relates to the total energy delivered by the BM unit as required under the contract. However, under the proposed BPA arrangements, the BPA uplift associated with the plant is incurred for only specified settlement periods and is calculated by reference to the maximum export limit (MEL). In some circumstances this could result in an uplift that is greater than the current Offer price arrangements, particularly where the specified uplift settlement periods are less than the MNZT. In other circumstances the uplift could be less than the current arrangements, particularly where the uplift specified settlement periods are greater than the MNZT. In either case we believe that it is difficult to argue that the BPA arrangements are more cost reflective than the current arrangements, particularly where the MEL is significantly greater than the actual energy delivered by the BM unit.

Furthermore there may be occasions when the offer associated with the warmed BM unit may be “tagged-out” as a system acceptance yet the proposed BPA uplift will always be added onto the cash out price (subject to an ex ante determination of system or energy associated with the BPA uplift). In these circumstances it is inconsistent to have a BPA uplift associated with warming when the related offer acceptance has been tagged out as a system action.

The BPA is simply an artefact of the warming payments, the MEL and the uplift settlement periods. Parties will have the opportunity each week to review those parameters that are under their control and subject to commercial considerations adjust them such that there may be a different outcome in the form the BPA and therefore cash out prices. Since the BPA is always added to SBP, subject to being classed as an energy action, this could result in volatile cash out prices caused by the contract form rather than variations in the marginal cost of energy.

Impact of the BPA on Cash Out Prices

We believe that the proposed treatment of warming payments may have a number of additional unintended consequences for cash out prices. These are illustrated below:

- Under the P194 arrangements it is been argued that the cash out prices should reflect the marginal cost of energy associated with plant despatch in the balancing mechanism. However, a BPA which will be added to cash out prices irrespective of whether the unit is synchronised does not seem to provide a signal as to the marginal cost of energy;
- The BPA will always uplift prices associated with warming. However, the marginal cost of energy would appear to be the prevailing highest offer plus the BPA. Market participants will have to have a good understanding of the BPA impact in order to appropriately price offers in the balancing mechanism that reflect the marginal cost of energy;
- It appears perverse to impose a BPA uplift in circumstances where a plant has non delivered (and NGET has not incurred a cost) and is unavailable for technical reasons to deliver margin or energy in the balancing mechanism;

- It also appears perverse to impose a BPA uplift where a party has non delivered (and NGET has not incurred a cost) for commercial reasons (i.e. sold out the capacity) since the BM unit is unavailable to provide the margin.

Impact of the proposed BM service on the Balancing Mechanism

We believe that the proposed treatment of the BM start up service could have a number of unintended consequences for the operation of the balancing mechanism in an economic and efficient manner under NGET's licence. In particular:

- The current contract form appears to require fixing the offer price at the price prevailing in the settlement period when the service is called. This would influence the offer prices submitted by BM units which would reflect the expected offer price for later in the day rather than the marginal cost of energy in the relevant settlement period. This could artificially increase the costs for operating the system in the event that the units were required and accepted for the prevailing settlement period;
- Fixing the MEL and other parameters through the warming period with removal of warming payments in the event that these changes appears unnecessarily draconian and will certainly increase the risk associated with offering the service. This may increase cost and reduce the availability of plant to offer the service; and
- The contract form risks restricting the ability of plant to provide additional capacity in the event that a unit defaults under the contract terms. In particular, a unit with temporary technical problems may still be able to provide additional margin having been warmed. However, the contract form may incentivise it to make itself unavailable in the BM rather than be run at a price that does not recover its start-up costs. Alternatively, it may raise its offer price to a level that will recover those costs which, if run, may be reflected twice in cash-out; once through the offer price and again through BPA.

Summary of views

In conclusion we do not believe that the proposed treatment of BM start up as an addition to the BP would be cost reflective. Indeed we believe that the approach is flawed in relation to non delivery and "system" rather than "energy" actions. Furthermore the BPA approach could have a number of unintended consequences for cash out while the structure of the BM start up contracts could have a number of significant implications for the economic and efficient operation of the transmission system.

While we recognise that the intent of the proposed changes to the BPA are designed to increase the cost reflectivity of the BM start up service, we believe that the approach adopted fails to deliver the actual intent, which is to reflect appropriately the marginal cost of energy associated with plant instructed under a warming contract. This marginal cost of energy is currently wrapped up into the offer price and appears in cash out when the offer is identified as an energy action. We believe similar criteria should be used in determining the uplift associated with a plant instructed under a warming contract (i.e. a BM unit specific uplift could be applied in the event that the offer is determined to be an energy action and energy has been delivered). This BM unit specific uplift could be determined administratively from the BM start up payment

arrangements. While this approach is more complex than the BPA approach, we believe it would provide more cost reflective prices in the balancing mechanism in relation to a BM start up service.

If you wish to discuss any aspect of our response, please do not hesitate to contact me or my colleague Raoul Thulin (01793 89 2364).

Yours sincerely

By email

Bill Reed
Market Development Manager

Bali Virk
National Grid
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
eon-uk.com

Paul Jones
024 7642 4829

paul.jones@eon-uk.com

29 August, 2006

Dear Bali,

Proposed BM Start-up Service

Please find E.ON UK's response to the above consultation. We do not support the proposals contained in the consultation document which we believe are unacceptable for a number of reasons. Our response is made in the context of the particular questions raised in the document. However, our main objections are brought out in the response to question 3 of the document.

Do you agree with the proposed changes to the relevant C16 documents incorporating the changes to the Procurement Guidelines as defined in Appendix A1? This version of the Procurement Guidelines would allow the publication of price related information as detailed in page 9 of this consultation "Proposed BM Start-up information provision".

No. Although we agree with the publication of price data relating to use of warming contracts, we do not agree with the introduction of the new service as currently defined. Please see answer to question 3 for further details.

Do you agree with the proposed changes to the relevant C16 documents incorporating the changes to the Procurement Guidelines as defined in Appendix A2? This version of the Procurement Guidelines would not include the publication of price related information as detailed in page 9 of this consultation "Proposed BM Start-up information provision".

E.ON UK plc
Registered in
England and Wales
No 2366970
Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

No. We do not agree with the introduction of the new service as currently defined.

Do you have any other comments to make?

Yes.

We fundamentally oppose the introduction of the proposed new service as outlined in the consultation. Whilst we are supportive of making changes to the present warming and hot standby service, the proposals set out in this consultation go far beyond introducing the amendments that are required and which have been requested by the industry. Moreover, these proposals would allow National Grid an unacceptable degree of influence over participants' operational flexibility and pricing in the balancing mechanism, often for little or no compensation in return.

The BMSU Payment and the fixing of Offers and other technical parameters

We support the proposed change to the warming service to allow for the warming payment to be paid regardless of whether the generator is called or not. We believe that this would allow generation plant to compete more effectively within BM timescales as it would allow a like for like comparison of the Offer prices of warmed and other plant in the Balancing Mechanism. It would also bring this element of the warming service into line with the option fees paid under reserve contracts.

However, the warming service is not the same as the provision of standing reserve. As noted in the consultation paper, its purpose is simply to allow National Grid to instruct plant with long Notice to Deviate from Zero (NDZ) times to warm, so that it can be called to generate within BM timescales. It is not meant to be a mechanism whereby National Grid can contract for balancing services at a fixed or constrained price. That function is currently provided through the procurement of Standing reserve contracts and by entering into Pre Gate Closure Balancing Transactions (PGBTs). Therefore, it is not appropriate to introduce a requirement to restrict a generator's Offer price and other technical parameters when it is instructed to warm as is presently proposed.

The purpose of the service is to bring plant to a position whereby it can compete with other generators in the balancing mechanism. Once warmed, there is no reason why it cannot be allowed the flexibility to react to operational issues and market conditions in a similar manner to other generators pre-gate closure. Indeed, the nature of the service means that plant will often be instructed to start up a significant length of time ahead of the period in which it may be required to synchronise. It is unrealistic therefore to expect the parameters and prices in effect at the time the BMSU instruction is made to accurately reflect the market and operational conditions facing such plant when it is required to run.

Moreover, during the assessment of BSC Modification P194 to introduce more marginal cash out prices, one of the reasons stated by National Grid as to why such a change was necessary was that generators were failing to react to market conditions in the balancing mechanism and price towards the marginal acceptance. It appears strange to us that National Grid would now wish to introduce a mechanism which would restrict generators' ability to do just that. Finally, we believe that requiring MEL to be frozen contradicts the Grid Code requirements to adjust MEL in real time to reflect the current operational state of the generating unit.

From our analysis of the draft contract terms, this proposal introduces another significant issue. Clause 1.9.3(a) of the contract states that a station which is instructed to bring forward its synchronisation time would not be liable to receive a payment under the BMSU service, but would still be required to fix its parameters and prices. This would appear to allow National Grid to call such a station effectively to provide reserve, without the payment of any associated option fee. Therefore, this proposal would not only be inconsistent with the rationale for the warming service, but would also undermine other balancing services such as standing reserve which do provide for an option fee.

The proposed Gate Closure for submitting BMSU Prices

Our preference would not be for a common gate closure for all generators to submit new BMSU prices each week, but instead to retain the operational flexibility to submit new prices once a week with 2 working days' notice. However, we would be willing to accept a gate closure, but we do not believe that the prices should become effective from 05:00 on Monday as is presently proposed. The warming service is often used in relation to generators who have not run over the weekend. This plant needs to be warmed at the end of the weekend, so that it is ready to run on Monday. Under the present proposals these units would be paid using the previous week's prices, as the instruction to warm would occur before 0500 Monday and the new prices would not take effect until after this time. We therefore believe that the new prices should be effective from 05:00 on Sunday at the latest.

Introducing one value of t_{nts} per unit

At present each genset has three levels of t_{nts} relating to whether or not the genset is being instructed from a cold, warm or hot state. This time is driven by technical characteristics of the generating unit concerned and if not adhered to can result in plant damage. The present proposals provide for only one value of t_{nts} per unit to cover all circumstances. Given that t_{nts} represents the time in which the generator can synchronise and that failure to adhere to this can result in damage to the relevant unit, if generators are forced to operate to one value they are likely to choose the least flexible time. This could result in generators being unnecessarily excluded from participating in the service, by a change which has no obvious purpose.

Widening the availability of the service to all plant

The warming service should not be restricted to certain technologies as it is at present. If stations of fuel types presently excluded from warming have long NDZ times, then there is no reason why they should not participate in the service. This can only be beneficial by increasing competition for warming. We therefore support this change.

Introducing three warming prices dependent on NDZ time

We support this change. We believe that this will allow participants to reflect more accurately their costs dependent on the current state of their plant. Not only will this reduce risk for generators and improve their ability to compete, but it should also allow more efficient start up decisions to be made by National Grid.

Provision of more information on warming instructions

We are supportive of more data being made to the market regarding the instruction of units to warm. However, we understood that this change was already going to be

made by National Grid. Therefore, we do not believe that this proposal needs to be implemented in order to provide this change.

Conclusion

Although there are some elements of the new service with which we agree, we cannot support the BMSU Service as currently proposed. We are fundamentally opposed to the requirement for generators to freeze data and this element of the proposals plus the other issues we mention above, by far outweigh any beneficial changes.

Yours sincerely

Paul Jones
Trading Arrangements

