

**CUSC Amendments Panel
July 2005**

**Balancing Services Standing Group
Periodic Report on Progress and Way Forward**

1. Summary

This paper reports on progress made by the Balancing Services Standing Group (BSSG) since the last formal report to the CUSC Amendments Panel in January 2005. The paper highlights the work undertaken over the last six months and proposes the work areas that the group should consider going forward. It is recommended that the BSSG is retained as a Standing Group for a further six month period.

2. Purpose and Scope of the Standing Group

The BSSG was established by the CUSC Amendments Panel in November 2001 as a Standing Group pursuant to Section 8.18 of the CUSC. In summary, the BSSG is actioned to consider the Balancing Services that are procured via the CUSC, along with the mechanisms used for their procurement. Terms of Reference for the BSSG were agreed at that stage, and whilst these have been amended from time to time by the Panel, the main purpose of the BSSG has remained unchanged.

Under the terms of the CUSC, a Standing Group can be actioned to act as a Working Group to assess specific CUSC Amendment Proposals as necessary.

3. Report to the CUSC Amendments Panel in January 2005

The last progress report from the BSSG was submitted to the Panel in January 2005. The Panel endorsed the report and the associated terms of reference which, in summary, sought to focus the BSSG on longer terms issues such as the ability to 'buy-out' of mandatory obligations relating to balancing services and issues associated with Distributed Generation (DG).

4. Progress since January 2005

The work of the BSSG over the last six months has concentrated on two areas, CAP047 review and implementation, and buy-out of mandatory services. Each of these two areas is considered separately below.

CAP047 (Introduction of a Competitive Process for the Provision of Mandatory Frequency Response)

CAP047 will be implemented on 1 October 2005. The BSSG has reviewed the legal drafting as approved by the Authority and considered whether any clarification or indeed changes are required. NGC has also presented information to the BSSG to demonstrate how some of the IT processes will operate.

The BSSG was generally comfortable with the legal drafting approved by the Authority. One minor issue arose relating to information publication, (mis-match between calendar days and operational days), this has led to NGC raising a CUSC Amendment Proposal (CAP095) to rectify this. Whilst this is not a 'show-stopper' issue, it is hoped that the proposal could be implemented at the same time as

CAP047 to ensure maximum efficiency in reporting of frequency response information.

The BSSG also considered the specific information that the CUSC requires to be published under CAP047. NGC presented proposals on the exact content and format of this information and this was discussed at the BSSG. These proposals have now been agreed and will form part of the CAP047 implementation.

NGC also presented information to the BSSG relating to price submission by service providers. This is likely to be facilitated via the SONAR (System Operator Notification and Reporting) system. Further information will be provided as implementation draws closer.

Buy out of mandatory services

The BSSG has considered the issues surrounding how a market participant could buy itself out of its obligations to provide certain services. This has resulted in paper (reference) that is also presented to the CUSC Amendments Panel at its July meeting.

5. Way Forward

This section considers the balancing services that are procured via the CUSC along with the other areas that have been within the BSSG's Terms of Reference.

Frequency Response

A significant area of work for the BSSG is the procurement of mandatory frequency response. The BSSG has done considerable work in the past discussing and developing potential models for the development of frequency response markets. In parallel with this work, CAP047 (Introduction of a Competitive Process for the Provision of Mandatory Frequency Response) was raised as a possible incremental step towards a frequency response market. No further work on longer term developments of response markets has been undertaken by the BSSG, as it was considered that knowledge of the outcome of CAP047 was required prior to any further meaningful industry debate taking place.

The BSSG has also been cognisant of other developments ongoing that could impact on the procurement of mandatory frequency response (e.g. NGC's Reserve Review, development of commercial frequency response services).

It is recommended that the BSSG monitors the operation of the CUSC arrangements post implementation of CAP047, monitors developments in other areas (for example potential interactions with the Fast Frequency Response Service), and builds this experience into its future consideration of the development of frequency response market models.

The BSSG has previously considered developments to the Response Energy Payment, the mechanism in the CUSC designed to cover any delivery/non-delivery of energy associated with the provision of Mandatory Frequency Response. The BSSG believes it would now be timely to review the current mechanism, and in particular how the 'reference price' is calculated with a view to considering how applicable it is to new generation technologies (for example windfarms).

Reactive Power

The CUSC Amendments Panel has previously agreed that the BSSG should maintain a 'watching-brief' over the current reactive power mechanisms within the CUSC, and has not allocated any specific actions in respect of considering any developments to these mechanisms. The recommendation is to maintain this approach.

Maximum Generation Service

It is recommended that the BSSG maintains a watching brief over the operation of the arrangements within the CUSC for the procurement of the Maximum Generation Service.

Intertripping Schemes

CAP076 was implemented on the 15 July 2005. This introduces certain aspects of the overall management of intertripping schemes into the CUSC. It is recommended that the BSSG keeps these new arrangements under review.

In order to facilitate this, in the first instance, it is recommended that a CAP076 'post-implementation review' is carried out to assess how the revised CUSC arrangements are addressing the perceived defects as originally outlined in the original CAP076 amendment proposal form.

Buy-out

See recommendations in separate paper.

Distributed Generation

It is recommended that the BSSG keeps under review developments associated with Distributed Generation to enable consideration of any impact on the procurement of balancing services via the CUSC. Specifically, the BSSG intends to review the dti report 'Ancillary Service Provision from Distributed Generation' to assess where any potential CUSC interactions may arise.

The BSSG also intends to monitor developments under CAP093 (Enabling the flow of electricity from Distribution Systems into the Transmission System at Grid Supply Points) to consider whether there is any potential interaction with the procurement of balancing services via the CUSC.

6. Terms of Reference

A revised Terms of Reference for the BSSG to reflect the proposals in this paper is attached in Appendix 1.

7. Recommendation

The CUSC Amendments Panel is invited to:

- (a) NOTE progress made by the BSSG since January 2004;
- (b) AGREE with the work areas proposed for the coming months;
- (c) AGREE the revised Terms of Reference for the BSSG contained in Appendix 1; and

- (d) AGREE the extension of the life of the BSSG for a further six month period to progress these recommendations.

APPENDIX 1 - BSSG Terms of Reference

CUSC AMENDMENTS PANEL

Balancing Services Standing Group Terms of Reference – January 2005

Introduction

1. A number of Balancing Services are procured via the multi-lateral arrangements contained within the CUSC.
2. The CUSC Amendments Panel has established a Standing Group to consider the way that these Balancing Services are procured under CUSC. This Standing Group is called the Balancing Services Standing Group (BSSG).
3. This paper outlines the working arrangements and Terms of Reference for the BSSG. These Terms of Reference are presented to the July 2005 meeting of the CUSC Amendments Panel for approval. It is expected that these Terms of Reference will be reviewed as necessary, but as a minimum at six-monthly intervals, and any proposed revisions will be presented to the CUSC Amendments Panel for approval.

Governance

4. The BSSG shall be established as a standing group under the CUSC Amendment Panel and shall act in accordance with Section 8.18 of the CUSC. The BSSG shall have regard for Core Industry Documents and other key Industry documentation.

Membership

5. The BSSG shall comprise a suitable and appropriate cross section of experience and expertise from across the industry and be chaired by National Grid. National Grid will also provide a Technical Secretary.
6. BSSG members will be nominated by CUSC Parties and approved by the Amendments Panel.

Meeting Administration

7. The frequency of BSSG meetings shall be defined as necessary by the BSSG chair to meet the scope, objectives and time-scales as defined by the Amendment Panel. Under normal circumstances it is likely that the BSSG will meet once per month.
8. National Grid will provide technical secretary resource to the BSSG and handle administrative arrangements such as venue, agenda and minutes etc.
9. The BSSG will have a dedicated page under the CUSC section of the National Grid UK website. This will enable BSSG information such as minutes and presentations to be available to a wider audience. All papers presented to and discussed at the BSSG will be made available on this website (http://www.nationalgridinfo.co.uk/cusc/mn_working_balancing.html).

Scope and Objectives

10. The BSSG will review the contractual arrangements for the procurement of Balancing Services as set out in the CUSC. Currently this covers the System Ancillary Services of Reactive Power (mandatory and enhanced services) and Frequency Response (part 1 – mandatory services). Since October 2004, this now includes the Maximum Generation Service, and from July 2005 also includes certain provisions relating to Intertripping Schemes. The overall objective of the group will be to consider potential further developments to the provision of these Balancing Services with regards to procurement, charging principles, and contracting and to consider priorities for such developments.
11. The CUSC may also be expanded (via amendment) to cover the procurement of other Balancing Services, and as necessary, the BSSG (with agreement of the CUSC Amendments Panel) will expand its Terms of Reference to include consideration of these services.
12. Specifically the group shall:
 - i. maintain a watching brief over the effectiveness of the current provisions in the CUSC relating to the operation of the reactive power market mechanism, the procurement of mandatory frequency response, the procurement of the Maximum Generation Service, and the arrangements relating to Intertripping schemes;
 - ii. further to the implementation of CAP047 monitor the operation of the CUSC and its interaction with other mechanisms for the procurement of frequency response;
 - iii. Perform a post-implementation review of CAP076;
 - iv. consider potential future issues associated with the procurement of Balancing Services via the CUSC (see paragraph 14 below); and
 - v. Provide a focal point within the industry where parties can debate the high level procurement principles for those balancing services procured via CUSC and enable all CUSC parties to be better informed.
13. In relation to (i) above, the BSSG will aim to ensure that it would be in a position to act as a Working Group in relation to any relevant CUSC Amendment Proposals that may come forward.
14. In relation to (iii) above:
 - Identify and consider issues that would need to be addressed to allow CUSC Parties to 'buy-out' of obligations they hold relating to the capability for, and provision of, balancing services
 - Identify potential CUSC Balancing Services issues associated with an increase in Distributed Generation. In doing this co-ordinate activities with any relevant work that is being progressed via the Distributed Generation Co-ordination Group.
15. It should be noted that, in accordance with Section 8 of the CUSC, the BSSG as a standing group under the Amendment Panel, cannot itself propose a modification to the CUSC.

16. In considering the above issues, the BSSG should be cognisant of any related developments that may progress in any other Industry forums.

Time-scales

17. The BSSG shall consider the scope and objectives above and provide verbal updates to the panel at each Amendment Panel meeting with a report after 6 months.