

Position paper BSSG,
CAP48 and CAP144
compensation

1. Purpose

This paper summarises the discussions the BSSG has held in relation to CAP48 and CAP144 compensation. It has been produced to:

- *Summarise the BSSG consensus on CUSC modifications seeking to amend CAP48/CAP144 compensation. Section 5, lists several areas which the BSSG have agreed could be progressed (also listed below):*
 - A) Align CAP48 and CAP144, such that both are compensated at SBP for the period up to the wall - (Section 4.1)
 - B) Clarifying that multiple disconnections across a potentially wide geographical area are eligible for CAP48 compensation – (Section 4.3)
 - C) Setting limits for claim: submission, validation, and minimum financial threshold value – (Section 4.6).

The BSSG have agreed to raise two of the three areas listed above as modifications at the June 2012 CUSC Panel meeting. For one area (B), clarifying that multiple disconnections across a potentially wide geographical area are eligible for CAP48 compensation, it was agreed to put this on hold until the outcome of BSC modification P276¹ is decided. If P276 is approved it will likely require a CUSC modification and will afford an opportunity to clarify this area.

2. Background to CAP48 and CAP144

The BSSG has discussed the compensation arrangements for temporary loss of transmission access. Loss of transmission access is compensated under CAP48 and CAP144.

CAP48 established firm financial rights for generators to use National Grid's transmission system by requiring National Grid to pay compensation in the event that a generator is disconnected from the transmission system due to an issue with NGET's system. CAP144 established similar compensation arrangements for Emergency De-energisation instructions.

Compensation through CAP48 consists of two phases. The initial compensation (for up to 24 hours) is based on the Market Index Price (MIP) for the MW impacted. After the initial period, there is a refund of TNUoS charges for each day or part day the interruption lasts. If the loss of access is due to a planned outage, then compensation is based only on a refund of TNUoS; this reflects the fact that, for a planned outage, there should be less disruption for a generator.

Compensation based on MIP for the initial period allows a generator to trade out any imbalance position due to the loss of access. After the initial period, payment of TNUoS refunds a generator for costs they have paid for access which is no longer available.

Compensation under CAP144 is very similar to CAP48; the difference is that in the initial 24 hours the settlement periods, following a disconnection, for which gate closure has occurred are compensated at SBP rather than MIP. The remaining calculations are the same as CAP48.

¹ P276: Introduce an additional trigger/threshold for suspending the market in the event of a Partial Shutdown. National Grid raised this modification on 30th September 2011, both the Workgroup and the BSC Panel recommended that P276 is approved. The modification is waiting Ofgem's decision.

3. BSSG Discussions

The BSSG has discussed whether the compensation arrangements under the CAP48 and CAP144 schemes are appropriate.

Initial discussions focused on post-event, loss of profit compensation arrangements, and whether these would be more appropriate than the existing schemes. This type of compensation for loss of access was not thought to be an improvement, for a number of reasons, including:

- Introduction of additional complexity;
- Consequential losses would be compensated;
- Compensation for loss of profit would not be reflective of the cost of transmission access;
- Imposition of higher costs to all users of the transmission system, and;
- The likelihood of greater disputes under any loss of profit methodology.

Later meetings of the BSSG focused on incremental development of the existing compensation methodology. The specific areas included:

1. Alignment of CAP48 and CAP144 compensation schemes
2. Types of access loss eligible for compensation
3. Potential changes to the existing compensation schemes
 - a) Duration of initial compensation period
 - b) Compensation following restoration of access
 - c) Appropriateness of TNUoS-based compensation
 - d) Compensation over and above the existing levels
4. Obligations on both users to raise a claim and National Grid to investigate a claim within a defined period

The BSSG issued a consultation to obtain industry views on the proposals which had been developed. The consultation was issued on the 23rd September 2011 and received ten responses. The consultation and report summarising the consultation responses is attached in the Annex to this document (Annex 1 and Annex 2 respectively).

In summary, the consultation responses supported changes to some aspects of loss of access compensation; in other areas there was a variety of opinion on the most appropriate compensation method.

At the BSSG meeting on the 30th November 2011, the group discussed the consultation report and responses. The meeting also discussed loss of access compensation discussions held in forums other than the BSSG, one such forum being the BSC P276 Workgroup.

The P276 Workgroup developed a volume threshold below which normal market operations would continue during a partial shutdown. This is intended to avoid the need to suspend the market for small, localised partial shutdowns. As part of this work, the BSC Group considered what compensation should apply to Suppliers and/or generators who are not issued with black start instructions but who are out of balance (and therefore exposed to normal dual cashout prices) as a result of a partial shutdown in which the market is not suspended. The majority of P276 workgroup members recommend that the CUSC's existing Interruption compensation arrangements should be extended to cover any Settlement Periods during Partial Shutdowns in which the market

continues. The Workgroup has recently concluded and recommends that this area is given further consideration under CUSC governance if P276 is approved.

The meeting on the 30th November 2011 discussed if there would be merit in bringing forward a modification proposal to amend the compensation arrangements for CAP48 and CAP144. Due to interactions with other potential industry modifications it was considered appropriate to examine wider issues of compensation for loss of access, before bringing forward proposals relating to CAP48 and CAP144. The BSSG requested a summary paper to identify the existing treatment of various types of loss of access.

For the 18th January 2012 meeting a summary paper identifying the compensation applicable for seven different types of interruptions (listed below) was produced:

- Emergency Instructions;
- Emergency Deenergisation;
- Interruption as a result of a planned trip;
- Interruption as a result of a planned outage;
- System to generator operational Intertrips;
- Commercial Intertrips; and
- Partial or Total Shutdowns (Black Start)

The BSSG discussed the above types of possible interruptions, but came to the view that it was not necessary to delay any modification of CAP48/CAP144 compensation in the expectation of achieving greater harmonisation between the above mentioned compensation schemes. The paper from the January 2012 meeting is attached in the Annex to this document (Annex 3).

Some BSSG members felt that the current compensation arrangements do not reflect the higher levels of loss that a renewable generator might experience during periods of lost access.

This paper summarises the modifications that the BSSG has agreed to bring forward.

4. BSSG Discussion Areas

4.1 Alignment of CAP48 and CAP144 compensation schemes

CAP48 and CAP144 compensation is very similar; the main difference is that, under CAP144, the period up to the 'wall' is compensated using SBP whilst CAP48 uses MIP for this period. Use of SBP was considered preferable to MIP and the BSSG considered it appropriate to align the two compensation methods using the SBP.

The consultation issued in September 2011, asked for respondents views (Question 1) on the alignment of CAP48 and CAP144 schemes. All eight respondents who answered the question considered that it would be beneficial to align CAP48 and CAP144 compensation schemes.

4.2 Types of access loss eligible for compensation – User partly contributes

If an interruption is a Relevant Interruption, the affected party is eligible for compensation; this is essentially an interruption in which a BM Unit is de-energised solely due to an issue on the National Electricity Transmission System.

In some instances, an interruption or inability to generate, whilst precipitated by the de-energisation of plant or apparatus forming part of the National Electricity Transmission System may be partly contributed to by user. The BSSG discussed these types of disconnections and the general view was that they should be eligible for compensation, where the primary (rather than solely) reason for the disconnection was an event on the transmission system.

4.3 Types of access loss eligible for compensation – Multiple sites disconnected

Another area of discussion at the BSSG related to a situation where multiple sites are disconnected, due to an event on the transmission system, but a Black Start situation is not declared (Question 3 of the consultation). Consultation respondents were supportive of this being included in loss of access compensation, with the general view that, if islanding results in a generator being desynchronised without recourse to alternative compensation they should be compensated under CAP48.

4.4 Duration of initial compensation period

The initial compensation period under CAP48 and CAP144 can be for up to 24 hours (the compensation is paid for periods where transmission access is unavailable). The BSSG discussions had focused on a 36 hour period being more appropriate than a 24 hour period. A 36 hour period was considered more appropriate because of the possible uncertainty over the duration of access loss; a user may be unable to trade out their physical position, until a full assessment of the fault and likely duration of disconnection is known.

The consultation (Questions 4 and 5) asked for respondents views on the appropriateness of a 24 hour or 36 hour initial compensation period. Most respondents did not consider 24 hours an appropriate period. There were eight respondents to question 5, two did not consider 36 hours an appropriate period, three were supportive of a 36 hour period, and three considered a period longer than 36 hours was appropriate.

Most loss of transmission access claims are less than 24 hours duration; to date, there have been two instances where the loss of access has lasted for a period longer than 24 hours. A move from 24 to 36 hours for the initial period would only be applicable to those claims where the loss of access lasted longer than 24 hours.

4.5 Additional compensation period following restoration of access

The BSSG discussed a short additional compensation period (e.g. a few settlement periods), following restoration of access. This additional compensation period would allow a generator to re-synchronise. Question 6 of the consultation asked for respondents views.

Five out of eight respondents supported an additional compensation period following restoration of access, two detailed the additional period they supported (1.5 and 24 hours). Three respondents did not specify the period they supported; the general view was that the length of the period should be such that the generator is able to return to the operating level it was at prior to disconnection.

The issues associated with an additional compensation period following restoration of access were highlighted at the BSSG e.g. different technologies will have different resynchronisation periods. The BSSG considered that the risks associated with resynchronisation once access, is restored, should be managed by users.

Listed below are two possible options for an additional, post access, compensation period:

- A short compensation period (e.g. 3 settlement periods), post access restoration
- A longer compensation period, possibly based on a refund of hourly TNUoS

4.6 Obligations on both users to raise a claim and National Grid to investigate a claim within a defined period

The BSSG has discussed the administrative arrangements under CAP48/CAP144. These discussions focused on:

- Imposition of a time limit on users to raise claims (a time limit of 30 days was proposed in the consultation document).
- Whether a body, other than National Grid, would be a more appropriate party to validate a claim.
- Imposition of a time limit on National Grid to confirm the validity, or otherwise, of a claim (a time limit of 60 days was proposed in the consultation document).
- Imposition of a minimum claim value (a value of £5,000 was proposed in the consultation document).

The consultation asked for respondents views on the above.

Most respondent supported the imposition of a time limit to raise a claim, although several supported a longer time limit.

Most respondents supported National Grid as the body that should be responsible for determining the validity of claims; several respondents did not, with one of these favouring a two stage process, the first stage to be administered by National Grid followed by an appeal stage administered by an expert industry panel. The other two respondents preferred the CUSC panel as the determining body.

Most respondents supported a time limit on National Grid to validate claims, although not necessarily a 60 days limit. Six supported a defined time limit; of these, two supported the same time limit as that for a user to raise a claim. The remaining two respondents supported reasonable, clearly defined, timescales.

Most respondents supported the imposition of a minimum claim limit, although not the value suggested in the consultation (£5,000). Three respondents supported a value of £5,000; an additional four respondents supported a minimum level, with two of these suggesting £10,000 and £25,000.

4.7 Appropriateness of TNUoS / LDTEC based compensation

If loss of access exceeds 24 hours, then an affected user is entitled to a refund of daily TNUoS for each day or part day the access loss continues for. The TNUoS part of CAP48/CAP144 compensation is only applicable if the access loss is greater than 24 hours or if it is a planned interruption. In the majority of claims, TNUoS compensation is not applicable as access is restored within 24 hours. There have been three instances where TNUoS compensation has been paid (2 unplanned and 1 planned interruption).

Some BSSG members suggested that limiting compensation to a refund of TNUoS charges does not reflect the disruption caused by loss of access and suggested compensation based on LDTEC² charges as an alternative.

Questions 8 and 9 of the consultation requested respondent's views on the appropriateness of TNUoS as a basis for calculations and whether LDTEC would be a better alternative. Most respondents considered that TNUoS-based compensation was not appropriate. Two respondents considered that TNUoS was not appropriate because it can result in a payment which, in some cases, could be higher than the actual TNUoS paid by a generator.

Four respondents were not in favour of LDTEC being used in place of TNUoS, unless (supported by three out of these four respondents) the generator had entered into LDTEC arrangements. The remaining four respondents were supportive of using LDTEC.

There does not seem to be sufficient justification for amending CAP48/CAP144 from a TNUoS-based calculation to a LDTEC-based calculation. The impact of a LDTEC-based calculation would only be for generators that did not have transmission access for more than 24 hours. Since the introduction of CAP48 in 2004, there have only been three such claims (2 unplanned and 1 planned interruption).

4.8 Compensation over and above the existing levels

Some members of the BSSG considered the existing level of compensation to be insufficient to cover ongoing uncertainty for extended loss of access, and suggested the introduction of additional compensation over and above the existing compensation schemes.

Consultation question 10 asked for views on an increase in compensation levels over and above the existing levels. Four respondents were in favour of an increase in compensation, whilst the other four did not support an additional compensation period.

Consultation question 11 canvassed views on a specific level of additional compensation. The four respondents (in Q10) who did not support an additional compensation period were also unsupportive of a specific level of additional compensation suggested in Q11. In addition to these four, there were two respondents who were also not supportive. One respondent considered that compensation should be related to the costs generators face on a cost by cost basis whilst the other was supportive of the principle of additional compensation but considered that there needed to be more rationale behind the numbers. Two respondents were supportive of the changes proposed in Question 11.

Similar to the proposal in Section 5.1, compensation over and above existing levels would apply to an extended unplanned disconnection lasting more than 24 hours; as noted above there have only been two (unplanned) instances of these types of disconnections since the implementation of CAP48.

5 Way Forward

² Limited Duration Transmission Entry Capacity

This paper has summarised the BSSG discussion relating to compensation arrangements under CAP48 and CAP144.

The BSSG agreed to raise two modifications at the June 2012 CUSC Panel, with a third (B below) following the outcome of P276. The two modifications being raised at the June CUSC Panel (A & C below) below are attached in the Annex to this document (Annex 4) with a one-line summary below.

- A) Align CAP48 and CAP144, such that both are compensated at SBP for the period up to the wall - (Section 4.1)
- B) Clarifying that multiple disconnections across a potentially wide geographical area are eligible for CAP48 compensation – (Section 4.3)
- C) Setting limits for claim: submission, validation, and minimum financial threshold value – (Section 4.6).

