

Code Administrator Consultation Response Proforma**CMP300 'Cost reflective Response Energy Payment for Generators with low or negative marginal costs'**

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to cusc.team@nationalgrideso.com by **5pm** on **9 December 2020**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Panel.

If you have any queries on the content of this consultation, please contact Paul Mullen paul.j.mullen@nationalgrideso.com or cusc.team@nationalgrideso.com

Respondent details	Please enter your details
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For reference the Applicable CUSC (non-charging) Objectives are:

- a) *The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- b) *Facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity;*
- c) *Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- d) *Promoting efficiency in the implementation and administration of the CUSC arrangements.*

**Objective (c) refers specifically to European Regulation 2009/714/EC. Reference to the Agency is to the Agency for the Cooperation of Energy Regulators (ACER).*

Please express your views in the right-hand side of the table below, including your rationale.

Standard Workgroup Consultation questions		
1	Do you believe that the CMP300 Original solution or WACM1 better facilitates the Applicable Objectives?	<p>Neither seem to in their current form. We agree that certain CfD generators could have a Short Run Marginal Cost (SRMC) which is closer to zero than market price. However, this depends on the level of profit over fuel price that the CfD provides. More detail on this is given in the answer to question 3.</p> <p>The original solution assumes that all CfD providers will have a SRMC close to zero which seems incorrect or at least inconclusive.</p> <p>WACM1 allows generators to elect which price they are exposed to. For plant which are providing equal amounts of low and high frequency response, then this is probably not an issue as an inaccurate choice will cancel out on either side. That is, it would not be possible to choose an option which delivered an inflated benefit when delivering one type of response, as it would be cancelled out by an inflated cost when providing the other type. However, for plant which tend to deliver more of one type of response, then this choice can potentially be exploited to provide an inflated benefit.</p> <p>CMP300 could be made to work to avoid the current issues with the original and WACM1 solution. The choice between using zero or the Market Index Price (MIP) as the Response Energy Payment (REP) level could be made by the System Operator or Ofgem, based on evidence provided by the generator to demonstrate whether their SRMC is closer to zero or MIP.</p>
2	Do you support the implementation approach?	We do not support implementation of CMP300 as it currently is structured.
3	Do you have any further comments?	<p>Yes, we would like to provide further detail on the response given to question 1. Also, we have two questions on the legal text for WACM1.</p> <p>The real driver of a CfD plant's Short Run Marginal Cost appears to be the difference between the fuel cost and the Strike Price of the CfD. Market Price</p>

plays a part, but this is common to all types of provider. It is the differences between the Fuel Cost and Strike Price which differentiates between units.

This is illustrated using the example calculation as set out in the consultation document (page 11):

$$\text{SRMC} = \text{Fuel Cost} - \text{CfD Top Up}$$

$$\text{CfD Top Up} = \text{CfD Strike Price} - \text{Market Price}$$

(Even the longer term reference prices used for some CfDs relate to market price as they are meant to encourage the affected energy to be traded in the wider market.)

Therefore:

$$\begin{aligned}\text{SRMC} &= \text{Fuel Cost} - (\text{CfD Strike Price} - \text{Market Price}) \\ &= \text{Fuel Cost} - \text{CFD Strike Price} + \text{Market Price}\end{aligned}$$

So:

- a) For those units where Fuel Cost is very close to Strike Price, SRMC will be close to Market Price and MIP would seem to be the more appropriate REP.
- b) For those units where Fuel Cost is lower than the Strike Price then the SRMC will be lower than Market Price. However, for a zero REP to be more appropriate the difference between Strike Price and Fuel Cost would have to be of a similar magnitude as the Market Price (so the total SRMC is closer to zero).

With a zero Fuel Cost, clearly there is more chance of the difference between Strike Price and Fuel Cost being of the size described in b) above justifying a zero REP. For a CfD unit with a positive fuel price this is less clear and would come down to the specifics of the units in question and their associated strike price.

After reviewing legal text for WACM1, it would appear to benefit from two clarifications;

		<ol style="list-style-type: none">1) The legal text says that CfD generators can elect to “<i>set the Reference Price to Max</i>”, but doesn’t really set out what setting the reference price to “Max” means.2) The same legal text says that this election will take place “<i>at the outset of the agreement with the CfD Counterparty</i>”, but then goes on to say that “<i>Until such election, which can only be made once by reference to that CfD agreement, the Reference Price shall be 0 by default</i>”. If the election has to be made at the time the CfD is entered into, then it is not clear why this second part outlining the default price of zero is needed? The consultation document says the election “<i>must be exercised within 28 calendar days of ESO’s letter asking them to indicate their choice</i>”. Shouldn’t this process be specified in the legal text instead?
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