

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 **16 February 2022**. 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).*

For reference, (for consultation questions 4 & 5) the Electricity Balancing Regulation (EBR) Article 3 Objectives and regulatory aspects are:

- a) *fostering effective competition, non-discrimination and transparency in balancing markets;*
- b) *enhancing efficiency of balancing as well as efficiency of national balancing markets;*
- c) *integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- d) *contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;*

- e) *ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue market distortions;*
- f) *facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- g) *facilitating the participation of renewable energy sources and supporting the achievement of any target specified in an enactment for the share of energy from renewable sources.*

What is the EBR?

The Electricity Balancing Regulation (EBR) is a European Network Code introduced by the Third Energy Package European legislation in late 2017.

The EBR regulation lays down the rules for the integration of balancing markets in Europe, with the objectives of enhancing Europe's security of supply. The EBR aims to do this through harmonisation of electricity balancing rules and facilitating the exchange of balancing resources between European Transmission System Operators (TSOs). Article 18 of the EBR states that TSOs such as the ESO should have terms and conditions developed for balancing services, which are submitted and approved by Ofgem.

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 and/or WACM1 better facilitates the Applicable Objectives?	<p>Both the Original and WACM 1 better facilitate the Applicable Objectives. Setting the Response Energy Payment (REP) to zero for renewable generators receiving a Contract for Difference Feed in Tariff (CfD FiT) will better reflect the short-run marginal costs (SRMC) of these CfD FiT Units than a calculated REP based on the Market Index Price (MIP). As such, both the original and WACM 1 are positive against Applicable Objective (B) <i>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.</i> In terms of consideration against the other Applicable Objectives:</p> <p>A) The Original is positive against this Applicable Objective as it is a practical and proportionate solution that ensures that the licensee can adapt the REP to new sites and technology types that were not previously included under CMP237. At the time of CMP237, to our knowledge there were no sites other than 'nonfuel' sites that would have a SRMC closer to zero than the MIP. WACM1 is also positive against this Applicable Objective although the method of electing REP calculation introduces additional process steps compared to the original.</p>
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		<p>B) As highlighted above, both the Original and WACM1 are positive in relation to this Applicable Objective. Both proposals are also in line with the central principle of Ofgem's decision on CMP237, that: '<i>setting a REP to £0/MWh would result in a utilisation payment that more accurately reflects these providers costs and allow them to submit HP's based on their actual positions thereby enhancing competition within the MFR market.</i>'</p> <p>C) Both proposals are neutral against this Applicable Objective</p> <p>D) We believe the Original proposal is positive against this relevant objective and is preferable to WACM1 as it does not introduce any additional procedures and simply sets the REP to zero for CFD units. We believe this is a practical and proportionate solution that can be efficiently implemented through the CUSC arrangements.</p>
2	Do you support the implementation approach?	Yes.
3	Do you have any further comments?	<p>We, and the majority of the workgroup, supported the analysis that CMP300 could be applicable to a greater number of BMU's in the future. It was considered highly probable that as we transition to net zero a CfD or similar support mechanism would be needed. Without this change:</p> <ul style="list-style-type: none"> • The REP payment will continue to inaccurately reflect the generator's cost, or avoided cost for technologies with a CfD FiT due to the low / negative marginal cost for these BM Units. • If a renewable generator were instructed to provide High Frequency Response (reduce their output), it would be required to pay the ESO for the cost that was avoided in reducing its energy production when no costs would actually have been incurred. This generator would also have to sacrifice renewable subsidies (e.g. CfD FiT) as a result of reducing their output. As such, it is not cost-reflective for them to have to pay the ESO for an avoided cost that does not exist.
4	Do you agree with the Workgroup's assessment that CMP300 does impact the Electricity Balancing Regulation	Yes we agree with the view that consultation under the EBR is applicable. We believe the modification is positive in relation to the Article 3 objectives, and in particular enhancement of objective (e) as it removes an undue distortion between generators that receive renewable subsidy payments.

	(EBR) Article 18 terms and conditions held within the CUSC?	
5	Do you have any comments on the impact of CMP300 on the EBR Objectives?	No comment.