

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:

- The efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence;*
- 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;*
- Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency *; and*
- 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>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> <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?	<p>As the proposer of CMP300, we request implementation be ten working days after an Authority decision. National Grid ESO confirmed in the workgroup that a workaround could be implemented within a short timeframe to align the applicable REP for the relevant CFD Units. We believe this would be acceptable and proportionate.</p> <p>We would be concerned if delivery of the CMP300 solution were contingent upon delivery of a new settlement system in 2022 by National Grid given the uncertainty that is inherent in delivering system changes.</p>
3	Do you have any further comments?	<p>This change will improve competition for Mandatory Frequency Response (MFR) by ensuring that the response Energy Payment (REP) is cost reflective for all MFR providers. The modification should also ensure all renewable generators with a low or negative marginal cost are treated equally.</p> <p>Without this change:</p> <ul style="list-style-type: none"> • The REP payment will 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.