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| Amendment proposal: | Connection and Use of System Code (CUSC) Amendment Proposal CAP156: Reactive Power Default Payment Rate – Use of Spectron Power Index (CAP156) | | |
| Decision: | The Authority ¹ directs that this proposal be made ² | | |
| Target audience: | National Grid Electricity Transmission PLC (NGET), Parties to the CUSC and other interested parties | | |
| Date of publication: | 12 November 2007 | Implementation Date: | 22 November 2007 |

Background to the Amendment Proposal

All providers of the Obligatory Reactive Power Service are paid utilisation payments via a default mechanism. The monthly default reactive payment rate methodology was established through CAP045 “Cost reflective reactive power default payment rate indexation” and is specified in Schedule 3 of the CUSC. The index contains both a Retail Price Index and a Wholesale Electricity Price element.

The “Spectron cumulative over the counter power index” was specified as one component of the cost reflective power default payment rate index. However, Spectron no longer publish this cumulative over the counter power index.

Schedule 3 of the CUSC currently provides for the way in which the index should be calculated when data is not available. In accordance with Schedule 3, Appendix 1, Part 4 of the CUSC, the index used in the July 2007 reactive default payment rate was calculated using the UK Baseload All-Day Month Ahead average prices published by Spectron. However such provisions are only intended to cover periods until the relevant information becomes available again. CAP 156, therefore, proposes a long term solution to address the fact that the Spectron cumulative over the counter power index will no longer be published.

The Amendment Proposal

CAP156 was raised by NGET on 24 July 2007. The Amendment Proposal proposes to remove the Spectron cumulative over the counter power index from the calculation of the reactive power default payment rate set out in CUSC Schedule 3, Appendix 1 Part 3.1. NGET suggests that the proposed amendment would better facilitate achievement of CUSC Objective (a): *the efficient discharge by the licensee of the obligations imposed upon it under the Act and the transmission licence*. NGET argues that achievement of Objective (a) would be better facilitated since the Amendment Proposal would remove inefficiencies by ensuring the reactive default payment rate is calculated using published information which is currently available.

¹ The terms ‘the Authority’, ‘Ofgem’ and ‘we’ are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

CUSC Panel³ recommendation

The CUSC Panel discussed the modification proposal at the Panel meeting on the 28 September 2007 and the Panel members voted unanimously to recommend that the Amendment Proposal better facilitated achievement of the applicable CUSC Objectives.

The Authority's decision

The Authority has considered the issues raised by the Amendment Proposal and the final Amendment Report (AR) dated 10 October 2007. The Authority has considered and taken into account the responses to NGET's consultation on the Amendment Proposal which are attached to the AR⁴. The Authority has concluded that:

1. implementation of the Amendment Proposal will better facilitate the achievement of the applicable objectives of the CUSC⁵; and
2. directing that the amendment be made is consistent with the Authority's principal objective and statutory duties⁶.

Reasons for the Authority's decision

Two responses were received following the consultation. Both responses supported the Amendment Proposal. One respondent also suggested that in the medium term it might be appropriate for the BSSG to consider whether other indices were available. The respondent suggested that the London Energy Brokers Association (LEBA) or the Power Trading Forum may provide suitable alternatives for use in the calculation of the default price for reactive power in the future.

Ofgem notes that the proposed amendment does not impact on the actual calculation methodology. This is because the index is calculated using the allowances made for unavailable information. Since Spectron has confirmed the permanent unavailability of the index no practical change to the outcome of the calculation will arise from this amendment.

Applicable CUSC Objective (a) the effective discharge by the licensee of the obligations imposed upon it under the Act and by the transmission licence.

We note the view of the Panel that the proposed amendment will better facilitate achievement of applicable objective (a) by ensuring the calculation methodology is based on available information, although the impact on the licensee is likely to be limited.

Applicable CUSC Objective (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.

³ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with the section 8 of the CUSC.

⁴ CUSC Amendment Proposals, amendment reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

⁵ As set out in Standard Condition C10(1) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=5327

⁶ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

In addition to the benefit outlined by the Panel we consider that there is a competition objective benefit since the presence of defunct, or unnecessary, references in industry codes can create avoidable confusion amongst code users on which parts of a code are actually 'live' at any given time. The streamlining of codes such that they only reflect actual and necessary processes should reduce uncertainty and aid confidence in participation.

Ofgem also notes the respondent's suggestion that the Balancing Services Standing Group may consider other indexes for inclusion in the methodology. We consider it appropriate that the industry keep methodologies like this one under review to ensure the ongoing economic operation of the system.

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority hereby directs that Amendment Proposal CAP 156 "Reactive Power Default Payment Rate – Use of Spectron Power Index" be made.

A handwritten signature in black ink, appearing to read 'Philip Davies', is written over a horizontal line.

Philip Davies
Director, GB Markets

Signed on behalf of the Authority and authorised for that purpose.