



National Grid

CONSULTATION DOCUMENT

CUSC Amendment Proposal CAP019

*(Reactive Power Default
Payment Rate Mechanism)*

Amendment Ref	CAP019
Issue	1.0
Date of Issue	28 March 2002
Prepared by	National Grid

DOCUMENT CONTROL

Version	Date	Author	Change Reference
0.1	27/03/02	National Grid	Initial Draft for internal comment
1.0	28/03/02	National Grid	Document for formal release

DOCUMENT LOCATION

National Grid website:

http://www.nationalgridinfo.co.uk/cusc/mn_consultation_index.html

DISTRIBUTION

Name	Organisation
CUSC Parties	Various
Panel Members	Various
Interested Parties	Various
National Grid Industry Information Website	

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1.0 Executive Summary

- 1.1 All licensed generators are required to provide the System Ancillary Service of mandatory reactive power as set out in CC.8.1 of the Grid Code. This mandatory System Ancillary Service is also referred to as the Obligatory Reactive Power Service (ORPS) and is described in sub-paragraph 1.1 of Schedule 3 of the CUSC.
- 1.2 All providers of the ORPS are paid default utilisation payments in accordance with CUSC Schedule 3 (prior to the introduction of CUSC, these payment rules were laid down in Schedule 5 of the Master Connection and Use of System Agreement (MCUSA)). Under the MCUSA, indexation of the default payment rate for reactive power was frozen from 31 March 2001 and the indexation factor applicable thereafter was included in the Matters for Review in Appendix 7 of MCUSA Schedule 5.
- 1.3 The review of the indexation factor was conducted by the Reactive Power Market Working Group (RPMWG) and was completed in September 2000. The outcome of the Review was a recommendation to continue with the existing methodology (i.e. continue to index the default payment rate for reactive power in line with RPI). In order to put this proposed change into effect, a variation to the MCUSA was proposed by the Transmission Users Group (TUG). In June 2001, Ofgem approved the MCUSA variation to continue RPI indexation of default payment rates for reactive power for a further two years (i.e. until March 2003).
- 1.4 In its determination, Ofgem stated that it believed RPI was not necessarily an appropriate method to index the reactive power default payment rate and that alternative options should be investigated. Ofgem suggested that if prices were to be indexed, it might be more appropriate to use a basket of indices that better reflect the costs of providing reactive power. Ofgem's determination stated that continuing RPI indexation for a further two years would allow time for the whole issue of default payments to be reviewed through the CUSC Amendment process and put in place appropriate enduring arrangements.
- 1.5 The delay in the implementation of CUSC has shortened the time available for this work to take place under the CUSC Amendment Process. The issue was included within the [Terms of Reference of the Balancing Services Standing Group](#) (BSSG) established under CUSC. Although debate has taken place in the industry regarding a more appropriate enduring arrangement for the indexation of default payments, no agreement has yet been reached.
- 1.6 CUSC Amendment Proposal CAP019 submitted by Innogy plc and supported by the BSSG, proposes that the current provisions for indexing the default payment rate for reactive power utilisation should

be extended for a further year (i.e. so they apply until the end of March 2004). This will give the industry time to further consider the issue of indexation of default reactive payments.

- 1.7 Amendment Proposal CAP019 was submitted by Innogy plc for consideration by the CUSC Amendments Panel at their 22 March 2002 meeting. At the meeting, the Amendments Panel agreed that the issue was appropriate to proceed to wider consultation by National Grid (in accordance with 8.17.12(b)).
- 1.8 This document initiates the wider consultation exercise and invites views on Amendment Proposal CAP019. The closing date of this consultation exercise is 15 April 2002.

2.0 Introduction

- 2.1 This is a consultation document issued by National Grid under the rules and procedures specified in the Connection and Use of System Code (CUSC) as designated by the Secretary of State. It addresses an issue relating to the indexing of default Reactive Power payments (as currently set out in Schedule 3 of the CUSC).
- 2.2 Further to the submission of Amendment Proposal CAP019 (see Annex 1), the Amendments Panel agreed that the issue was appropriate to proceed to wider consultation by National Grid (in accordance with 8.17.12(b)). This document seeks views from Industry members relating to the proposed amendment. Such an amendment will result in some minor changes to CUSC Schedule 3 (as detailed in Annex 2).
- 2.3 This document outlines the nature of the CUSC changes that are proposed for implementation with effect from 5 days after the Authority's decision or 1 May 2002 (whichever is the later date). It incorporates National Grid's and the Amendments Panel's views on the way forward concerning this Amendment. Representations received in response to this consultation document will be included in National Grid's Amendment Report that will be furnished to the Authority for its Direction.
- 2.4 This consultation document has been prepared in accordance with the terms of the CUSC. An electronic copy can be found on the National Grid website, at <http://www.nationalgridinfo.co.uk/cusc>.

3.0 Responses to Consultation

- 3.1 Please send your responses to this consultation document to National Grid by no later than close of business Monday, 15 April 2002.

- 3.2 Please address all comments to the following e-mail address: david.friend@uk.ngrid.com and entitle your email 'CAP019 Consultation Response'.

Alternatively, comments may be addressed to:

David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY
Tel: 024 7642 3069
Fax: 024 7642 3298

4.0 Amendment Proposal and Discussion

4.1 The Proposed Amendment Proposal

4.1.1 The current provisions for indexing the default payment rate for reactive power utilisation are set out in Schedule 3 of the CUSC and are due to expire at the end of March 2003. This creates uncertainty for the next reactive power market tender round. Contracts from this tender round start with effect from 1 October 2002 with a minimum duration of 1 year. This means any contracts that are entered into following the next tender round will extend into the period beyond the end of March 2003 (for which no indexation provisions apply). Tenders for this reactive power market tender round need to be submitted on or before the 31 May 2002.

4.1.2 CUSC Amendment Proposal CAP019 (see Annex 1) as submitted by Innogy plc proposes that the current provisions for indexing the default payment rate for reactive power utilisation should be extended for a further year (i.e. so they apply until the end of March 2004).

4.1.3 Extending the current indexation provisions for another year would remove the indexation uncertainty from the next two reactive tender rounds. In addition the CUSC Amendments Panel and the Industry will be able to consider further the issues and identify an alternative enduring methodology for indexing default reactive power utilisation payments. The Balancing Services Standing Group (BSSG) as established under CUSC (8.18), has been actioned to consider this issue in conjunction with a wider review of the approach to procuring reactive power.

4.2 Discussion

4.2.1 The BSSG debated the issue of indexation of default reactive power payments prior to the submission of CAP019. When debating the issues, the BSSG considered the history of the issue i.e. variation to

MCUSA Schedule 5 and the timing of the forthcoming reactive power tender round. In addition, the BSSG considered the materiality of the issue (default payments amount to some £18m per annum and the current payment rate is £1.33/Mvarh).

4.2.2 A number of options were considered by the group as follows:

- No indexation to be applied to the default payment on the basis that this would encourage providers into the market mechanism. The BSSG dismissed this option arguing that the current market arrangements had not evolved sufficiently to rely on the market mechanism alone;
- The default payment to be indexed by RPI indefinitely. Although this could be seen as the most pragmatic approach, the BSSG were mindful of Ofgem's determination on the variation to MCUSA Schedule 5, where Ofgem expressed the view that indefinite RPI indexation was not appropriate; and
- A combination of RPI (to reflect the additional maintenance costs) and other fuel based indices (to reflect the reduced efficiency). The BSSG considered that this option needed further time to debate and that no firm proposal would be available in the time-scales required for the next reactive power tender round.

4.2.3 Further to the above discussion, it was the combined view of the BSSG, that default reactive power payments should continue to be indexed by RPI for a further year. During this time the issue can be given further consideration in conjunction with the wider issues associated with procuring reactive power.

5.0 Summary of Recommendations & Views Invited

5.1 National Grid Recommendation

5.1.1 National Grid recommends that Amendment Proposal CAP019 is implemented to the time-scales proposed on the basis that it better facilitates achievement of the Applicable CUSC Objectives as set out in paragraph 1 of Condition C7F to National Grid's Transmission Licence.

5.1.2 This is on the grounds that removing uncertainty from the next reactive market tender rounds would further encourage competition in the reactive power market, thereby enabling National Grid to discharge its obligations under the Act and the Transmission Licence and to facilitate 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.

5.2 Amendments Panel Recommendation

- 5.2.1 The CUSC Amendments Panel agreed that the matter should proceed to wider consultation by National Grid (in accordance with 8.17.12(b)). This is to seek views on the proposed Amendment and whether the Amendment better facilitates the Applicable CUSC Objectives.

5.3 Views Invited

- 5.3.1 National Grid seeks the views of interested Parties relating to this Amendment Proposal. Responses should be sent to National Grid by no later than close of business Monday, 15 April 2002 to the address shown in Paragraph 3.2 above.

Annex 1 – CUSC Amendment Proposal

CUSC Amendment Proposal Form	CAP:019
Title of Amendment Proposal:	
REACTIVE POWER DEFAULT PAYMENT RATE INDEXATION	
Description of the Proposed Amendment <i>(mandatory by proposer):</i>	
<p>It is proposed that the current indexation of the default payment rate for reactive power utilisation be continued until the end of March 2004. This will remove uncertainty from the imminent (and following) tender round, giving the CUSC Panel and the industry time to identify and meaningfully assess alternative enduring methodologies for default reactive power utilisation payments.</p>	
Description of Issue or Defect that Proposed Amendment seeks to Address <i>(mandatory by proposer):</i>	
<p>The provisions for indexation of the default payment rate for reactive power utilisation in Schedule 3 of the CUSC expire at the end of Mar 2003. This creates uncertainty for the next reactive power market tender round. Contracts derived from Tender Round 10 will start on 1 October 2002 with a minimum duration of one year. They will therefore extend into the period beyond the end of March 2003 for which no indexation provisions currently apply.</p> <p>The deadline for submission of tenders for Round 10 is the 31 May 2002. This amendment proposal seeks a resolution to the uncertainty as early as possible before this date to enable parties to factor the outcome into their tenders. If the ITT pack issued on the 28th March 2002 was too early to publish the outcome, we would expect it to state the approximate date of its publication.</p> <p>By extending the current indexation provisions for another year as described above, uncertainty will be removed from the next two tender rounds, giving the CUSC Panel and the industry time to identify and meaningfully assess alternative enduring methodologies for default reactive power utilisation payments.</p>	
Impact on the CUSC <i>(this should be given where possible):</i>	
Minor revision to CUSC Schedule 3 (Appendix 1, Clause 3 – Indexation).	
Impact on Core Industry Documentation <i>(this should be given where possible):</i>	
None.	
Impact on Computer Systems and Processes used by CUSC Parties <i>(this should be given where possible):</i>	
None.	
Details of any Related Modifications to Other Industry Codes <i>(where known):</i>	
None.	

Justification for Proposed Amendment with Reference to Applicable CUSC Objectives
(mandatory by proposer):

The proposal will facilitate meeting the Applicable CUSC Objectives (as defined in Condition C7F of the Transmission License) as follows: -

(a) By removing uncertainty in the next reactive power market tender rounds the proposal will encourage competition in the reactive power market, thereby facilitating effective competition in the generation and supply of electricity.

(b) By promoting participation in the reactive power market tender rounds 10 and 11, the proposal will facilitate the efficient discharge by the licensee of the obligations relating to voltage support imposed on it under the Act and by the Transmission License.

Details of Proposer: Organisation's Name:	Innogy plc
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	David Tolley Innogy plc 01793 892650 david.tolley@innogy.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Shona Watt Innogy plc 01793 892667 mailto:shona.watt@innogy.com
Attachments (Yes/No): No If Yes, Title and No. of pages of each Attachment:	

Notes:

Those wishing to propose an Amendment to the CUSC should do so by filling in this "Amendment Proposal Form" that is based on the provisions contained in Section 8.15 of the CUSC. The form seeks to ascertain details about the Amendment Proposal so that the Amendments Panel can determine more clearly whether the proposal should be considered by a Working Group or go straight to wider National Grid Consultation.

The Panel Secretary will check that the form has been completed, in accordance with the requirements of the CUSC, prior to submitting it to the Panel. If the Panel Secretary accepts the Amendment

Proposal form as complete, then he will write back to the Proposer informing him of the reference number for the Amendment Proposal and the date on which the Proposal will be considered by the Panel. If, in the opinion of the Panel Secretary, the form fails to provide the information required in the CUSC, then he may reject the Proposal. The Panel Secretary will inform the Proposer of the rejection and report the matter to the Panel at their next meeting. The Panel can reverse the Panel Secretary's decision and if this happens the Panel Secretary will inform the Proposer.

The completed form should be returned to:

Mark Cox
Panel Secretary
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry, CV4 8JY

Or via e-mail to: CUSC.Team@uk.ngrid.com

(Participants submitting this form by email will need to send a statement to the effect that the proposer acknowledges that on acceptance of the proposal for consideration by the Amendments Panel, a proposer which is not a CUSC Party shall grant a licence in accordance with Paragraph 8.15.7 of the CUSC. A Proposer that is a CUSC Party shall be deemed to have granted this Licence).

Annex 2 – Proposed Text to Modify CUSC

Changes to CUSC Schedule 3 (Appendix 1, Clause 3) as follows:

3. Indexation

The indexation factor I used in the formulae in paragraph 2 above shall with effect from 1st April in respect of each subsequent twelve month period ending 31st March, be determined as follows:-

$$I = \frac{RP_2}{RP_1}$$

where

For the period from (and including) 1st October, 1997 to (and including) 31st March, 1998 $RP_2 = 155.4$, and thereafter RP_2 is the RPI for March of the immediately preceding twelve month period ending 31st March.

RP_1 is the RPI for March, 1994 (142.5).

The index used is the Retail Price Index (RPI) with 1987 = 100 base. The source of the RPI index is the monthly Department for Education and Employment "Employment Gazette".

~~Save as may otherwise be determined by the Authority pursuant to a reference made by NGC under the Transmission Licence to settle a dispute arising out of the variation provisions of Schedule 5 to the MCUSA, in~~ In respect of all periods from (and including) 1st April, 2004 to (and including) 31st March 2004 shall apply.