



National Grid

AMENDMENT REPORT

CUSC Amendment Proposal CAP019

**(Reactive Power Default
Payment Rate Mechanism)**

The purpose of this report is to assist the Authority in their decision of whether to implement Amendment Proposal CAP019

| | |
|---------------|---------------|
| Amendment Ref | CAP019 |
| Issue | 1.0 |
| Date of Issue | 29 April 2002 |
| Prepared by | National Grid |

DOCUMENT CONTROL

| Issue | Date | Author | Change Reference |
|-------|----------|---------------|--|
| 0.1 | 19/04/02 | National Grid | Draft for industry comment |
| 1.0 | 29/04/02 | National Grid | Formal version for submission to the Authority |
| | | | |
| | | | |

DOCUMENT LOCATION

National Grid website:

<http://www.nationalgridinfo.co.uk/cusc/index.html>

DISTRIBUTION

| Name | Organisation |
|--|--------------|
| The Gas and Electricity Markets Authority | Ofgem |
| CUSC Parties | Various |
| Panel Members | Various |
| National Grid Industry Information Website | |
| | |

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1.0 SUMMARY AND RECOMMENDATIONS

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 As a result of the above, National Grid circulated a Consultation Document to CUSC Parties and Panel Members (and other interested Parties) on 28 March 2002. Comments were requested by no later than close of business, 15 April 2002. Following the consultation, and in accordance with 8.20.3, a draft of this Amendment Report was circulated for comment on the 19 April 2002. Comments were requested by close of business, 26 April 2002.
- 1.9 This Amendment Report (Issue 1.0) was submitted to the Authority on 29 April 2002. The purpose of this document is to assist the Authority in their decision of whether to implement Amendment Proposal CAP019.

Recommendations

National Grid Recommendation

- 1.10 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.
- 1.11 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.

BSSG Recommendation

- 1.12 The BSSG support CAP019 on the same grounds as those outlined above.

2.0 INTRODUCTION

- 2.1 This Amendment Report has been 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 associated with 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) and the subsequent wider industry consultation that was undertaken by National Grid, this document is addressed and furnished to the Gas and Electricity Markets Authority (“the Authority”) in order to assist them in their decision whether to implement Amendment Proposal CAP019. Such an amendment would 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 recommendations to the Authority concerning the Amendment. Copies of all representations received in response to the consultation have been included. Furthermore, a ‘summary’ of the representations received is also provided.
- 2.4 This Amendment Report 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 THE PROPOSED AMENDMENT PROPOSAL

- 3.1 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.
- 3.2 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).
- 3.3 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.

4.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

4.1 The applicable CUSC Objectives are set out in paragraph 1 of Condition C7F of the Transmission Licence. CUSC amendments should better facilitate achievement of the Applicable CUSC Objectives. These can be summarised as follows:

- (a) the efficient discharge by NGC of the obligations imposed on it by the Act and the Transmission Licence; and
- (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.

4.2 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.

4.3 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.

5.0 PROPOSED IMPLEMENTATION AND TIME-SCALES

5.1 It is recommended that Amendment Proposal CAP019 as detailed in this Amendment Report be implemented with effect from 5 days after the Authority's decision or 1 May 2002 (whichever is the later date).

6.0 IMPACT ON CUSC

- 6.1 The proposed Amendment Proposal will require the minor modification of Schedule 3 of the CUSC. The relevant legal drafting is contained in Annex 2 of this Amendment Report.

7.0 IMPACT ON CORE INDUSTRY DOCUMENTS

- 7.1 It is envisaged that Amendment Proposal CAP019 will have no impact on any core industry documents.

Changes required & Timescales to be followed to give effect to the Proposed Amendment

- 7.2 As it is envisaged that Amendment Proposal CAP019 will have no impact on any core industry documents, no changes are required.

Changes or Developments Required to Central Computer Systems & Timescales Involved

- 7.3 It is envisaged that Amendment Proposal CAP019 will have no impact on Central Computer Systems established under core industry documentation.

Estimation of Costs

- 7.4 Not applicable.

8.0 IMPACT ON CUSC PARTIES

- 8.1 It is envisaged that Amendment Proposal CAP019 will have no impact on any CUSC Parties.

9.0 ALTERNATIVE AMENDMENTS

Description of Alternative Amendment

- 9.1 As outlined in paragraph 4.2.2 of the consultation document, the BSSG also considered a number of options. In summary these were:

- No indexation to be applied to the default payment;
- The default payment to be indexed by RPI indefinitely; and
- A combination of RPI and other fuel based indices.

- 9.2 As discussed in the consultation document these options have not been offered or considered as part of this Amendment Proposal.

Assessment against Applicable CUSC Objectives

- 9.3 Not applicable as no Alternative Amendments have been offered or considered.

10.0 SUMMARY OF VIEWS AND REPRESENTATIONS

Amendments Panel Members Views

- 10.1 On the basis of the consultation and assessment undertaken in respect of CUSC Amendment Proposal CAP019, it was the opinion of those CUSC Amendments Panel Members expressing a view, that the CAP019 Amendment Proposal should be implemented to the time-scales as recommended.

Working Group Members

- 10.2 The BSSG support CAP019 on the same grounds as outlined in paragraphs 4.2 and 4.3 above.

Core Industry Document Owners

- 10.3 No views have been received from Core Industry Document Owners.

Respondents

- 10.4 National Grid received a total of 7 responses to the consultation on CUSC Amendment CAP019, of which 6 were fully supportive of the proposal and made arguments in its favour. The remaining response noted that they had no comments on the proposed amendment.
- 10.5 The following table provides an overview of the representations received. Copies of the representations are attached as Annex 3.

| Reference | Company Name | Supportive | Summary of Comments |
|--------------|----------------|------------|---|
| CAP019-CR-01 | TXU Companies | Yes | Support views of BSSG and National Grid. Does better facilitate relevant objectives. |
| CAP019-CR-02 | British Energy | Yes | Supports implementation as proposed. Agrees extension of present indexation arrangements will better support the applicable CUSC objectives. Unwise to implement a hastily considered alternative to RPI. The extension will allow sufficient time for a proper assessment of the treatment of the default payment rate indexation. |
| CAP019-CR-03 | British Gas | Yes | Extension of the current indexation arrangements will better facilitate CUSC |

| | | | |
|--------------|--------------------------|-----|--|
| | | | <p>objectives.</p> <p>Will remove uncertainty from next reactive tender rounds and thus encourage competition.</p> <p>Welcomes opportunity for the industry to consider new and alternative methodologies for default reactive utilisation payments.</p> |
| CAP019-CR-04 | PowerGen UK | Yes | <p>Supportive of the Proposal.</p> <p>Proposal will better meet CUSC objectives by removing uncertainty from tender rounds and therefore promoting competition</p> <p>Extending arrangements will allow BSSG to identify and fully evaluate and alternative methodologies.</p> |
| CAP019-CR-05 | Elexon | n/a | No comments on the proposed amendment |
| CAP019-CR-06 | Innogy | Yes | <p>Believes proposal is the most appropriate short-term solution to the problem.</p> <p>Important to understand the reasons for a further extension of the RPI indexation; namely the Ofgem determination was partly retrospective and left only a year for a long-term solution to be agreed. Further shortened due to unforeseen delay in CUSC implementation.</p> <p>Fully supports the Amendment Proposal.</p> |
| CAP019-CR-07 | London Electricity Group | Yes | <p>Supports the proposal.</p> <p>Would be inappropriate for providers to be effectively penalised because progress with regards to finding a more appropriate mechanism than RPI.</p> |

National Grid's Views

- 10.6 National Grid's recommendation regarding this Amendment Proposal is outlined in paragraphs 4.2 and 4.3 above. National Grid has reviewed responses to the consultation on CAP019 and is satisfied that the proposal should be implemented.
- 10.7 National Grid would like to reiterate the reasons for a further extension of RPI indexation. Although the Ofgem determination on the variation to MCUSA Schedule 5 was for a further 2 years of RPI indexation, this determination was partly retrospective. Realistically, no progress could be made on this issue until after CUSC implementation. The requirement to implement a solution before the 31 May 2002 (latest submission for tenders commencing October 2002) has left a window of approximately 6 months for a solution to be developed. During this

period, the focus of the relevant industry group (the BSSG) has been on frequency response issues i.e. CAP001, CAP009 and CAP010. Whereas National Grid does not support RPI indexation of the reactive default payment indefinitely, we do feel that it is necessary to remove uncertainty for forthcoming reactive power tender rounds.

- 10.8 However, with regards to a more enduring solution, National Grid's view is that to index the reactive default payment rate with RPI is not the most appropriate solution. Indeed, National Grid feels it is relevant to point out the interaction with its SO incentive arrangements and that the current target for incentivised balancing costs will not be subject to any form of indexation. National Grid is supportive of the current initiatives within the BSSG to review the current arrangements with a view to introducing more appropriate enduring arrangements as soon as possible.

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> 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. | |
| Description of Issue or Defect that Proposed Amendment seeks to Address <i>(mandatory by proposer):</i> 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. 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 28 th March 2002 was too early to publish the outcome, we would expect it to state the approximate date of its publication. 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. | |
| 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 respect of all periods from (and including) 1st April, 2004 the indexation factor I applicable for the period from (and including) 1st April, 2003 to (and including) 31st March 2004 shall apply.

Annex 3 – Copies of Representations Received (Consultation Document)

This Annex includes copies of any representations received following circulation of the consultation document (circulated on 28th March 2002 requesting comments by close of business 15th April 2002).

Representations were received from the following parties:

| No. | Company | File Number |
|-----|---|--------------|
| 1 | All 21 TXU Companies which are CUSC Signatories | CAP019-CR-01 |
| 2 | British Energy plc | CAP019-CR-02 |
| 3 | British Gas Trading Ltd | CAP019-CR-03 |
| 4 | PowerGen UK, PowerGen Retail Ltd and Cottam Development Centre. | CAP019-CR-04 |
| 5 | Elexon | CAP019-CR-05 |
| 6 | Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited. | CAP019-CR-06 |
| 7 | London Electricity Group | CAP019-CR-07 |

| | |
|-----------|---|
| Reference | CAP019-CR-01 |
| Company | All 21 TXU Companies which are CUSC Signatories |

TXU Europe Energy Trading Ltd
Wherstead Park
Wherstead
Ipswich
Suffolk
IP9 2AQ

David Friend
National Grid Company plc
Kirby Corner Road
Coventry
CV4 8JY

15th April 2002

CAP019 Consultation Response

Dear David

We confirm that we support the views of the BSSG and National Grid, namely that the Amendment proposal does better facilitate the relevant objectives and should be implemented (hopefully on the timescales indicated in the consultation paper).

Yours sincerely

Philip Russell
Market Development Manager
For and on behalf of the 21 TXU CUSC Parties

| | |
|------------------|---------------------------|
| Reference | CAP019-CR-02 |
| Company | British Energy plc |

-----Original Message-----

From: Trott Graham [<mailto:graham.trott@british-energy.com>]
Sent: 15 April 2002 10:57
To: Friend, David
Subject: CAP019 Consultation Response

David,

Thank-you for the opportunity to comment on the above consultation paper.

British Energy supports the implementation of CAP019 as proposed.

We agree that the extension of the present indexation arrangements (based on RPI) until the end of March 2004 will better support the applicable CUSC objectives.

We recognise that the BSSG considered a number of alternatives and we agree that some form of indexation is necessary to remove any uncertainty with the default payment mechanism for the imminent tender rounds. Furthermore, since the RPI-based indexation is a widely recognised and easily understood base, and noting that a prompt decision needs to be made because on the timescales associated with the reactive tender process, it would be unwise to implement a hastily considered alternative to RPI indexation. This extension to the present arrangements will allow sufficient time for a proper assessment of the treatment of default payment rate indexation.

Regards,
Graham

For British Energy Generation Ltd
Eggborough Power Ltd
British Energy Power and Energy Trading Ltd

- * This message has been sent from the British Energy Group.
- *
- * British Energy plc
- *
- * Registered Office:-
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- * East Kilbride
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| | |
|-----------|---|
| Reference | CAP019-CR-03 |
| Company | British Gas Trading Ltd, Centrica Kings Lynn Ltd and Centrica Peterborough Ltd. |

G/transp/elec/cusc



National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

energy management group

Charter Court
50 Windsor Road
Slough
Berkshire
SL1 2HA

For the Attention of Mr D Friend
- Commercial Development

Tel. (01753) 758051
Fax (01753) 758170
Our Ref. CAP010
Your Ref.
15 April, 2002

Dear David,

CUSC Amendment Proposal 019: Reactive Power Default Payment Rate Mechanism

Thank you for the opportunity to comment on this Amendment proposal. This response is on behalf of British Gas Trading Ltd (BGT), Centrica King's Lynn Ltd and Centrica Peterborough Ltd.

The extension of the current indexation arrangements for a further year until the end of March 2003 will better facilitate the Applicable CUSC Objectives. We agree with the view of NGC that the Proposal will remove uncertainty from the next reactive market tender rounds and thus encourage competition in those tender rounds. We also welcome the extended opportunity for the industry to consider new and alternative methodologies for default reactive power utilisation payments. As such we support the Amendment Proposal.

Yours sincerely

Danielle Lane
Transportation Analyst

| | |
|------------------|---|
| Reference | CAP019-CR-04 |
| Company | PowerGen UK, PowerGen Retail Ltd and Cottam Development Centre Ltd |

Christopher A Price
Strategy & Regulation

David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

15 April 2002

Reference: CAP019 Reactive Power Default Payment Rate Mechanism

Dear David,

Powergen UK plc submits this response on behalf of itself and the following CUSC Parties; Powergen Retail Ltd and Cottam Development Centre Ltd.

Powergen supports the proposal as described within the consultation document.

We support the statements made by both the system operator and the BSSG that this proposal would better meet the CUSC objectives by:

- Removing uncertainty from the next reactive power market tender round and therefore,
- Promoting competition in the next tender round which will help the system operator to better discharge its licence obligations.

In addition, extending indexation of the default rate until March 2004 will allow the BSSG and the wider industry to identify and fully evaluate any alternative methodologies to the default payments.

Regards

C A Price
Strategy & Regulation

| | |
|------------------|---------------------|
| Reference | CAP019-CR-05 |
| Company | Elexon |

Our ref. Comments on CAP019
Your ref. CAP019



David Friend
Commercial Development
National Grid Company plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY

(By email to: david.friend@uk.ngrid.com)

Dear David Friend,
Comments on Consultation Paper CAP019 'Reactive Power Default Payment Rate Mechanism'

ELEXON acting as the Balancing and Settlement Code Company has reviewed the Consultation Paper CAP019 'Reactive Power Default Payment Rate'. ELEXON notes the 'Proposed Amendment' seeks to extend the current indexation of the default payment rate for reactive power utilisation until the end of March 2004.

ELEXON has no comments on this proposed amendment.

Yours sincerely

Justin Andrews

ELEXON Trading Department

| | |
|-----------|---|
| Reference | CAP019-CR-06 |
| Company | Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited. |



Innogy's comments on CAP019 Consultation document on behalf of Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited

CAP019

1. As proposer of CAP019, Innogy believes that it is the most appropriate short-term solution to the reactive power default payment indexation problem. We acknowledge that indefinite indexation may not be the most appropriate long-term solution and that alternatives need to be given thorough consideration in an appropriate industry forum.
2. When considering the proposal it is important to understand the reasons for a further extension of the RPI indexation. The June 2001 Ofgem determination was partly retrospective and left only a year for a long-term solution to be agreed before the deadline for the submission of tenders for Tender Round 10. As the Amendment Report explains, the available work period was then further shortened by the unforeseen delay in the implementation of CUSC.
3. We are confident that a further extension to RPI indexation as proposed by CAP019 will achieve the objective of a long-term solution within the stated time-scale of one year as
 - i) The implementation will be wholly prospective;
 - ii) There will be no delay due to the implementation of CUSC;
 - iii) The issue is a top priority of the BSSG.
4. Innogy therefore fully supports the amendment proposal.

| | |
|------------------|---------------------------------|
| Reference | CAP019-CR-07 |
| Company | London Electricity Group |

-----Original Message-----

From: Cecil Dick

Sent: 15 April 2002 18:49

To: 'david.friend@ngrid.com'

Subject: Consultation Response -CAP019 Reactive Power Default Rate
Mechanism

Consultation Response -CAP019 Reactive Power Default Rate Mechanism

This response from London Electricity Group is on behalf of all the groups CUSC Parties. Previously a 2 year default mechanism was implemented under MCUSA, with encouragement at the time from OFGEM to find a more appropriate mechanism than RPI indexation before expiry of the period. For all the reasons set out in the consultation, and a few more besides, this has not happened. But it would be inappropriate for providers to be effectively penalised because this progress has not been made.

We are therefore in favour of CAP019. We consider the CUSC Objectives would be better met with the addition of CAP019.

Dick Cecil

London Electricity Group