

Amendment proposal:	Connection and Use of System Code (CUSC) Amendment Proposal 173 (CAP173): Reactive Power Market Tender Process		
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:	19 November 2009	Implementation Date:	1 April 2010

Background to the amendment proposal

National Grid Electricity Transmission PLC (NGET) has a requirement to maintain the Reactive Power³ balances on the Transmission System. NGET controls Reactive Power through two Balancing Services, Obligatory Reactive Power Service and Enhanced Reactive Service.

Both Reactive Power Services are procured by NGET via either Market Agreements or Default Payment Arrangements. For the former, the current Reactive Power market tender process takes 26 weeks and it is held every six months. The current market tender process, set out in Clause 3, Schedule 3 of the CUSC, takes the following steps and timescales:

- (a) NGET sends out an Invitation to Tender (ITT) at the start of the Tender Period. Generators can participate in the market tender and prepare their tenders during the Tender Period, which lasts eight weeks and ends on a day (the Market Day) specified by NGET.
- (b) The Market Day should be no earlier than 20 weeks and not later than 16 weeks prior to the Contract Start Day (the day when successful contracts take effect).
- (c) NGET evaluates each tender in accordance with the evaluation criteria specified in the Connection and Use of System Code (CUSC), on a reasonable endeavours basis, within ten weeks of the Market Day.
- (d) Having selected a tender (or a part of a tender) NGET notifies the Generator and both sides use reasonable endeavours to enter into a Market Agreement as soon as possible but in any event no later than four weeks before the Contract Start Day.
- (e) If a Market Agreement has not been entered into within four weeks of the Contract Start Day then either NGET or the Generator can notify the other party that they no longer wish to enter into the Market Agreement.

If a tender is not successful or if a party does not submit a tender, it will be paid under the Default Payment Arrangements if it provides the service as instructed by NGET.

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.

³ Reactive Power is a concept to describe the background energy movement in an Alternating Current (AC) system arising from the production of electric and magnetic fields.

A CUSC Standing Group⁴, the Balancing Services Standing Group (BSSG), reviewed the length of time taken to undertake the Reactive Power market tender process. The BSSG's view was that the process was considerably longer than for tender processes for comparable balancing services. The BSSG discussed and developed, after consultation with industry, a proposal from NGET to reduce the timescales in which the Reactive Power market tender process takes place from 26 weeks to 14 weeks. The shortened timescales would not, in BSSG's view, affect the ability of NGET to run an effective tender process but would make the process more efficient. The BSSG agreed that NGET should raise a CUSC amendment proposal to amend the timescales for the tender process.

The amendment proposal

CAP173 was raised by NGET and seeks to condense the timescales associated with various elements of the Reactive Power market tender process as prescribed in Clause 3, Schedule 3 of the CUSC. CAP173 notes that the existing tender process takes much longer than for comparable commercial balancing services tenders.

The proposed amendments to the current tender timescales are as follows:

- (a) Providers currently have eight weeks to prepare their tenders following the ITT. It is proposed to reduce this to four weeks as the ITT document does not change considerably between each tender round.
- (b) A Market Day is currently no earlier than 20 weeks and not later than 16 weeks (four weeks between the earliest and the latest Market Day) prior to the Contract Start Day. It is proposed to reduce the timescales so that the Market Day is no earlier than 12 weeks and not later than eight weeks (still leaving four weeks between the earliest and the latest Market Day) prior to the Contract Start Day.
- (c) NGET currently evaluates each tender within ten weeks of the Market Day on a reasonable endeavours basis. It is proposed to reduce this period to within five weeks, as was trialled by NGET in Tender Round 23.
- (d) NGET and the Generator are currently required to enter into a Market Agreement no later than four weeks before the Contract Start Day. It is proposed that this will reduce to no less than two weeks before the Contract Start Day.
- (e) Currently, if a Market Agreement has not been entered into within four weeks of the Contract Start Day then either NGET or the Generator can notify the other party that they no longer wish to enter into the Market Agreement. It is proposed that this timescale will reduce to within two weeks of the Contract Start Day.

CAP173 aims to achieve the proposed changes to Schedule 3 of the CUSC in time for the next Tender Round.

CUSC Panel⁵ recommendation

The CUSC Panel (the Panel) discussed the amendment proposal at its meeting of 25 September 2009. The Panel considered that the amendment proposal better facilitated achievement of both Applicable CUSC Objectives (a) and (b). The Panel voted

⁴ The CUSC Panel may establish CUSC Standing Groups to manage the development of CUSC amendments and issues.

⁵ The CUSC Panel is established and constituted from time to time pursuant to and in accordance with section 8 of the CUSC.

unanimously that CAP173 better meets Applicable CUSC Objective (a) and voted by a large majority that CAP173 better meets Applicable CUSC Objective (b).

The Authority's decision

The Authority has considered the issues raised by the amendment proposal and the final Amendment Report (AR) dated 15 October 2009. The Authority has considered and taken into account the responses to NGET's consultation on the amendment proposal which are attached to the AR⁶. The Authority has concluded that:

1. implementation of the amendment proposal will better facilitate the achievement of the applicable objectives of the CUSC⁷; and
2. directing that the amendment be made is consistent with the Authority's principal objective and statutory duties⁸.

Reasons for the Authority's decision

We agree with the recommendation of the Panel that CAP173 better facilitates achievement of the Applicable CUSC Objectives (a) and (b) and that approval of CAP173 is consistent with the Authority's wider statutory duties.

Applicable CUSC Objective (a): the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence

Ofgem agrees with the Panel that CAP173 would better facilitate this objective. The reduction in the tender process timescales from 26 weeks to 14 weeks would better enable NGET to meet its licence obligation with regard to the efficient operation of its network. We note that the process steps that are currently in place are envisaged to remain under this amendment proposal, but that they take place in a shorter timeframe. By completing these same steps in a shorter timeframe, NGET will enhance the efficient delivery of reactive power tenders without denying prospective providers the opportunity to tender for these services.

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

Ofgem agrees with the majority of the Panel and a number of respondents that CAP173 would better facilitate this objective. However, in our view this is a marginal positive impact. We consider that condensing the timescales for the tender process may increase the number of parties willing to submit tenders. This is as a result of the reduced risk of price volatility between tender submissions and acceptance.

⁶ CUSC amendment proposals, amendment reports and representations can be viewed on NGET's website at <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

⁷ As set out in Standard Condition C10(1) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=5327

⁸ 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.

Implementation date

The proposed implementation date for CAP173 is ten business days after an Authority decision. However, NGET has already started the current tender round (Tender Round 25) with the Market Day being 13 November 2009. Were the amendment proposal to be implemented in the above noted timescale then we consider that this may impact (or at best create uncertainty) on the timescales for the remainder of the steps for Tender Round 25. Given this, and following discussions with NGET, Ofgem requires, in accordance with SLC C10(6)(c) of the Electricity Transmission licence, that the implementation date for CAP173 be extended to 1 April 2010. This date has been chosen as it occurs after Tender Round 25 has fully completed and it is prior to the start of the process for Tender Round 26.

This approach seeks to avoid any uncertainty around the timescales of the current tender round. NGET should confirm this position when notifying all interested parties about the implementation date for CAP173.

Decision notice

In accordance with Standard Condition C10 of NGET's Transmission Licence, the Authority hereby directs that amendment proposal CAP173: "Reactive Power Market Tender Process" be made.

Ian Marlee
Partner, Trading Arrangements

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