

•**CMP304**

- Improving the Enhanced Reactive Power Service
by
 - making it fit for purpose

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•Background (1)

- *Defect*
- Information provided recently by the System Operator identified that:
 - In its current form the Enhanced Reactive Power Service (ERPS) has resulted in no tenders being accepted (by the System Operator) since 2009 and no tenders being received (from market participants) since 2011.
 - In its current form the ERPS has required long-term commitment, which exposed providers to risk and the current arrangements have not been significantly reviewed since their original design in the early 1990's, and are designed based on performance and operating costs of thermal plant.
 - The requirement for Reactive Power absorption has consistently increased for the last 10 years and the System Operator forecasts show this will continue.
- Therefore a more agile ERPS product approach that takes account of time variances and
 - market practicalities is therefore needed.

•Background (2)

- *What*

- The CUSC will be updated to reflect a more agile, fit for purpose, ERPS
 - by developing a better, shorter-term market for reactive power that:
 - (i) delivers transparency and clear information to the market;
 - (ii) facilitates greater competition in the provision of services; and
 - (iii) meets the changing needs of balancing services providers and operational
 - requirements of the system operator.

•Background (3)

- Why*

- Reviewing, refreshing and modernising the current ERPS
 - arrangements in the CUSC will make them fit for purpose and lead to
 - more providers coming forward which will maximise competition in
 - the provision of reactive power, leading to lower costs (in terms of
 - reactive power) for end consumers.

- Background (4)

- How*

- With the support of the industry, we will use this modification to
 - finalise the solution to refresh and modernise the ERPS
 - arrangements, before consulting with the wider industry and
 - submitting to Ofgem for a decision.

•Why Change

- As currently set out in the CUSC the ERPS has proved not to be a
 - useful product for the System Operator or a product that market
 - participants wish to offer to provide. The reasons for this have been
 - identified by the System Operator and are shown, at a high level, in
 - the 'defect' in Section 1 of this proposal.
- Rectifying the defect will make the ERPS a fit for purpose product that
 - the System Operator can utilise to meet their increasing need for
 - reactive power in a reasonable, efficient and proportionate way and
 - ensure that it is a product that existing and potential market
 - participants wish to compete to provide.

•Solution (1)

- Intention is to work with stakeholders to make the current ERPS
 - arrangements fit for purpose in a way that:
 - (i) delivers transparency and clear information to the market;
 - (ii) facilitates greater competition in the provision of services; and
 - (iii) meets the changing needs of balancing services providers and operational
 - requirements of the system operator.

•Solution (2)

- Current arrangements based around a twelve month product.
- Looking to reduce the period of the product from twelve months,
 - including having the possibility of multiple period products for ERPS,
 - which could be:
 - seasonal,
 - six monthly,
 - quarterly,
 - monthly,
 - fortnightly,
 - weekly, or perhaps even daily products.

- **Justification against Applicable Objectives (a)**

- **a) The efficient discharge by the Licensee of the obligations**
 - **imposed on it by the Act and the Transmission Licence**
- Neutral

• Justification against Applicable Objectives (b)

- **(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**

- **Positive**

- Making ERPS a fit for purpose product that the System Operator can utilise to
 - meet their increasing need for reactive power in a reasonable, efficient and
 - proportionate way and ensuring that it is a product that existing and potential
 - market participants wish to compete to provide will facilitate competition in
 - the generation and supply of electricity, which better facilitates Applicable
 - Objective (b).
- [plus also justification under (d) referring to (b).]

• **Justification against Applicable Objectives (c)**

- **(c) Compliance with the Electricity Regulation and any relevant**
 - **legally binding decision of the European Commission and/or the**
 - **Agency**
- Neutral

• Justification against Applicable Objectives (d)

- **(d) Promoting efficiency in the implementation and administration of the CUSC arrangements**

- **Positive**

- Reviewing, refreshing and modernising the current ERPS arrangements in the
 - CUSC will make them fit for purpose (and lead to more providers coming forward which will maximise competition in the provision of reactive power, so better facilitates Applicable Objective (b)) which will promote efficiency in the implementation and administration of the CUSC arrangements which better facilitates Applicable Objective (d).

•Governance

- Given materiality of the changes proposed in this Modification, we
 - believes that self-governance or fast track governance arrangements
 - are not appropriate in this case.