

# CUSC Amendment Proposal Form

CAP:045

## Title of Amendment Proposal:

Cost-reflective reactive power default payment rate indexation.

## Description of the Proposed Amendment (mandatory by proposer):

It is proposed that the reactive power default payment rate is indexed from April 2004 using a base for the index as 2003/04. The index would be

1. Derived from a composite of indices reflecting the costs associated with reactive power provision
2. Applied monthly rather than annually
3. Calculated ex-post rather than ex-ante.

It is proposed that the index is calculated using

- 50% weighting of monthly RPI to represent wear and tear and labour costs
- 50% weighting of a monthly wholesale power price index to represent lost opportunity and efficiency (energy) costs

It is further proposed that the wholesale power price index is calculated in the same manner as the Scottish energy price component<sup>1</sup>. This is derived from the weighted EFA month ahead price indices published by Heren, Argus, Platts and Spectron.

The wholesale power price index would therefore be calculated using:

- 20 per cent weighting of the cumulative over the counter ("OTC") baseload month ahead Petroleum Argus index;
- 20 per cent weighting of the cumulative OTC baseload month ahead Heren index;
- 20 per cent weighting of the cumulative OTC baseload month ahead Platts power index; and
- 40 per cent weighting of the cumulative OTC baseload month ahead Andersen Spectron Power Index ("ASPI").

National Grid would be required to calculate the default rate on a monthly ex-post basis. It is envisaged that the indices described will be available to enable this calculation within the preliminary settlement run timescales. Where index data is not available, NGC will provide a reasonable estimate of the indexation to apply to payments. Any adjustments to allow for actual data will be included in the payments for the following month.

## Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):

The costs associated with the provision of reactive power include

- Labour and wear and tear costs associated with additional maintenance and component replacements as the result of consequential plant damage.
- Lost output resulting from outages as a consequence of this damage.
- Energy costs incurred due to loss of efficiency whilst providing reactive power.

The current indexation of the default rate for reactive power utilisation is due to expire on 31 Mar 2004. From this date, the default payment rate will have no mechanism associated with it that will enable it to reflect movements in the cost of the service. The cost reflectivity of the current indexation

<sup>1</sup> As described in the OFGEM document 'Administered Scottish wholesale price: monthly indices' [www.ofgem.gov.uk/scotland/wholesale\\_price\\_indices.htm](http://www.ofgem.gov.uk/scotland/wholesale_price_indices.htm).

suffers from being annual and thus cannot reflect significant variations in the costs throughout the year. Furthermore, since it is calculated ex-ante there is a lag between the period for which the indexation is calculated and the period to which it is applied.

The BSSG has debated alternative indexation methodologies. Broad agreement exists within the BSSG on a number of detailed issues associated with indexation, namely:

- some form of indexation for default reactive power utilisation payments is appropriate from April 2004 onwards;
- this indexation should take into account changes in the costs of labour, wear and tear, energy and power;
- indexation could be applied on a monthly basis to reflect the seasonal variation in the costs associated with the production of reactive power.

**Impact on the CUSC** (*this should be given where possible*):

Revision to CUSC Schedule 3 (Appendix 1, Clause 3 – Indexation).

**Impact on Core Industry Documentation** (*this should be given where possible*):

None envisaged

**Impact on Computer Systems and Processes used by CUSC Parties** (*this should be given where possible*):

National Grid would be required to calculate the default rate on a monthly ex-post basis. It is envisaged that the indices described will be available to enable this calculation within the preliminary settlement run timescales. Where index data is not available, NGC will provide a reasonable estimate of the indexation to apply to payments. Any adjustments to allow for actual data will be included in the payments for the following month.

**Details of any Related Modifications to Other Industry Codes** (*where known*):

None known

**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 improving the cost-reflectivity of the reactive power default payment rate, the proposal will facilitate the choice of the most economic source of reactive power, thereby facilitating the efficient discharge by the licensee of the obligations imposed on it under the Act and by the Transmission License.

(b) By improving the cost-reflectivity of the reactive power default payment rate, the amendment will encourage competition in the reactive power market, thereby facilitating effective competition in the generation and supply of electricity.

<b>Details of Proposer:</b> Organisation's Name:	Innogy plc
<b>Capacity in which the Amendment is being proposed:</b> (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
<b>Details of Proposer's Representative:</b> Name: Organisation: Telephone Number: Email Address:	Shona Watt Innogy plc 01793 892634 <a href="mailto:shona.watt@innogy.com">mailto:shona.watt@innogy.com</a>
<b>Details of Representative's Alternate:</b> Name: Organisation: Telephone Number: Email Address:	David Tolley Innogy plc 01793 892650 david.tolley@innogy.com
<b>Attachments (Yes/No):</b> <b>If Yes, Title and No. of pages of each Attachment:</b>	

**Notes:**

1. 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.
2. 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:

Richard Dunn  
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](mailto: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).

- 3.** Applicable CUSC Objectives\*\* - These are defined within the National Grid Company Transmission Licence under Section C7F, paragraph 15. Reference should be made to this section when considering a proposed amendment.