

# **National Grid Electricity Transmission plc**

## **Reactive Power Market Tender Review Final Proposals**

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## Introduction

National Grid published its detailed proposals for the review of the Reactive Power Market Tender process on 27<sup>th</sup> February 09. This document provided industry participants with an opportunity to respond to a number of questions posed on the proposals and invited views on these to be received by 20<sup>th</sup> March 09.

Following this consultation period, and having received responses from industry participants, this document sets out the final proposals on the development of the Reactive Power Market Tender process. These proposals take into account the responses received to the detailed proposals document, and both internal National Grid and external Balancing Services Standing Group (BSSG) meeting discussions.

Should you wish to provide any comments on these final proposals or have any general feedback on the Reactive Power Market Tender process then please contact Katharine Clench by emailing [katharine.clench@uk.ngrid.com](mailto:katharine.clench@uk.ngrid.com) or by telephoning 01926 656036.

Readers may find it useful to read the Initial Proposals and Detailed Proposals Documents in conjunction with these final proposals which can be found at: <http://www.nationalgrid.com/uk/Electricity/Balancing/services/ReactivePower/marketender/>

## Focus Areas of Review

The key areas of the Reactive Power Market Tender review which have been considered in this document are:

1. Tender frequency and contract length
2. Assessment timescales
3. Assessment principles
4. Introduction of framework agreements
5. Other tender timescales
6. Unit Substitution
7. Market Information
8. Enhanced Service
9. Removal of market tender terms from CUSC

## **1. Tender Frequency and Contract Length**

National Grid's view that bi-annual tenders as currently exist are sufficient for the reactive power market was generally supported by respondents and members of the BSSG. It was felt that, for example, monthly tenders would be too much of an administrative burden for both National Grid and providers. It is therefore proposed that the timing i.e. contracts commence 1<sup>st</sup> April/ 1<sup>st</sup> October, and frequency of tenders remain as they are.

Currently the minimum market contract length for which providers can tender is 12 months and it was proposed that this be reduced to 6 months in order to reduce the risk to both National Grid and providers of fluctuations in the default price. Feedback received from both BSSG members and respondents was generally of the view that the current minimum contract length was either not necessarily an issue or was not in favour of a reduction. It is therefore proposed, in the interest of continuity, that the minimum contract length be maintained at 12 months with 6 month increments thereafter, as currently set out in CUSC Schedule 3.

## **2. Assessment Timescales**

At present, as prescribed within the CUSC, National Grid must make 'reasonable endeavours' to complete the assessment of reactive power tenders within 10 weeks (see Appendix 1 for a tender timeline of the current tender process). It was proposed that this time period be reduced to 5 weeks (see Appendix 2 for proposed timescales) which was successfully trialled for the last tender round (TR23). The feedback received concurred that reducing this time period by half would serve to reduce risk to the provider of hedging against the default price. Therefore National Grid proposes that the assessment period be reduced from 10 to 5 weeks and this change will require an amendment to CUSC Schedule 3.

## **3. Assessment Principles**

In the initial proposals document, National Grid questioned whether the reactive market assessment principles were sufficiently transparent to participants. The BSSG and other respondents believed that the current assessment criteria as set out in Appendix 6 of Schedule 3 of the CUSC were sufficiently transparent and clear. It is therefore proposed that the assessment criteria are not changed.

In the detailed proposals document, National Grid also sought views on whether the market tender assessment criteria should form part of CUSC Schedule 3 or whether it could be removed to create consistency with other commercial Balancing Services. Respondents to the proposals saw limited value in removing the assessment criteria from the CUSC and believed that the CUSC modification governance process to allow for industry consultation on any proposed amendments was sufficient. The qualification and evaluation criteria for the reactive power market tender process will therefore be kept in Appendix 6 of CUSC Schedule 3.

## **4. Introduction of Framework Agreements**

National Grid proposed that framework agreements be introduced to the reactive power service which would lead to a further reduction in timescales between Market Day and Contract Start Day of 4 weeks. Respondents to this proposal were generally against the introduction of framework agreements particularly if it would mean that a tender became binding upon acceptance and that the option to withdraw from a

market agreement following tender acceptance were to be removed. It was felt that this would lead to increased tendered prices. One respondent questioned whether introducing framework agreements meant that the option to withdraw from a market contract had to automatically be removed. However, National Grid's view is that by maintaining the option to withdraw from the contract the main advantage of establishing framework agreements is eliminated.

The ability to introduce framework agreements is also complicated by the reactive power service terms being prescribed within the CUSC in that the terms currently set out in the market agreement would need to be detailed in Schedule 3. It is therefore proposed that the current market agreement arrangements are maintained but that the timescales in which these will need to be agreed between National Grid and the service provider be reduced from 4 to 3 weeks.

In the detailed proposals document, National Grid also considered whether the Reactive Attachment document which sets out reactive capability at Nominated Registered Capacity could be incorporated into the framework agreements if these were to be introduced. However, now that the framework agreement proposal is not being pursued, National Grid will look to incorporate the Reactive Attachment document into the tender documentation. This will ensure that this document is kept current.

## **5. Other Tender Timescales**

Aside from reducing the assessment and post tender timescale as discussed earlier, currently providers have 8 weeks in which to prepare their tenders and it was proposed that this could be shortened particularly given that the reactive market Invitation to Tender documentation does not change significantly from one tender to the next. The majority of respondents supported this view so it is therefore proposed that this period be reduced to 4 weeks which is more in line with other services.

National Grid also proposes that the time period between market contract signature and contract start day be cut down from 4 weeks to 2 weeks (see Appendix 2 for an overview of all the proposed timescales).

## **6. Unit Substitution**

Members of the BSSG and respondents generally supported the proposed introduction of a unit substitution option to the reactive power service, meaning that providers can ensure even wear and tear across units at a station during the contracted period. The capability of the substitutable unit(s) i.e. the Nominated Registered Capacity would need to be the same or greater than the accepted contracted unit and would be submitted as part of the tender. National Grid will determine whether the nominated substituted unit is an acceptable substitute for the main contracted unit during the assessment process.

Providers wishing to submit tenders for multiple units will be able to select an option in the tender pack which means that in the event that only one unit is accepted, the other unit(s) can be considered as a substitutable unit(s). The accepted tendered breakpoint and pricing parameters will therefore be assumed by the substitutable unit(s).

In order to facilitate this additional element to the reactive power service, new clauses will be required in CUSC Schedule 3 and modifications made to the invitation to tender pack.

## **7. Market Information**

Industry participants and respondents felt that the current market report contains a satisfactory level of information and that the format was useful, particularly given the complexity of the service. Following this feedback it is proposed that the market report be kept largely as it is but to reduce some of the duplicated information. In addition, reactive utilisation data for the previous 6 months will be taken out of the report as this is now published for each month on the National Grid website – see the following link:

[http://www.nationalgrid.com/uk/Electricity/Balancing/services/ReactivePower/Reactive\\_Utilisation/](http://www.nationalgrid.com/uk/Electricity/Balancing/services/ReactivePower/Reactive_Utilisation/)). The market report section of the website will be updated to include this separate utilisation data.

Some providers have commented in the past that the market report information is published too close to each market day which doesn't allow enough time for tender preparation. This issue is to be addressed by the above proposed reduction in tender timescales as the time between market report publication and market day is subsequently lengthened to approximately 2 months. The timescales in which the market report is currently published will not change.

## **8. The Enhanced Reactive Service**

It was felt by respondents that the Enhanced reactive power service provides a suitable route to market for providers who either have a greater reactive capability than the obligatory Grid Code requirements or are not subject to such requirements. It was felt that the potential market for such a service was small but that the service should remain available for this market in the future. It is therefore proposed that the enhanced service remains as it is.

## **9. Removal of Market Tender Terms from CUSC**

The removal of the assessment criteria from CUSC has already been mentioned in Section 3 above, but the Detailed Proposals document also questioned whether the entire reactive market tender process should sit within the CUSC at all, particularly given that it is the commercial element of the mandatory service. It was proposed that the market tender terms be removed entirely from the CUSC thereby taking the same form as other balancing services i.e. with standard contract terms.

Respondents felt, however, that taking the market terms out of the CUSC would dilute the current governance provisions as provided for by the CUSC amendment process. It was also considered that because the terms related to the procurement of the mandatory service that they were best placed in the CUSC. It is therefore proposed that the reactive power market tender process terms remain in CUSC Schedule 3.

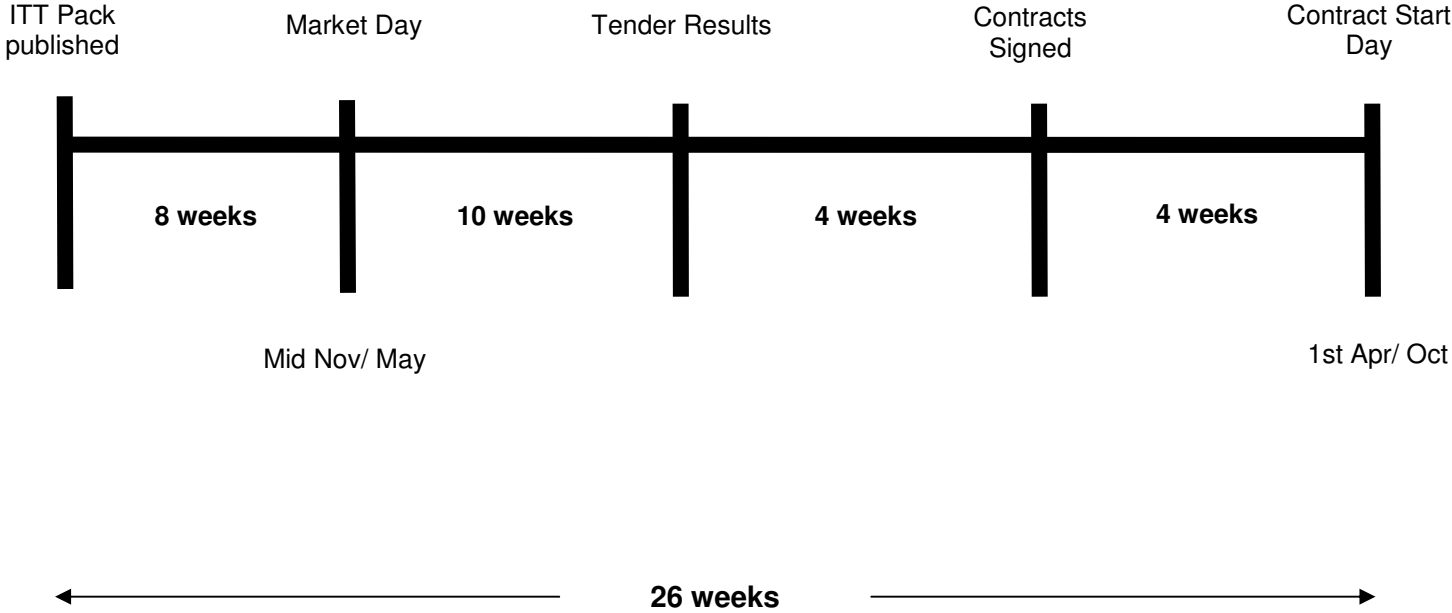
## Next Steps

The above proposed changes to the reactive power market tender process will require a CUSC modification to be raised in order to comply with the CUSC governance procedure. Therefore industry participants will be given further opportunity to comment upon the proposed changes as part of the amendment proposal process. The main changes required to CUSC Schedule 3 as a result of this review are likely to be as follows:

- Clause 3.3 (a) (i) (a) – reduction in time period between Market Day and Contract Start Day
- Clause 3.3 (a) (i) (b) – reduction in the Tender Period
- Clause 3.3 (e) (iii) – reduction of assessment timescale
- Clause 3.3 (f) (i) – reduction in timescale between entering into a Market Agreement and Contract Start Day
- Additional clause for introduction of unit substitution required to CUSC Schedule 3

These amendments will be raised as a modification proposal in due course. Depending upon the relevant timescales associated with the CUSC modification process, it is intended that the new service format will be implemented for Tender Round 26 for which Market Day is in May 2010.

**Appendix 1 – Current Reactive Power Market Tender Timescales**



**Appendix 2: Proposed Reactive Power Market Tender Timescales**

