



Transmission Constrain Licence Condition Consultation

International Power plc (IPR) welcomes the opportunity to respond to Ofgem's consultation on its Guidance on the Transmission Constrain Licence Condition

International Power plc is a leading global independent power generation company with active interests in closely linked businesses such as LNG terminals and water desalination. In total, it has 66 GW gross capacity in operation and committed projects for a further 22 GW gross new capacity.

In the UK, International Power plc has over 7.3 GW of plant made up of a mixed portfolio of conventional plant – coal, gas, CHP, a large OCGT, and the UK's foremost pumped-storage facility. Several of these assets are owned and operated in partnership with Mitsui & Co. Ltd. IPR's assets represent just under 9% of the UK's installed capacity, making IPR the country's largest independent power producer. The company also has retail and gas I&C supply businesses.

General comments

Given the sometimes limited capacity on the Scotland –England interconnector and the recent extent and cost of managing surplus wind generation, IPR recognises that in limited situations, the TCLC is necessary.

The application of the TCLC is vague, suggesting that the circumstances of when it will be applied could extend beyond those described above. The TCLC should only be applied during sustained constraint conditions where the constraint is patently known to the operator and there is a material cost to manage the constraint. Investigation under the TCLC should only be triggered when all these conditions are present.

Since, it is actually difficult to identify when and where there is a constraint in operation, and constraint conditions can be transient, alongside the TCLC, a requirement should be placed on the Transmission Operators to publish details of transmission constraints.

Reputational risk is at stake. Ofgem should only publicly notify that it is investigating a breach of the TCLC when it has had detailed discussions with the

generator and despite these discussions believes that the pricing behaviour cannot be objectively justified.

Given the potential level of fines that could be imposed for a breach of the TCLC , generators will want a seat at all hearings to ensure that their case is fairly presented

We do not believe that Circumstance 3 is necessary; intertrip arming fees are agreed bilaterally between the generator and the System Operator.

Consultation Questions

Circumstance 1

Question 1: Do you agree with our interpretation of uneconomic dispatch?

For there to be an investigation under the TCLC, there first has to be a transmission constraint and secondly the constraint has to have been created or exacerbated through uneconomic dispatch decisions.

On the first point, it is actually difficult to identify when and where there is a constraint in operation, and constraint conditions can be transient. The generator should not be required to make an assessment of the likelihood of constraints; the TCLC should only be applied to sustained constraint conditions, patently known to the generator. This could be readily achieved if a requirement was placed on the Transmission Operators to publish details of transmission constraints.

On the second point, historical pricing behaviour needs to be taken into account as is proposed under Circumstance 2. It would be odd if it was acceptable to price in an uneconomic manner when a constraint was not active (perhaps for the reasons given in Q2), but when a constraint is active, the pricing was then subject to questioning.

Question 2: Is the use of „within-day“ fuel and electricity prices to calculate generation profitability the most realistic approach?

No. It focuses narrowly on within day and spot prices. This focus could lead to unnecessary and time consuming investigations for both the regulator and the generator. Seemingly uneconomic dispatch decisions could be made for justifiable reasons; for example take or pay gas contracts, requirements under PPAs, steam supply or Grid contracts, the need to burn biomass before it 'goes off', to manage coal stocks, or to avoid the costs and risks of two shifting. Ofgem should widen its

assessment to take account of the numerous factors that may lead to what initially appears to be 'uneconomic dispatch'.

Question 3: What other costs, if any, should be included in our initial analysis of dispatch decisions?

Those listed in Q2 and account should be taken of historical pricing.

Question 4: Are there any further important arguments that provide objective justification for uneconomic dispatch?

Please see Q2

Question 5: Are there any objective justifications cited above which should not be considered in our assessment?

Circumstance 2

Question 6: Do you agree that the indicators outlined above are useful for Ofgem to consider when determining whether the bids are excessive or not?

The list of indicators are useful but be expanded to avoid unnecessary and time consuming investigations for both the regulator and the generator. Circumstance 2 of the TCLC should only apply to excessively low or negative bids accepted behind an known export constraint, it should not apply to any bid that has a 'system flag' attached to it. It should not apply to thermal constraints where the capacity of a transmission line has to be temporarily reduced to prevent overheating.

Please see response to Q7 for further detail.

Question 7: Are there other factors or indicators that Ofgem should consider in interpreting this circumstance?

Ofgem should also consider the following factors:

- The type of constraint should be considered. Does the TCLC apply to any bid that has a 'system flag' attached to it or only to bids accepted behind a sustained and obvious export constraint? IPR considers that the TCLC should only apply to the latter – by its very nature, the TCLC is designed to avoid abusive pricing behaviour during transmission constraints. It should not apply for example to thermal constraints where the capacity of a transmission line has

to be temporarily reduced to prevent overheating and in particular if the TO has not indicated that a constraint is active.

- Generators (and in particular peaking generators) must be allowed to reflect the value of capacity and flexibility in their bid prices.
- Generators will want to reflect the cost and risk of restarting a unit in their bid prices and also take account of the general level of bids prices at the time.
- Contractual obligations need to be taken into account (please refer to answer to Q2 as these are equally relevant to Circumstance 2).

Question 8: Are there any further important arguments that provide objective justification for seemingly high bids?

We presume here that in referring to high bids, Ofgem means low or negative bids.

The guidance note states that historical bids prices will be taken into account. We presume that if a generator has a bid accepted at a low or negative price on a day when a constraint is not in force and, on another day when a constraint is in force, it has a bid accepted at a price that is no lower than the first day that this circumstance would not be subject to regulatory scrutiny. Clarity in the guidance note would be helpful so that it is clear that the TCLC would only apply where:

- the generator has either lowered its bid price by a notable amount when a constraint is present, or;
- where low or negative bids are only ever accepted during constraints and not ordinarily.

Even if bid prices do change and a constraint is in force, in implementing this Circumstance, DECC and Ofgem still have to be reasonable in their assessment. Close to zero or negative bids remain appropriate where for example:

- they allow generators (and in particular peaking generators), to reflect the value of capacity and flexibility; or
- they allow reflection of both the cost and risk of restarting a unit after being bid off and the more general bids prices at the time.

Question 9: Are there any objective justifications cited above which should not be considered in our assessment?

Ofgem's assessment should be widened as described in Questions 7 and 8

Circumstance 3

Question 10: Do you agree with our definition of arming fees, and that this is the relevant price to capture under this circumstance?

We do not see the need for Circumstance 3. Intertrip agreements are bilaterally arrangements between the licence holder and National Grid. If a mutually acceptable price cannot be agreed then there is no intertrip agreement. If National Grid believes that the licence holder is attempting to charge excessive fees, it can take the generator to the Competition Appeals Tribunal. The situation of excessive arming of intertrips should not therefore arise.

Question 11: Do you agree that the indicators outlined above are useful for Ofgem to consider when determining whether inter-trip arming fees are excessive or not?

Please see response to Q10

**Question 12: Are there other factors or indicators that Ofgem should consider in interpreting this circumstance?
Please include any reasoning and evidence in your answers.**

Please see response to Q10