

Stuart Cook
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Ofgem
9 Millbank
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25th February 2010

Dear Stuart,

**Re: CAP 170: Current thinking and further consultation on Competition Issues,
Reference number 11/10**

Thank you for the opportunity to comment on Ofgem's letter outlining your current thinking together with further competition issues associated with CAP170. Our non-confidential response is on behalf of Centrica Energy excluding Centrica Storage.

While we are keen to see actions to decrease constraint costs across the industry, the consequences and implications of those actions beyond the obvious financial benefits need to be considered, and in this case our concerns, as outlined in previous CAP170 consultations remain unchanged.

In summary, Centrica does not support the modification as currently proposed. Our primary issues are:

- The removal of the generators' rights to refuse variation on a Bilateral Connection Agreement (BCA) and the associated significantly increased regulatory risk which may deter investors.
- The degree of reasonableness of the proposal given the existing legitimate commercial arrangements.
- The lack of detail on how the new intertrip process will be administered in practice and potentially discriminatory in its application.
- The need for a more cost reflective and appropriate intertrip payment mechanism. CAP076 (Treatment of System to Generator Intertripping Schemes) is inadequate.

However, if despite these views, Ofgem decide to approve and implement CAP170, our position on the issues outlined in your letter is as follows:

Competition Issues

Our views on competition issues remain unchanged and we refer you to our previous responses on these issues

Longevity of CAP 170 Modification

Given DECC are minded to endorse the Connect and Manage solution to transmission access then, at high level, it would seem appropriate for a CAP170 Intertrip scheme to remain in place until the transmission investment work addresses the reasons for the derogation. However, for this to be possible, further clarity is required. For example, it needs to be explicit, that the requirement for a Category 5 Intertrip will be removed when the boundary is no longer designated as non-compliant, and any further intertrips which NG envisages as necessary on that boundary will be the subject of normal arrangements. In turn, this requires the definition of a “derogated” boundary to be agreed. Conversely, there is currently no transparency of requests for derogation and /or generator control over further boundary derogations which may occur because the Transmission Owner fails to reinforce the transmission system in a timely manner.

Given the lack of clarity and transparency we believe strongly that an automatic backstop date is required for a review of CAP 170, post implementation.

Remuneration Issues

Given the proposed extension of the intertrip mechanism under the CUSC, we believe it is important to simultaneously review the associated standard intertrip payments (CAP076). The payments are outdated, inadequate, and not properly reflective of the generator’s costs’ associated with an intertrip and may need tailoring by generation type. Intertrips significantly reduce a plant’s operating hours and / or starts between maintenance periods, and expose businesses to significant and highly volatile imbalance risks. In addition, different plant types have different trip “recovery” issues, for example a nuclear plant will require more time to re-commission after an intertrip than (say) a hydro plant.

The operational intertrip payments under the CUSC are neither reasonable nor cost and risk reflective and this is further evidence that there has been insufficient consideration of all the details in this modification proposal. We recommend that NGET urgently publishes to industry and Ofgem the assumptions / reasoning behind the arbitrary payment in CAP076 and how this might be updated, to be more cost reflective of the current environment, so Ofgem is able to evaluate this modification with all the relevant details before them.

Given CAP170 will, in practice, impose Category 5 intertrips on some existing as well as new generation, where previously the intertrips were effectively optional, there are significant increases in risk for impacted generators. As a result, we believe it is essential that the methodology for calculating intertrip payments is reviewed, updated and implemented in parallel with the introduction of CAP170 and not addressed via a separate modification on a substantially different timeline.

Urgency

We agree that it is important to address the issue of high constraint costs urgently. However, there are still a number of important points of clarification outstanding that could seriously impact investment if not addressed in advance of any implementation of CAP170.

In particular, we seek clarity on the process to be applied where there are a number of options for exercise of operational intertrips along the same derogated non-compliant boundary. For

example, if the payment/cost to each candidate is administered, what criteria will be applied to determine which generator would be tripped off, and how would it be ensured that over time the approach is transparent and non discriminatory?

A clearly-defined process is needed for generators to understand the risks to their plant and businesses and for NGET to demonstrate fairness. This needs to be available well in advance of the application of any such process to enable such factors to be incorporated into the business case for any new plant or extensions to existing plant

In summary, if CAP170 is approved, the implementation date should allow for prior resolution of the following:

- Proper definition of a derogated boundary – including Ofgem's and TOs' views on the likelihood and timing of additional derogated boundaries. This is particularly important for investment decisions.
- A full review of the issues associated with administration of the intertrip process and ensuring full transparency and fairness.
- A full review of the payment mechanism to ensure generator cost reflectivity incorporated.

In conclusion, despite our strong support for the efficient minimisation of constraint costs, we remain unconvinced that the current proposal is appropriate and urge more consideration of the longer term implications of how the intertrip is implemented, priced, operated and ultimately withdrawn.

There is a need to ensure affected parties are treated fairly whilst ensuring investment, in both generation and the network remains an attractive proposition. Any decisions on CAP170 will need to be appropriate to minimise the risk of a legal challenge which would destabilise the industry for all stakeholders.

If you wish to discuss any of the issues raised in this letter please do not hesitate to contact me on the number below.

Fiona Navesey
Business Development Manager

Centrica Energy