

CAP170 Category 5 System-to-Generator Operational Intertripping Scheme

Further Consultation on CAP170: current thinking and further consultation on competition issues – reference number 11/10

23rd February 2010

- 1 National Grid welcomes the opportunity to respond to Ofgem's further consultation on CAP170.
- 2 National Grid Electricity Transmission plc ("National Grid") owns and operates the electricity transmission system in England & Wales, and is the National Electricity Transmission System Operator (NETSO).
- 3 National Grid continues to believe that CAP170, through introducing administered prices for intertrips capable of being armed with respect of derogated non-compliant transmission boundaries, has the potential to significantly reduce constraint costs. National Grid considers that this would both:
 - promote the efficient, economic and coordinated operation of the national electricity transmission system by ensuring that intertrip costs reflect the cost of providing the service rather than the cost of alternative actions; and
 - facilitate competition in the generation and supply of electricity through limiting potential BSUoS costs.

Competition

- 4 We would agree with Ofgem that the evidence contained in Appendix 1 of its consultation document suggests that the two main providers of intertrip services in Scotland hold substantial market power in a large number of periods, which may allow them to price those services significantly above the short run marginal cost.
- 5 As outlined in our response to both the May 2009 impact assessment and July 2009 consultation, National Grid continues to look for new and innovative ways of managing constraints. In respect of the Cheviot boundary (the only existing non-compliant derogated boundary), we have seen a reduction in costs following agreement with an additional intertrip provider. At present, this provider is only able to provide part of the total potential requirement for intertripping over the Cheviot boundary. However, this provider is currently working to extend its provision.
- 6 Within paragraph 1.22 of Appendix 1, it is stated that "while there are now two providers of inter-trip services, one (due to the location of its plant) remains the key player". It is not the location of plant that leads to one party being a key player, rather the fact the new provider is presently only able to provide part of our total potential requirement (i.e. a smaller volume).

- 7 We believe the reduction in intertrip costs on the Cheviot boundary has been largely due to the additional information on costs that has been produced via Ofgem's further consultations on CAP170 and, more generally, the increased industry focus brought about from raising CAP170. At present, National Grid is unable to provide detailed intertrip cost information for the Cheviot boundary due to the statutory restrictions on its publication of information about individual intertrip providers.
- 8 Information provision is important with respect to increasing competition and, more generally, to allow industry scrutiny of constraint costs and volumes. In order to publish constraint information at a reasonably detailed level the publication of the relevant information requires the consent of the parties offering the services. If this is not forthcoming, this leads to National Grid being placed in a dilemma over whether to refuse the use of a service from such a party even if it would lead to constraint cost savings. We are presently setting up an industry working group to discuss what further constraint information we should publish and how we should gain consent in order to publish this information (e.g. bilaterally or via a code modification to deem consent).
- 9 It is important to note that while the additional transparency; focus and scrutiny on prices have facilitated National Grid entering into new commercial arrangements which have provided cost savings, we cannot guarantee a long-term or sustainable reduction in costs as such services can be withdrawn or renegotiated at short notice by the contracting parties. Therefore, while the success of recent initiatives has seen a reduction in costs associated with the use of intertrips in 2009/10 and 2010/11, this approach cannot guarantee cost reductions being sustained in the longer term. As such, National Grid continues to believe that CAP170, through introducing administered prices for intertrips capable of being armed with respect of derogated non-compliant transmission boundaries, remains important through having the potential to significantly reduce constraint costs on a long-term and sustainable basis.

Remuneration

- 10 We agree that the administered price introduced by CAP076 is intended to be broadly cost-reflective and that it was developed by the CAP076 Working Group, taking account of a range of costs that might be expected to arise with the provision of an intertrip. Specifically, we note that under CAP076 there is no concept of an arming fee, which currently makes up a substantial part of the charges for intertrip provision on the Cheviot boundary.
- 11 In the consultation it is suggested that if a party felt that a more cost reflective price should be applied to the category of intertrip introduced by CAP170 (category 5), it could raise a new Amendment Proposal in parallel. In the absence of CAP170 being approved or rejected by the Authority, this new proposal would also need to define a category 5 intertrip and, as such, may be deemed to be substantially the same as CAP170 under CUSC section 8, clause 8.15.4 and hence rejected by the CUSC Amendments Panel.
- 12 Since the prices for CAP170 are based on those developed under CAP076, they are likely to be broadly appropriate however, noting the point above, if a different payment mechanism is considered appropriate for the proposed category 5 intertripping scheme, this could be addressed as part of the review following implementation of CAP170.

Please do not hesitate to contact David Smith on 01926 655534 if you wish to discuss this response.