

Kyran Hanks
Director, Wholesale Markets
Office of Gas and Electricity Markets
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18th September 2004

Dear Kyran,

Connection and Use of System Code Proposed Amendment CAP047:
“Introduction of a competitive process for the provision of mandatory frequency response”
Impact Assessment

Thank you for the opportunity to comment on the above document which considers some important issues in relation to the development of a frequency response market. British Energy has the following comments:

Key Points

- **British Energy does not support proposed Amendment CAP047 or the alternatives as we have concerns over the level of competition in such a ‘market’ given the concentration of ownership of plant capable of supplying the service and concerns over potential increases in costs.**
- **The information contained in the Impact Assessment report does not make a convincing case for the approval of CAP047 Alternative Amendment A. Indeed the arguments presented in favour are qualitative while those against are based on NGC’s analysis and experience of procuring ancillary services over the last decade or more.**
- **Should Ofgem nonetheless decide to introduce a change then Alternative Amendment B would appear to be a more proportionate option.**

We consider that the abandonment of cost reflective charging principles for frequency response payments as proposed in CAP047 will given the concentration of ownership of plant capable of delivering the service result in cost increases for customers. The present arrangements have delivered security of supply over a lengthy period by ensured that sufficient levels of frequency response is made available to the System Operator and we see no justification for a change at this time.

While market based mechanisms generally deliver lower costs than administered arrangements the market needs to be competitive. The information presented in the report suggests that a frequency response market would not satisfy such a test. The section on market liquidity concludes that at present a frequency response market would be “concentrated” i.e. not fully competitive. In signalling support for a change Ofgem provides no new analysis and seem content to be taking ‘a leap of faith’ that benefits will materialise. British Energy therefore remains concerned given the

concentration of plant ownership capable of supplying the service. We do not therefore consider that the information presented in the Impact Assessment supports Ofgem's conclusions.

We see no justification for change at the present time and consider that the existing arrangements which include provisions for service providers to have a right to request amendments to their holding payments and to raise a dispute if not satisfied continues to be appropriate. It is interesting to note that no evidence of under recovery has been presented by any of the service providers. This must call into question the need for change.

Notwithstanding the above arguments should Ofgem nevertheless conclude that a change is necessary we consider that Alternative Amendment B would deliver a more proportionate change.

Should you wish to discuss this response further then please contact me in the office on 01452 654182 or on my mobile 07774 767722.

Yours sincerely



John Capener
Head of Transmission and Trading Arrangements
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