

Our Ref
Your Ref

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Dear Kyran

CUSC Amendment Proposal CAP047: “Introduction of a competitive process for the provision of mandatory frequency response” – Impact Assessment

EDF Energy are pleased to have the opportunity to respond to this impact assessment consultation on CUSC Amendment Proposal CAP047.

EDF Energy have supported this CUSC Amendment Proposal as we believe that the introduction of competitive frequency response holding prices would better meet the applicable CUSC objectives by facilitating competition in generation and thereby promoting the efficient and economic operation of the transmission system.

We agree with Ofgem’s initial view that the Proposed Amendment Alternative A should be implemented and have provided some comments below on some of the points raised by Ofgem and NGC in relation to the assessment of this amendment proposal.

Market Liquidity

On the basis of the analysis undertaken by the BSSG and subsequently by NGC we would agree with Ofgem’s assessment that there is likely to be sufficient market liquidity in frequency response for competition in holding prices to be effective.

We also agree that the existence of a competitive market would be more likely to provide signals to potential frequency response service providers to make additional response available.

Procurement Costs

We note the NGC estimates of the likely costs of procurement of frequency response associated with the amendment proposals.

Whilst we agree that some providers may increase their holding prices, we would question the assumption that all prices would rise by 50-100%. It seems more likely that prices will change to reflect individual providers' current costs of providing this service and their ability and desire to compete. In some cases this may mean an increase in prices whereas other providers may have more flexibility to submit competitive prices to gain market share.

We would agree that there is likely to be an initial price exploration and settling period but in the longer term we would anticipate that the competitive arrangements would deliver enduring economically efficient frequency response costs.

Costs and Benefits

We note NGC's cost assessment which indicates that the Original and Alternative A proposals would be more expensive to implement than Alternative B due to the need to make changes to the dispatch algorithms to allow a greater variation in prices between providers.

However, in terms of the benefits of the proposed approaches, Alternative B would not deliver a fully competitive market as a result of the price caps and therefore would be restricted in terms of providing efficient market signals. We believe that as a result Alternative B would not better achieve the CUSC objectives of promoting competition and the efficient and economic operation of the transmission system to the same degree as the original and Alternative A proposals.

We hope that you will find these comments helpful. If you have any queries regarding this response please do not hesitate to contact me on 0207 752 2526.

Yours sincerely

Rupert Judson
Transmission Infrastructure
& Development Manager