

RWE response to the Impact Assessment on CUSC Amendment Proposal CAP047

The following comments are made on behalf of RWE npower plc, Npower Cogen Limited, Npower Cogen Trading Limited, npower Ltd., npower Northern Supply Ltd., npower Yorkshire Supply Ltd, npower Northern Ltd, npower Yorkshire Ltd, National Wind Power

Introduction

1. We welcome the opportunity to comment on this consultation on the CUSC Amendment Proposal CAP047. Whilst our views have already been made in relation to many aspects of the proposal in other consultations, the IA provides a useful opportunity to add to these in a wider context.
2. Although the IA covers a large number of detailed points, this response focuses on a limited number of what we see as the most important issues. We are broadly in agreement with Ofgem's initial views and support the initial conclusion that Alternative A offers a better outcome than Alternative B.

Likely levels of competition

3. One of the main purposes of the IA is to form a view on the possible cost of implementation of CAP047. A key factor in this analysis is the degree of competition that is available or that could become available in relatively short time-scales. From the analysis carried out by NGT, it would seem that there is sufficient capability available, which is sufficiently diverse in terms of its ownership to suggest that competition is likely to develop.
4. It is worth noting that the calculation of the Hirschmann-Herfindahl Index (HHI) provided by NGT, only mandatory Frequency Response is considered. However, as is shown in Table 3.3 of the IA, annual expenditure on Commercial Frequency Response is actually higher than that for the mandatory service. This suggests that a significant additional amount of capability is available in competition with the mandatory service.
5. The introduction of BETTA must bring more capability that will be available to the System Operator whilst the requirement for frequency response (determined by the largest generation loss to be secured) should not increase. This must further improve the levels of competition and reduce the likelihood of the cost increases forecast by NGT.

Validity of service cost estimates

6. Because of the levels of competition, we do not consider NGT's forecasts of costs to be credible. Of all the balancing services, frequency response is likely to have the highest level of competition. The service is non-locational and, since it is a mandatory service under the Grid Code, there are very few sites that are not able to provide the service. NGT cite the price increases seen in other balancing services as evidence that frequency response prices would be likely to rise by similar amounts. We do not consider that this can be implied because of the

differences in the nature of the services, which suggests that Frequency Response will be highly competitive from the outset.

7. If NGT are referring to Standing Reserve as one of the services where prices have increased significantly, then this should be set in context. Prior to the introduction of a tender process for Standing Reserve, a number of OCGTs able to provide the service had been closed. Following the introduction of the tender process, the participation of smaller providers has increased dramatically and recent history shows plant being brought back into service in order to participate in this market. Whilst prices may have risen, the market has responded by increased participation. In the medium term the resulting competition should start to reduce prices unless the need for the service increases, in which case further providers will make themselves available as a response to the price signals that would arise.
8. Similar price increases should not be expected in Frequency Response since the requirement NGT has for this service is significantly smaller than the available capacity to provide the service. We therefore agree with Ofgem that any price increases that might be seen on the implementation of the proposal will be significantly less than NGC's estimate and as the market develops, we would expect competition to drive prices down over all.

Administrative costs

9. We do not agree with NGC that significant changes to their despatch systems would be required as a pre-requisite for the introduction of CAP047. Current systems have to deal with significantly different holding prices and should be able to deal with the likely variations that could arise from CAP047. If, following implementation of the proposal, NGC see a benefit in making further developments to their systems, then they are incentivised to do so through their incentive scheme where the subsequent cost reductions outweigh the cost of systems changes. As a consequence, we agree with Ofgem that implementation costs are unlikely to be as high as NGC predict. There may be some small increase in administration costs in order to allow regular price changes to be captured, but these should be small, particularly if submissions are in a standard format submitted electronically.
10. It is unlikely that administrative costs for other market participants will be significant. Monthly price submissions might result in some small increase in use of manpower, but price changes will not be necessary every month and participants would be free to choose not to change prices. In the context of participation in the Balancing Mechanism, administrative costs should be negligible.