

Karron Baker
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20th April 2007

Dear Karron,

Recovering the costs for temporary physical disconnection (CAP048) – Open letter consultation and minded to statement

EDF Energy is pleased to have the opportunity to comment on the arrangements for recovering the costs of temporary physical disconnection.

Our general view is that generators should be appropriately compensated in the event of disconnection, but that this should not result in significant cost to other Users. EDF Energy is satisfied with the current arrangements and can see no reason as to why the GBSO/TO should have the opportunity to pass through any compensation payments.

Our view is as follows:

- The costs are negligible to the GBSO/TO and act as a an incentive for it to ensure that there are no temporary disconnections (i.e. it provides a reasonable penalty);
- The costs can be transferred between the GBSO and the TOs, rather than to other Users;
- It is unreasonable for a generator to expect a windfall payment in the event of temporary disconnection, funded by all other Users;
- If any pass-through of costs is allowed then it would not be unreasonable for generators to expect higher compensation.

In summary, we recommend reasonable/low compensation payments and no pass-through of costs¹.

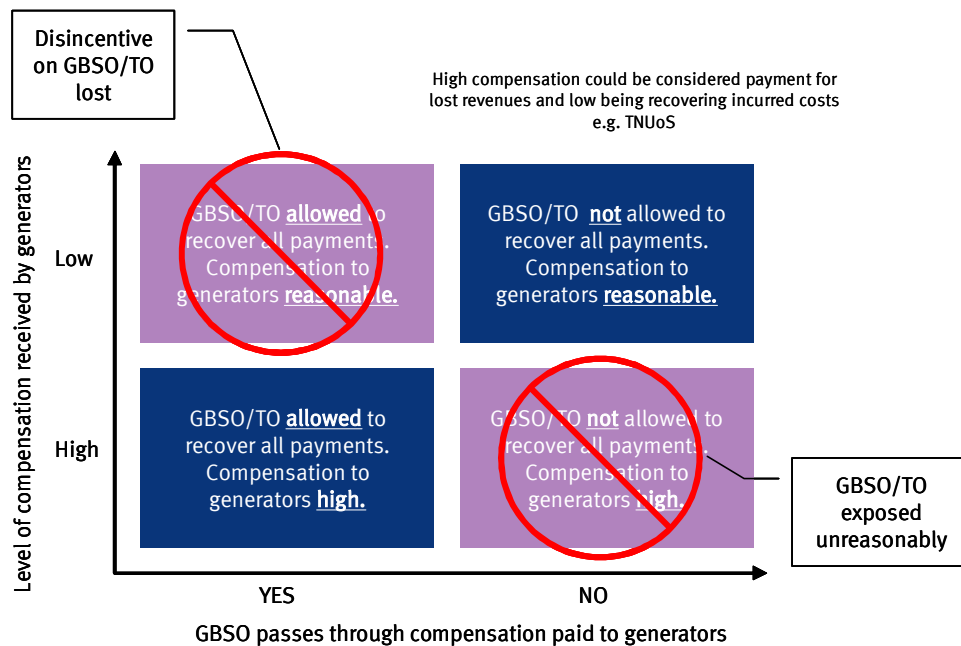
In order to come to this conclusion we analysed the issue on the basis of; Passing through the costs; and high or low compensation paid to generators, (where high compensation could be considered payment for lost revenues/value and low being incurred costs e.g. TNUoS).

It seems sensible that if the GBSO/TO is not allowed to recover costs then the generator cannot request a high level of compensation. Should the GBSO/TO be able to pass through costs, then expectation of what is “reasonable” will be higher. However in the first instance, under CAP048, we consider reasonable to be low compensation.

The analysis is identified in figure 1, with compensation and pass-through presented on each axis. We consider that two of the combinations presented in the figure are unreasonable, as either the disincentive for temporary disconnections will be lost or NGET would be exposed to unreasonable costs. This leaves us with two possible combinations; No pass-through and low compensation; or Pass-through and high compensation.

¹In our 2005 response we stated that pass through to TNUoS would be the best option, however we now believe that the materiality of the costs to either the GBSO/TO does not necessitate such a measure.

Figure 1: Options for compensation and pass-through



After analysing the possible options of pass-through and compensation, we considered whether there could be a compromise solution, where the generator would receive higher compensation, but that the GBSO/TO would be able to recover a proportion of the compensation it is forced to pay. This is presented in table 1.

Table 1: Exploring the potential for higher compensation and pass-through

	Current	Idea 1	Idea 2
Box on figure 1	[top right box]	[compromise between two boxes]	[bottom left box]
Compensation	Reasonable [costs incurred]	Mid-way [costs incurred + uplift]	High [lost revenue]
Pass through	None	50/50	Full
Disincentive on GBSO/TO	High	Medium	Low

We believe idea 1 to be a sensible solution which has yet to be considered and mirrors the arrangements in the GBSO incentivised balancing costs (IBC) for 2006-07. We must state however that we believe something similar to the current arrangements, where the GBSO/TO is responsible for the costs, yet the compensation payments are low, is perfectly reasonable.

We hope that you will find these comments helpful.
Yours sincerely,

David Scott
Electricity Regulation, Energy Branch