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**Response to Impact Assessment and Consultation – CAP170: Category 5 System to Generator Operational Intertripping Scheme**

Dear Lesley,

Thank you for the opportunity to comment on the above proposal. As the largest domestic supplier of gas and electricity, we are very conscious of the need to reduce unnecessary industry costs wherever possible, with our customer realising the benefits of those savings. This non confidential response is on behalf of the Centrica group excluding Centrica Storage Ltd.

While we do support actions to address the forecast constraint costs, as was stated in our previous response to the NGET consultation, we cannot support the proposal in its current form. Our rationale behind this was based on the following concerns:

- The timescales made available for such a fundamental change to the CUSC
- The removal of the generators' rights to refuse variations on a Bilateral Connection Agreement (BCA) and the associated significantly increased regulatory risk that may deter investors
- The degree of reasonableness of the modification proposal given the existing legitimate commercial arrangements
- The lack of details on how the new intertrip process will be administered in practice. Operation of all intertrips needs to be transparent and fair
- The proposal, in its current form, does not better facilitate the CUSC Objectives

We have responded to the specific questions you have outlined in the impact assessment below, detailing how our concerns have or have not been addressed since the initial NGET consultation.

Chapter 3

Question 1: Do respondents consider we have appropriately identified, and where possible quantified, the impacts of CAP170, including environmental impacts? If not, what additional quantification is required?

We do not believe that all relevant impacts of CAP170 have been fully identified. We believe that the introduction of CAP170 would have a significant positive impact on constraint costs, and the analysis has provided a number to attribute to those cost savings.

There are however other factors to consider, which include a concern we raised in response to the initial NGET consultation, namely the timescales made available for such a fundamental change. Without a working group, there has been no time to consider the wider implications of CAP170 as an industry, considering factors such as the necessary switch and plant modifications, which may be considerable, as may the wear and tear that needs to be factored in to any analysis.

In the footnotes on page 22 of the impact assessment, it also states that the use of intertrips may change generator behaviour at a non-compliant boundary, however this has not been modelled or factored in. This is something that could appropriately be considered within a working group and it should not be overlooked. There have been a number of proposals published this year (e.g. locational BSUoS) that could add a locational element to way the Grid is operated, incentivising generators to generate in areas and at times where there are low constraints. This in itself is part of a wider movement which may be expected to incentivise beneficial changes in generator behaviour. The worked examples and associated Procurement Guidelines give a good indication of what actions NGET might take in relation to category 5 intertrips. Assuming that generators would also take the least costly course of action, we believe there is considerable merit in a more detailed review of this area as it would give a clearer indication of the economics of the network post a CAP170 implementation.

We would welcome greater discussion surrounding constraint management and SO incentives, and are disappointed that the current constraints problem was not foreseen and factored into previous incentive agreements, to address the problem in advance so that a solution could be effectively considered in a more timely manner.

Question 2: Do respondents consider that there are additional impacts that have not been fully addressed? Where respondents consider that there are additional impacts, what are these impacts?

As highlighted above, Centrica agrees that there are additional impacts which have not been fully considered. The primary impact that has not been satisfactorily addressed is the [commercial] consequence of the removal of the generators' rights to refuse variations on a Bilateral Connection Agreement (BCA) and the associated significantly increased regulatory risk that may deter investors, another key concern raised in the initial response to NGET's consultation.

The current proposal fundamentally changes the way in which amendments to the BCAs are achieved by the inclusion of a new Implementation Section (4.2A.8) into the CUSC legal text. To date, changes to the BCAs have only been applied automatically for 'routine change'. Based on our initial review, we believe that this new section virtually removes any ability for the generator to refuse variations to a BCA which are proposed by National Grid. This changes the nature of the agreement which may no longer be truly "bilateral". In our view, if this text remains it will result in significant change to CUSC and BCAs, introducing an unacceptable level of unquantifiable regulatory risk to all connecting parties.

Specifically, this proposal changes the nature of current legitimate, commercially negotiated agreements and imposes mandatory NGET invoked instructions on receipt of approval from the Authority, without recognition of the subsequent technical or commercial impacts on the parties involved. The provisions are permanent and applicable to any derogated boundary; there is no guarantee that the use of these provisions would be reserved solely to address the issues occasioned by the current Scottish constraints and not invoked in the future or that there would always be only one derogated, non-compliant transmission boundary. On this basis we believe the approach to be disproportionate and unreasonable and that it may have serious negative impacts on the ability to attract investment in UK generation capacity as it would increase considerably the regulatory risk faced by investors.

This risk is increased further through contradictions in the impact assessment. On page 2, it is stated that "CAP170 would be a short term measure, remaining in place until enduring transmission access

arrangements came into force.” However on page 13, it is stated that “it is envisaged that Category 5 Intertrip Schemes would be in place until such time as the nature of the boundary changes (i.e. the derogation is no longer in place).” There is certainly no guarantee that progress with transmission access will remove the derogation on the Cheviot boundary in the near future, and with 450MW of Scottish renewables being advanced, it is stated on page 6 that this “is likely to result in the existing derogation against the Cheviot boundary being extended.” If this is considered in the context of the suggestion that Ofgem are likely to receive requests for derogations against other boundaries, the regulatory risk becomes too high.

For existing generators, with commercial intertrip contracts, consideration could be given to introducing the Category 5 Intertrip once the existing contractual arrangements are time expired or via an existing break clause. We recommend that NGET urgently review all existing commercial intertrip contracts and identify when these arrangements are due to end and, where they exist, the timing and content of any break clauses. This information should be provided to Ofgem and shared with industry in an anonymised form to inform the process and assist the development of alternative, more proportionate measures.

Question 3: Do respondents wish to present any additional analysis that they consider would be relevant to assessing the direct and indirect impacts of the proposals?

No

Question 4: Do respondents wish to raise any other issues that they have not had the opportunity to raise in the course of NGET’s consultations on CAP170 and the consequential changes given the urgent timescales?

No

Question 5: Do respondents have any views on the implementation issues associated with CAP170, including the nature, scope and development timescales for consequential changes to other documents?

Our most specific concern surrounds the Procurement Guidelines: Part C, Section 2.1, 2(f): Anticipated time to return to commercial load following an intertrip. We would like more detail concerning the source and mechanism for the provision of this information, as well as how NGET plan to form an accurate view on this point: taking into account factors such as the efficiency of the plant; the risk of damage; and consequent delays in returning to commercial load as a result of an intertrip.

Question 6: Do respondents consider there are any further risks and unintended consequences associated with CAP170 which the Authority should consider in reaching it’s decision?

As mentioned in question 2, we believe that the primary risk associated with CAP170 is the alteration of existing legitimately formed and legally binding agreements. We believe this has the potential to change significantly the level of risk faced by generators, potentially affecting investor decisions and subsequently future investment. We would urge the Authority to consider the longer term implications versus the shorter term cost savings.

## Chapter 4

### Question 1: Do respondents have any views on both the process and timetable that are proposed for the Authority making its decision on CAP170?

We reiterate that a workgroup is needed to ensure all issues are considered, and potential alternatives proposed.

## Conclusion

In conclusion, we believe that the potential negative impacts of CAP170, primarily the legal issues we have identified, mean this proposal represents too great a risk to generators, with a strong probability of damage to investor confidence due to an increasingly interventionist approach to regulatory policy.

In principal we agree with the majority of analysis conducted in the impact assessment. It is clear that Category 5 intertrips, carefully implemented, could represent a significant cost saving, and it is a shame that we, and most probably the rest of the industry, cannot embrace it in its current form as a significant step forwards.

If, despite such concerns, this modification is implemented, (due to the need to protect network users from exceptionally high intertrip costs during the approaching outage on the Cheviot boundary), we would strongly urge that it is done on a time limited basis and that an immediate workgroup is set up to properly evaluate alternative options which might be more appropriate on an enduring basis.

If you have questions regarding the response please do not hesitate to contact me.

Yours sincerely,



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