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Dear Lesley,

Response to CUSC Amendment Proposal CAP170 Impact Assessment "Category 5 System-to-Generator Operational Intertipping Scheme"

Thank you for the opportunity to respond to the above Impact Assessment, please find our response to the questions raised in the IA below. For the avoidance of doubt GDF SUEZ Energy UK does not support the implementation of CAP 170.

Chapter Three

Question one: *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?*

Within any Impact Assessment it is vital that the true scope and probability of occurrence is addressed. In the case of this IA there is no clear view of where, and how many derogations will be granted in future, it is therefore very difficult to quantify the magnitude of this proposal. Other than an inference in para 1.40 referring to the interim approach for GB SQSS derogations ("the 450MW") it is difficult to estimate when, where and how much these impacts will bite. For example the IA states "The interim approach we are adopting is likely to result in additional derogated boundaries, which would also be covered by CAP 170". There are no further stated assumptions or analysis to suggest to what extent these developments will result in the CAP 170 arrangements applying.

In this regard Ofgem do not have appeared to have thoroughly quantified the impacts of CAP170 in relation to the increased uncertainty of where derogations will be granted. More clarity is crucial here to reduce the uncertainty for generators as it is clear that once derogation has been granted NGET will have the ability to impose the uniform arrangements.

Ofgem's key themes do not include a section on the impacts to generators (unless the competition section counts but this covers very little on impact to generators). Under competition (3.29) Ofgem only states that it supports competition in the ancillary services market but administered arrangements may be regarded as more appropriate than market based solutions. CAP170 will eliminate competition in the Category 5 ancillary services market.

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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?*

Examples of how the arrangements could affect at individual generator level has not been addressed in the IA. Within the commercial intertrip arrangements currently are optional by nature and as the name suggests there is scope for specific terms to be agreed between NG and the generator, the value of which can vary, but both parties must agree to the value of the service provided rather than a value being imposed. Whilst GDF Suez Energy UK is sympathetic to the aim of reducing the costs associated with constraints, we are concerned that the proposed solution may lead to an inefficient outcome relative to the status quo.

The new interruption arrangements on the gas distribution networks introduced recently by UNC 090; effectively aim to solve a similar problem to commercial intertrip arrangements and as such can be viewed as a comparator to CAP 170. Here, the most efficient solution for areas of constraint was identified as one which gives customers to set the number of periods available for interruption and the option and exercise fees they would be prepared to accept as compensation. This mirrors the current commercial intertrip arrangements and calls into question the reasoning for the CAP 170 administered price approach.

The case has not been well made to justify two parallel set of arrangements running concurrently, one set for generators behind derogated boundaries and another for the rest.

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?*

Not at this time.

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

The extent to which the administered arrangements will impact on the terms of future negotiations for non-derogated commercial intertrip arrangements has not been identified as an impact within the IA. This may dampen the incentives for generators to enter into future arrangements.

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

The definition of a derogated non-compliant transmission boundary allows National Grid to apply for a derogation which can notionally be any boundary which is then approved by the Authority. This creates uncertainty of who, where, and which generators could be affected in the future and this effect has not been addressed in this impact assessment.

I trust this information is helpful and if you have any questions or would like to discuss further, please do not hesitate to contact me on 0113 306 2104 or mobile 07733 322460.

Yours Sincerely,



Phil Broom
Regulatory Affairs Manager
GDF Suez Energy UK