

Dena Barasi
Transmission and Governance
Ofgem
9 Millbank
London
Sw1P 3GE

Contact Bill Reed
Phone Phone 01793 893835
Email bill.reed@rwe.com

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Email: dena.barasi@ofgem.gov.uk

Locational BSUoS Charging Methodology – GB ECM-18 Impact Assessment and Consultation

Dear Dena

Thank you for the opportunity to comment on the Locational BSUoS Charging Methodology – GB ECM-18 Impact Assessment and Consultation. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE npower renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

We support the general conclusion of the impact assessment – that locational BSUoS will have an effect on the output of the marginal generator behind a derogated non compliant transmission boundary and lead to lower overall costs associated with the management of constraints (in the absence of market power). The precise overall benefit will depend on the impact of the charging proposal on the unconstrained merit order and this depends on the successful provision of market signals with regard to the presence or absence of transmission constraints.

We also believe that the evidence presented in the impact assessment supports the conclusion that locational BSUoS “may provide a sharper cost-reflective signal in the short run in areas where the long term investment lags significantly behind the level of generation being allowed access.” (Paragraph 3.54, page 22).

We note that there may be concerns about the potential closure of marginal fossil plant in constrained areas. However we do not believe that this will, at present, lead to additional network security issues in those locations. To the extent that such issues do eventually begin to emerge, such concerns need to be addressed by the system operator with regard to the provision of ancillary services in those locations and by the transmission owners through investment in new transmission assets. Further we believe that in areas subject to constraints there is the potential for a greater role of demand side management.

RWE Supply & Trading GmbH
Swindon Branch
Windmill Hill Business Park
Whitehill Way
Swindon SN5 6PB
United Kingdom
T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.rwe.com
Registered No. BR 7373
VAT Registration No.
GB 524 921354
Advisory Board:
Dr Ulrich Jobs
Board of Directors:
Stefan Judisch (CEO)
Dr Bernhard Günther
Dr Peter Kreuzberg
Richard Lewis
Alan Robinson
Head Office:
Essen, Germany
Registered at:
Local District Court,

With regard to the specific concerns identified in the impact assessment we have the following comments:

- ***the extent to which the proposal will be effective in influencing decisions to be efficient***

We believe an efficient process for disclosing the risk associated with the application of a locational BSUoS charge is required. This will require information to be provided by the system operator on the potential duration and extent of a constraint. The information should be provided ex ante in timescales that enable efficient hedging. In the case of constraints that occur within day we believe that information is required at least 4-hours prior to the relevant settlement period. On this basis we believe that the proposal will result in efficient hedging, has the potential to ensure efficient clearing of an unconstrained merit order and should ensure efficient real time dispatch. We also note that open and transparent information disclosure will, in the absence of market power, encourage within-day liquidity.

- ***the potential unequal impact on parties in the presence of market power***

We believe that concerns over market power are overplayed provided that there is sufficient information disclosure to the market of the extent and duration of constraints. The process of identifying periods subject to constraint should be open and transparent. We would expect concerns to be raised if it was considered that the costs of managing constraints were excessive.

It is also worth noting that the any incremental costs caused by parties with market power will, at least in part, be recovered from them via the localised BSUoS charge to be introduced. This feedback element in the locational BSUoS proposal should help to reinforce efficient behaviour and is one of the main reasons why the introduction of such a change would be beneficial to the efficient operation of the electricity market and to consumers.

- ***the possibility of wholesale price impacts***

We support the conclusion of the impact assessment which indicates that the proposal would not have a significant impact on wholesale price. Indeed we consider that it is likely that the overall costs in the market will be reduced (i.e. significant constraint costs will be avoided).

- ***whether there are objective grounds for targeting costs at generation but not on demand customers, and within the generation sector at larger generation but not small distributed generation***

As noted in our previous submission on locational BSUoS we believe that distributed generation and demand side participation should be considered as part of an enduring cost reflective solution to the costs of constraints. However, we support the implementation of GB ECM-18 as an interim measure pending further consideration of these issues.

We also note the comments in the impact assessment on the interaction of the locational BSUoS proposals and the re-design of the enduring access regime under consideration by DECC. We note that the DECC proposals could impact on the way access rights are priced. However, we believe that the locational BSUoS proposals are compatible with the “connect and manage” approaches currently under discussion.

While the locational BSUoS proposals have been developed in the context of a single derogated non compliant transmission boundary at the Scotland/England (“Cheviot”) border, we note from paragraph 1.18 (Page 6) of the impact assessment that Ofgem “*are currently considering derogation requests from the transmission licensees and expect that our current decision is likely to result in the existing derogation against the Cheviot boundary being extended, and additional derogations against other boundaries*”. Given that the locational BSUoS proposals apply with respect to derogated non compliant transmission boundaries, the potential for further derogations is a significant development. The nature and extent of these further derogation applications should be disclosed to the market as soon as practicable and NG should provide information that enables users to assess the potential risks elsewhere on the GB transmission system associated with the introduction of locational BSUoS.

Our specific comments with respect to the questions raised in the consultation document are included in Attachment 1.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

By email

Bill Reed,
Market Development Manager
RWE Supply & Trading GmbH

Attachment 1: Questions raised in the consultation document

CHAPTER: Three

Question 1. Do respondents have any comments on NGET's analysis?

The information presented in the impact assessment and by NGET supports implementation of locational BSUoS since significant cost savings through optimisation of generation running profiles is likely to be achieved.

Question 2. Do respondents wish to present any additional quantitative analysis that they consider to be relevant to assessing the proposal?

No

Question 3. Do respondents consider that there are any aspects of the proposal that have not been fully assessed?

We believe that the process for defining and designating other derogated boundaries should take into account the potential impact of locational BSUoS. This will enable parties to assess the risks prior to implementation of locational BSUoS. Such a process would facilitate the interim (and any enduring) connect and manage arrangement for transmission access.

Question 4. Do respondents consider that the key features of the proposal strike an appropriate balance between cost reflectivity, transparency, complexity and stability?

In general we support the process identified by NGET in their consultation. However, we believe that one of the key elements for users is the market signals with respect to the potential application of locational BSUoS across a designated boundary. NGET has indicated that they expect that this process will be open and transparent and we welcome this. However, we note that there needs to be a clear ex ante signal to market participants that will enable efficient market clearing in advance of a potential constraint period. This should include, for example, advanced notice to the market at least 4-hours prior to the applicable settlement period, perhaps through some form of constraint indicator on the BMRA (red light – high risk, amber light – medium risk, green light – no risk). Further work may be required to define this process.

Question 5. Do respondents consider that this modification promotes more effective competition? Conversely, do respondents wish to provide further detail of any discrimination concerns?

We believe that the introduction of cost reflective charges impacts on the marginal cost of generation and should result in a more efficient merit order and wider market signals. We do not have any discrimination concerns since the charges would be cost reflective.

Question 6. Do respondents consider that the proposal complements the changing nature of the transmission network and assists the development of an economic and efficient transmission system?

The proposal provides appropriate locational signals to market participants both in operational timescales and in investment timescales. However, we note that the process for designating derogated non compliant transmission boundaries requires further consideration.

Question 7. Do respondents consider that the different methodologies used in the proposal are appropriate?

We believe that the different methodologies used for calculating the short run and long run charges in the proposal are appropriate. We support the basis for calculating the TNUoS rebate which, we believe, is a pragmatic approach to calculating the approximate long cost savings that occurs as a result of the non compliance of the transmission system.

CHAPTER: Four

Question 1. Do respondents wish to present any additional quantitative or qualitative analysis that they consider would be relevant to assessing this proposal?

No

Question 2. Do respondents consider that there are any aspects of the proposal that have not been fully assessed against the factors set out in this chapter?

As noted above, we believe that the process for designating derogations to non compliant transmission boundaries needs to be clarified so that market participants can assess the risks of locational BSUoS elsewhere on the transmission system. However, the general effect of the proposal both in terms of cost recovery and economic despatch signals has been demonstrated using data from the Cheviot boundary.

Question 3. Do respondents consider that there is discrimination between transmission system users as a result of this proposal?

The differential treatment of generators across the non compliant transmission boundary can be objectively justified on the basis that users in constrained areas are currently benefiting from access rights that exceed the actual capability of the system to transfer electricity. The solution based on charging incremental short run costs when the constraint is active and rebating the long run charge better reflects the actual costs caused across the boundary. We do not, therefore, consider there would be any discrimination between transmission system users resulting from this proposal.

In addition, the proposal may remove discrimination and cross subsidy in the current rules that occurs through the non locational allocation of BSUoS costs in the presence of constraints caused by non compliance of the system at certain transmission boundaries.

Question 4. We welcome further views on whether the proposal could have an adverse impact on security of supply.

We do not believe that the proposal will have any adverse effects on security of supply.

Question 5. We welcome further views on whether the proposal could have an adverse impact on sustainability in particular the transition to a low carbon economy.

We do not believe that the proposal will have any adverse impact on sustainability or the transition to a low carbon economy. We note that there may be occasions when it may be necessary to curtail output from renewable sources in areas affected by constraints. However, we would expect that such occasions would be limited in duration and extent. Further, since these curtailments reflect the costs associated with resolving the constraints then such voluntary behaviour in response to normal market signals is appropriate. We would also note that the renewables subsidy mechanism will ensure that any curtailment of renewables would be expensive and would occur only after cheaper curtailment of conventional generators.

Question 6. Do respondents wish to present any further analysis on the wider implications of the benefit that may ultimately be expected to be passed through to consumers?

We note that the proposal has a potential for a significant effect by reducing the overall costs of constraints on the GB transmission system which, under the current rules, have increased dramatically. Therefore we believe that the costs to customers would be lower if this proposal were implemented.

Question 7. Do respondents have any views on the interaction of NGET's charging proposal with TAR as set out in this chapter?

We note that DECC are currently considering an access regime based on connect and manage. We believe that this approach has the potential for further increasing the costs of constraints and require derogations for other non compliant transmission boundaries. We believe that the locational BSUoS proposal is compatible with the approach adopted by DECC for enduring transmission access and would help offset the increased constraint costs that would inevitably result from DECC's proposals.