

Sheona Mackenzie
Electricity Transmission
Ofgem
9 Millbank
London
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30th November 2010

Dear Sheona,

RE: Proposal to modify the Security and Quality of Supply Standard by increasing the infeed loss risk limits (GSR007)

Thank you for the opportunity to respond to this impact assessment and consultation document. This is a non-confidential response on behalf of the Centrica group of companies excluding Centrica Storage Ltd. We have supported the wider SQSS review throughout and are keen for it to reach its conclusion in all areas.

Centrica holds or has interests in a mixture of generation assets with significant wind, nuclear and CCGTs and has a significant demand base. As such we are well placed to provide a balanced response based on first principles rather than in support of any specific generation technology.

Our views can be summarised by the following:

- We support the increase to the infeed loss risk limits as we believe this will facilitate GB's transition to a low carbon economy as well as providing benefits to GB's security of supply.
- Centrica reiterates its support for the socialisation of the corresponding response costs as the increase to the infeed loss limits provides a range of benefits for both large and small generation and facilitates the development of new power generating technology.
- The adoption of this proposal should be linked to a set date but only triggered when the requirement for higher infeed limits is reached by a new connection(s).

As the UK moves to a low carbon economy it will need to substantially increase its nuclear and renewable fleet. Although both these generation technologies introduce new challenges for the GBSO, in the form of different response and reserve requirements, they also deliver

significant wider societal benefits and are fundamental to the UK meeting its legally binding environmental obligations.

Additionally, whilst the transition to a low carbon economy is progressing, it is essential that the UK's security of supply is maintained. This change will facilitate the continued development of a range of generation technologies and has the potential to improve GB generation diversity, delivering associated improvements in GB's security of supply.

We support the increase to the infeed loss risk limits as we believe this increase will facilitate the connection of both larger generating units and other smaller units on existing spurs. Furthermore, this proposal will allow the potential for larger offshore connections to be developed. It will also remove the potentially perverse incentive to only develop and build plant which fits within the current limits.

We believe that new smaller generators will also benefit from this change, as they will be able to connect to existing spurs up to the new infeed loss limits, avoiding additional investment costs and minimising delays from the necessary planning and environmental consents.

In summary, in addition to facilitating the move to a low carbon economy and supporting GB's security of supply through the development of a range of generation technologies, this proposal also benefits many different sizes and types of generation technology.

Within the scenarios put forward in this Impact Assessment, there are two scenarios, 3 and 4, that suggest the development of larger nuclear units in place of smaller units, using only the delta between the two sizes in the calculation of the benefits of this proposal.

We suggest that the two sizes of new nuclear units are based on different technologies and as such are not commercially interchangeable. In the event of the increase to the largest loss limits being adopted, those companies already considering investment in new nuclear builds using smaller units are highly unlikely to swap technologies and use larger units instead and vice versa.

We believe it's unlikely that smaller units would automatically be displaced by larger units given that the MW costs are similar; hence both forms of nuclear development are likely to be considered for investment in the event of an increase to the largest losses limits. In addition, as stated above, due to security of supply issues, it is of overall benefit to the industry to have a range of technology types for new nuclear build in case one develops a technical issue.

Therefore, we believe that as alternatives scenarios 3 and 4 while appearing suitable as comparators on paper, may be unlikely to result in a commercial situation. Ofgem may have already taken this into account as they are labelled as being prudent, but it is unclear what exactly is meant by this. We are concerned that this approach risks significantly understating the potential risks of not adopting this change.

Finally, in relation to this proposal being brought forward to 1st April 2014, we do not object to its early adoption as we believe that it provides benefits to those generators who will connect in the interim and could otherwise trigger investments to be made to the transmission system that would be redundant within a couple of years.

We raise some concerns that under the current proposal, rather than the early adoption proposal, smaller units would not benefit from this change until a larger unit had connected. We therefore suggest the increase to the infeed loss limits should be linked to a set date and then only triggered once the requirement for a higher infeed loss limit is reached by any new connection(s) regardless of size.

Notwithstanding, if this proposal is implemented on a set date as now proposed, we would request that Ofgem confirm that no additional costs would be incurred by the community due to increased levels of frequency response held by National Grid until the additional generation is connected and generating at these increased levels.

I hope these comments have been useful. If you want to discuss any element of this response, please do not hesitate to contact me on 07979 566011.

Yours sincerely,

Sarah Owen

Commercial Manager
Centrica Energy