Dena Barasi
Electricity Transmission Policy
Ofgem
9 Millbank
London SW1P 3GE

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Dear Dena

Response to Ofgem's Impact Assessment on RWE Proposal P229

International Power (IPR) welcomes the opportunity to response to Ofgem's Impact Assessment on seasonal zonal losses. Following the combination with GdF Suez, IPR has 7.3GW of generation capacity in operation in the UK made up of a mixed portfolio of conventional plant – coal, gas, CHP, a small diesel plant and the UK's foremost pumped-storage facility. IPR's assets represent just under 9% of the UK's installed capacity making IPR the country's largest independent power producer. IPR is also as a significant supplier to the Industrial and Commercial market for both gas and electricity.

Summary

Ofgem's Impact Assessment of P229 and its Alternative has not changed International Power's view on zonal losses. The IA merely confirms the earlier analysis and adds some further scenarios. We continue to believe that the benefits of implementing P229 and its alternative are wholly disproportionate to the windfall gains and losses that arise from the revenue transfer from northern to southern generators. Ofgem has failed to quantify this impact or fully consider it in its assessment.

Responses to questions

Question 4. 1 : Do respondents consider that we have appropriately identified and where possible quantified the impacts of P229 Proposed and P229 Alternative?

No. The impact assessment identifies the net benefits of implementing P229 over a ten year period, yet when considering the redistribution of costs, only looks at a single year. The way these distributional impacts are presented in the CBA underplays the scale of these transfers. We do not understand why distributional data for only one year, 2011, is presented. It is misleading.

The net NPV benefit without environmental benefits over ten years amounts to £46m, whereas the north to south generator revenue transfer *for 2011 only* is estimated to be £31m. Assuming that this revenue transfer applies equally over the same ten year time scale at the same discount rate as used in the CBA, this equates to cost transfer from northern generators to southern generators of over £250m over the ten years of the impact assessment. This is despite the fact that all generators create losses on the system.

The benefits of implementing P229 are therefore wholly disproportionate to the windfall gains and losses. Ofgem has failed to quantify this impact or fully consider it in its assessment.

In addition, the full £46m benefit may not be realised due to the level of vertical integration; generators will be despatching their own plant to meet their contracts rather than 'perfectly' seeking the lowest price in the market. Therefore there is a limit on the extent of redispatch that will be achieved in practice and the benefit may well be overstated.

The Alternative gives a £12.5m without SOx and NOx benefit over the ten year study period and a net transfer from northern to southern generators of £13m for 2011 on its own. It is difficult to envisage why the regulator would wish to implement a modification where the revenue transfer in a single year is greater than the net benefit over ten years.

Question 4.2: Do respondents consider that there are additional impacts which we should take into account in the decision making process and, if so, what are these?

Yes. Ofgem should take much greater account of the north to south revenue transfer. Generators should not be penalised for historic siting decisions.

Question 5. 1: Do respondents consider that we have appropriately identified the potential interactions of the P229 proposals with TransmiT and the EMR?

It does seem perverse that if TransmiT is implemented, (either as a 'postage stamp' or commoditised charge), to facilitate the transition to low carbon generation, that a locational charge is then introduced through zonal losses that reduces the viability of the very generation that TransmiT is intended to encourage. Furthermore, the Impact Assessment recognises that either of the TransmiT options will reduce the TNUoS charges for generators locating in the north and thus will encourage more generation to be located in the north. Additional northern 'nodes' will change the TLFs making the impact of zonal losses more extreme. Clearly this would increase the benefit of implementing P229/P229A but would further damage the viability of northern located wind generation.

If Government is moving towards changing the TNUoS charging methodology and locational BSUoS has already been rejected by Ofgem, we question why Ofgem would want to implement zonal losses. Ofgem needs to first make a decision on the balance between socialisation of transmission charges (including losses) and cost reflectivity and then determine whether or not zonal losses fits within this decision.

Question 5. 2: Do respondents consider that we have appropriately indentified the likely impacts of these interactions?

No, the consultation has recognized that there are interactions but has not undertaken any analysis to determine how the level of zonal losses would change if extra generation was to be located in the north as a result of project TransmiT and how this would impact on siting decisions.

I trust you have found these comments useful, if you have any questions on this response, please do not hesitate to contact me on 01244 504658

Yours sincerely

Libby Glazebrook
Manger, Market Development