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By email to Alena.Aliakseyeva@ofgem.gov.uk

16th January 2014

Impact assessment on CMP201 – proposal to remove balancing charges from generators

Thank you for the opportunity to respond to the above impact assessment. This is a non-confidential response, which represents the view of the Centrica group of companies, excluding Centrica Storage Ltd.

We support Ofgem's minded to reject position. Our largest concern is the impact that CMP201 has on GB consumers. This increase in consumers' bills is not tenable given the current focus and pressure on costs. This is coupled with the uncertainty over the European Market direction and the lack of overall consistency between individual countries and the specific costs placed on generators. As such we welcome the rejection of this proposal until there is further direction from Europe and wider consideration of larger impacts to the wholesale price of electricity across individual countries.

Given the on-going directional uncertainties in the European market that could affect the benefits of this proposal and the detrimental impact that this proposal is calculated to have on GB consumers we do not consider this proposal is viable at this time. Furthermore, we concur with Ofgem that there are a number of significant other differences between the markets that have a far larger impact on European trade.

There must be certainty over the direction of the European market before wider analysis can be completed, to decide on the anomalies between European countries and therefore the actions that should be taken. Following this, potential defects in the markets can be more reliably identified and if modifications of this type are necessary, they can then be raised and considered. We believe this modification has been raised far too early in the overall European process and should be rejected until there is certainty from Europe and the potential defects can be considered more widely.

Answers to specific questions follow below and as always, if you wish to discuss the comments raised in this response, please contact me using the details below.

Kind regards,

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In response to the questions raised in the Impact Assessment:

Q1. Do respondents consider that we have identified the relevant impacts on the CMP201 proposal?

We do not believe that the impacts to GB suppliers have been clearly stated within the Impact Assessment.

If this proposal is implemented, GB suppliers will be liable for double the level of BSUoS costs they currently incur (we note that some of this increase may be offset by lower wholesale prices).

BSUoS charges are naturally unpredictable and volatile. Any increases or spikes in BSUoS charges will be as a direct result of National Grid taking more actions or more expensive actions in order to balance the Transmission system. Generators receive the vast majority of the revenue from these actions taken by National Grid. Therefore, any spikes or increases to BSUoS charges must result in, and result from, increased revenues to the generation community as a whole.

This must result in a lower BSUoS risk to the generator community as there is a natural hedge between their action revenues, received from National Grid, and BSUoS costs. If this proposal is implemented, suppliers will be subject to higher risks than generators as they do not have the hedge provided through receiving revenue from the actions taken by National Grid.

Additionally, generators contract their output ahead, sometime for many years, fixing the price (including BSUoS) that they will be paid for the power they produce. Suppliers, in taking out these contracts gain certainty for the prices they have to pay for their power to supply their customer base. BSUoS charges are included in the contract price and are fixed. Therefore the supplier is currently able to manage the volatility of the generator portion of BSUoS.

The supplier portion is effectively an unhedgeable risk. If this proposal is implemented, this unhedgeable risk will double, with suppliers unable to fix up to half of their BSUoS costs as they previously had the option to do, via power contracting. Instead they will be liable for the full BSUoS amount including the additional risk.

Q2. Do respondents have any quantitative or qualitative evidence on the likelihood of additional investment in generation that would offset the relative increase in wholesale prices?

Centrica does not believe that removing BSUoS charges from generators will directly result in changes to the investment decisions for new generation plant or the delayed closure of plant. As such, we do not consider that this benefit should be included within this impact assessment.

Q4. Do respondents agree with our initial assessment of the proposal?

Given our response under Q1, we do not agree with Ofgem's assessment that the impact of redistribution of costs from GB generators to GB suppliers is neutral. The amount of effective risk on suppliers will increase.