



Donald Smith
Ofgem
9 Millbank
London
SW1P 3GE

13th August 2014

Via Email: donald.smith@ofgem.gov.uk

Dear Sirs,

Consultation on CUSC Modification Proposal 224 ("CMP 224")

We welcome the opportunity to respond to your letter dated 14th July 2014 and, in particular, questions 2 and 3 set out therein.

InterGen supports the broad principle which underpins CUSC modification proposal 224 but believes that adoption of CUSC modification proposal 227 would provide a more appropriate long-term solution for the vexed issue of allocation of transmission charges between generation and demand particularly in the context of the implementation of Electricity Market Reform.

The impact on consumers of transferring costs from Generation to Demand under the different proposal submitted to us.

Reducing the costs for generators in the GB would help create a more level playing field with generators in Europe. As the Authority notes this should ultimately reduce the price of GB wholesale power making exports through the interconnector more attractive. In turn, this should ensure more conventional generation, which operates without subsidy, remains online or returns from mothballing to meet higher demand, thereby increasing security of supply.

In 2012, the UK mothballed or closed around 6GW of gas fired capacity as a result of deteriorating conditions for the technology in the market. These plants represent sunk assets, so increasing demand to encourage the return of these stations is an efficient use of the resources and contributes to security of supply. Overall then, in terms of the CUSC applicable objectives, reducing the costs of operating to GB generators through CMP224 (and CMP227) would facilitate effective competition which would support security of supply through encouraging generators to keep invested.

The impact on consumers of any additional risk that suppliers and/ or generators face for options with a shorter lead time for setting the G:D split as compared to options with a longer lead time.

We agree that a shorter lead time for implementation would initially increase consumer charges. History has shown that there is always a delayed response to wholesale prices of changes to the generation cost base but an immediate response to consumer prices of any supplier cost changes is likely under the current proposal.

InterGen (UK) Ltd

Registered in England in 1995. Number: 3039100. Registered office: 21 Holborn Viaduct London ED1A 2DY.



A solution to this would be by placing a higher fixed proportion of costs to suppliers. This adjustment to the fixed G:D split could be structured in such a way to ensure compliance with EC regulations yet at the same time improve predictability of TNUoS charging (therefore reducing risk premia) and allowing for catch-up of outstanding/ over-charged costs in subsequent years. Therefore we believe that a more suitable approach to achieve the same aims as CMP 224 would be the adoption of CMP227 instead.

Yours Faithfully,

Chris Elder,
InterGen