

Response to the E-ON STTEC paper to the CISG and issues subsequently raised

The consultations for CAP070 and UoSCM-M-13 fully explored the advantages and disadvantages of the current formula for the calculation of the STTEC charge. The STTEC product has been in existence for less than a year. It is therefore far too early to draw conclusions about the success of the product in achieving the above objectives.

In its UoSCM-M-13 decision letter of September 2004, OFGEM stated that the proposed modification would facilitate effective competition in generation

“by setting a charge for an additional access product that:

- ***should allow generators to access the market on a short term basis;***
- ***does not undermine the use of TEC as the primary charging product, hence avoiding the dilution of longer-term investment signals based upon annual TEC requests.***

The fact that there were no applications for STTEC for the winter of 2004/05 was simply a reflection of prevailing market conditions (relatively high plant margin in a mild winter). It does not necessarily mean that there is any fundamental problem with the STTEC product and its charging structure. The number of applications for the STTEC product can be expected to vary in accordance with prevailing market conditions.

We do not support EON's proposed Option 1 STTEC charge formula. It would limit the total annual STTEC charge to a maximum of only 120% of the equivalent annual TEC charge, and offer the opportunity to pay a fraction of the equivalent TEC charge to anyone generating less than 43 weeks of the year. For the vast majority of generating plant, STTEC would be far more attractive than TEC under any of the proposed alternatives. Even British Energy's proposed alternative dramatically reduces the risks associated with the use of the STTEC product.

RWE npower believes that all the proposed changes to STTEC charging would undermine the use of TEC as the primary charging product, and hence dilute the longer-term investment signals based upon annual TEC requests.

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