



Energy for
generations

ESB GT's response to Ofgem's Consultation on Anticipatory Investment and Implementation of Policy Changes

10/06/2022



1. INTRODUCTION

This submission presents ESB Generation and Trading's ("ESB GT") response to Ofgem's consultation on Anticipatory Investment and Implementation of Policy Changes. ESB GT welcomes this opportunity to discuss this important topic.

ESB's portfolio in Great Britain includes a combined-cycle gas turbine plant in the northwest, offshore wind farm interests in Scotland, and a growing onshore wind presence. A central feature of ESB's business is to deliver benefits to consumers by investing in the most efficient renewable assets, particularly offshore and onshore wind at locations where the wind resource is highest. Naturally, it is important for the rules to facilitate investments at locations where the energy yield is economically viable for these renewable assets.

By way of an introduction, ESB is Ireland's foremost energy company, with around 7,000 employees. Established in 1927 by the Irish Government, and remaining 95% state owned, ESB created the first fully integrated electricity system in the world. ESB owns the transmission and distribution systems in Ireland and Northern Ireland. ESB have been present in Great Britain since market liberalisation and for 25 years has powered homes and businesses across the country, investing around £2 billion. ESB was one of the first IPPs in the UK with our investment in Corby Power Station (350 MW) in the early 1990's.

ESB is supporting Britain's transition to a low carbon future by investing in flexible and renewable generation assets, including combined-cycle gas turbine, wind, and biomass technologies. ESB opened Carrington Power Station (880 MW), one of the most flexible and efficient plants in the market on the site of an old coal plant near Manchester. This was the first large-scale gas-fired station to come on stream in Great Britain since 2013. Carrington is owned by ESB's 100% subsidiary Carrington Power Limited. ESB also owns 125 MW of onshore wind generation capacity (with over 1,400 MW in the development pipeline across the UK), a 7 MW battery storage project in Lincolnshire, and recently invested in the 353 MW Galloper offshore wind project.

2. RESPONSES

2.1 Anticipatory investment – consumer sharing

Question 1: Do you agree that consumers should underwrite the risk of the AI Cost Gap by funding the AI Cost Gap until the later user starts paying TNUoS charges?

ESB GT response

Yes, consumers should underwrite the risk because they stand to benefit from 1) reduced TNUoS charges (from increased generation) that are socialised and 2) subsidies paid through the Contracts for Difference scheme. There may also be a case for the OFTO to bear some of the risk as well if a user's connection is delayed.

The Offshore Coordination Phase 1 Final Report states that “Adopting an integrated approach for all offshore projects to be delivered from 2025 has the potential to save consumers approximately £6 billion, or 18 per cent, in capital and operating expenditure between now and 2050.”

Question 2: Do you agree with the proposal to recover the AI Cost Gap from the later user if the later user connects? If so, do you agree that this should take place over the period of the relevant OFTO licence, starting from the date that the later user starts to pay TNUoS charges?

ESB GT response

Yes, because this would incentivise later user(s) to connect as soon as possible and increase utilisation of the shared asset. When there is a later user, both consumer and the later user should be liable for the AI Cost Gap up to the expiry of the current OFTO licence, on the assumption that the regulatory revenue period for the OFTO is not extended.

More clarity is needed on how the AI Cost GAP will be recovered when there is more than one later user. The mechanism should be fair to ensure earlier users do not pick up a disproportionate amount of the costs.

Question 3: Do you agree that, save for any amounts recovered under user commitment arrangements, AI costs should be recovered from consumers if the later user fails to connect?

ESB GT response

Yes, because consumers would benefit from increased renewable generation. Presumably the timeline for a later user to connect is up to the expiry of the existing OFTO licence.

Question 4: Do you agree with our assessment that policy option 3 better meets the aims of the Early Opportunities workstream of the OTNR?

ESB GT response

The objectives of the Early Opportunities workstream is to encourage coordinated efforts in the short-term for offshore transmission network projects. Broadly speaking, policy option 3 meets the objectives of the Early Opportunities workstream.

Perhaps the OFTO should have a role in this as it would be prudent to incentivise the OFTO to maintain and operate the shared infrastructure such that it can be used by as many generators as physically possible. This isn't about having maximum design capacity, rather prolonging the life of the asset beyond the expected 25 years. The overarching aim should be to be of service to as many offshore wind generators as possible during the asset's lifetime.

Question 5: Do you have views on the modelled assessment of capital cost savings? Please provide any additional quantitative analysis and any further information.

ESB GT response

The determination of capital cost savings outlines, as a key caveat, that each shared infrastructure scenario should be assessed separately as the actual design may feature different configurations.

2.2 Anticipatory Investment – Early-Stage Assessment Process

Question 6: Do you agree with the introduction of the proposed early-stage assessment process?

ESB GT response:

Yes.

Question 7: Do you think the information sought as part of the early-stage assessment process is appropriate and proportionate?

ESB GT response:

Yes.

Question 8: Do you have any views on the timing of the early-stage assessment process?

ESB GT response:

The early-stage assessment should be conducted as soon as possible. The consultation paper, in paragraphs 3.11 and 3.12, describes a review process by Ofgem based on the information submitted by the developer. ESB GT is confident that Ofgem has already considered the qualified resources required for the early-stage review.

Question 9: Is there any other information which you believe should be included in the confirmation to developers?

ESB GT response:

No comment.

2.3 Minimising AI risk with user commitment

Question 10: Do you agree with the proposed extension of user commitment arrangements to the potential later user of offshore transmission infrastructure which has been funded by AI?

ESB GT response:

This is perhaps unnecessary because the later user is already incentivised to connect as soon as possible through the AI Cost Gap measure (Question 2). If the user commitment from later users were to come to fruition, this would further complicate the financial investment decisions by the later user.

Question 11: Do you have any views on the manner in which the user commitment should be calculated?

ESB GT response:

No comment.

3. CONCLUSIONS

ESB GT supports the need to enable anticipatory investment with a model of risk sharing between consumers and generators that recognises the commercial realities facing developers when making investment decisions and does not impede projects from advancing quickly to deployment.

ESB GT would like to see clarification regarding how later users will pay the AI Cost Gap if projects are delivered at different stages. Given that the OFTO licence is 25 years, and the Tender Revenue Stream is recovered over that period, it is unclear if some projects will face 25 years of TNUoS charges and other less than that.