SSE Comments on "User Commitment" for existing users.

For users of new or additional capacity the proposed "user commitment" discussed at the Access Review Options Development Group (ARODG) is based on a number of years TNUoS. This is in place of "final sums commitment" on the potential deep reinforcements driven by the connection. To the extent that TNUoS represents the long run incremental capacity costs, this would be a proportionate reflection of the costs caused by the user.

Once connected, the new user can be expected to remain in service for a number of years to recover the costs of its investment in new facilities. In the SSE "straw man" it was not envisaged that the "user commitment" would be for a rolling period once new users are connected.

However, in planning the longer term reinforcements of the transmission system, it would be very useful if the transmission licensees could obtain information from existing network users as to when they might expect their capacity requirements to be reduced or terminated.

One possibility is for this information to be provided through a rolling commitment to all users. However, there are two problems with this

1. Many generating stations that are near the end of their commercial life are not able to predict far enough ahead to be able to commit to many years TNUoS. An example cited at the 14th March meeting was Drax, which a couple of years ago might have struggled to commit for more than a year, but whose fortunes have swung around since. A rolling obligation might therefore cause premature closure of otherwise viable plant. Given the uncertainties on energy price, EU ETS and LCPD, a long term TNUoS commitment might be deciding factor in making a closure decision. The decision becomes more marginal the further north the generator is situated, since the TNUoS becomes more of a material issue in the economics.

2. For the plant that can make such a commitment, the "X-1" years of TNUoS commitment becomes a sunk cost and the plant can continue to operate on a marginal basis until it becomes uneconomic to continue. In effect, the generator would be taking a decision each March whether to commit to a further year's TNUoS, as at present. The generator is still able to take a short term decision to close e.g. following a major plant failure that is uneconomic to repair. Therefore the "signal" given to the system operator is only of limited value – there is still a risk that investment will have been committed on the basis of the X years underwriting.

It is therefore clear that such a commitment would not provide the information that the system operator is seeking and may also have unintended consequences in that otherwise viable plant might be forced to close early.