HORIZON NUCLEAR POWER

ENERGY WORKING FOR BRITAIN

A UK company of E.ON and RWE

RESPONSE TO OFGEM'S LETTER OF 22 MARCH 2011 "PROJECT TRANSMIT: NEXT STEPS ON CONNECTIONS ISSUES"

1 Introduction

1.1 Horizon Nuclear Power (Horizon) welcomes the opportunity to respond to the Ofgem's letter of 22 March 2011 "Project TransmiT: next steps on connections issues"

1.2 Horizon is a joint venture between E.ON UK and RWE npower. We aim to develop, construct and operate around 6GW of new nuclear power station capacity in the UK and, to this end, we have acquired interests in land at Oldbury in Gloucestershire and Wylfa on Anglesey in Wales. We have also concluded grid connection agreements for both sites.

2 General

2.1 In general we support the concept of user commitment. As an approach we believe one of its purposes should be the appropriate sharing of the risk of asset stranding so as to discourage frivolous connection applications and those that are plainly uneconomic when the consequent development of the transmission system is taken into account. However, we do not believe it appropriate that the user commitment approach should be designed to remove all financial risks from the transmission owner or those who ultimately derive benefit from use of the transmission system. A balance needs to be drawn between the liability attributed to the developer of a particular generation project, the reinforcement of the wider system for it to remain compliant with the SQSS following the connection of that project, and works that will encourage projects needed in pursuit of broader public policy objectives such as the promotion of low carbon generation.

2.2 In this context user commitment needs to be viewed against the wider backcloth of the National Policy Statements and the studies that preceded them, such as Ofgem's project discovery. All of these studies have found that the configuration and capability of the extant transmission system will be inadequate to accommodate the generation required to meet the emissions targets of 2020. For instance:

2.2.1 The NPS has designated 10 sites for nuclear development none of which have sufficient transmission connection capacity.

2.2.2 There are no obvious points of connection for the Round 3 offshore wind sites leased by the Crown Estates.

2.2.3 The North/South interconnectors are insufficient to cope with the Scottish onshore wind developments.

2.2.4 The interconnections with other transmission systems that will be needed to manage the intermittency of wind generation have yet to construct.

2.3 The formation of user commitment principles in isolation to a wider development plan for the transmission system as a whole would seem out of place. The transmission system needs to develop in a holistic fashion in sympathy with the renaissance of the generation portfolio. A relevant regulatory framework that will encourage this is essential to ensure that the investment in the transmission system can be as optimal as possible, which in turn, is essential if the overall costs of providing low carbon electricity supplies are to be kept as low as possible for the benefit of customers.

2.4 The differing nature and timescales of the contributory generation developments envisaged makes achieving this optimality through a piecemeal approach to transmission development most unlikely. Instead there needs to be a coherent development of the core transmission system that can embrace the expected growth of schemes in their relevant timescales with appropriate incentives that will encourage the requisite investment in a timely manner. Such an approach would also seem to be the conclusion of the RPI-X@20 review. It must have cognisance of the likely generation developments but not be linked directly to them. It should not be an assumption of user commitment that generation projects should secure the whole or even the majority of the transmission investment that is going to be needed to facilitate the connection of low carbon generation.

3 High level principles for User Commitment

3.1 Generally the principles identified by Ofgem would seem relevant, but we would add the principle that user commitment should be in accord with the economically efficient development of the GB transmission system. We believe that adding this objective will directly support the prospect of a least cost development of the system and thus heighten the likelihood that excessive or inappropriate costs do not fall either directly or indirectly (through higher wholesale electricity prices or network charges) on the customer.

3.2 If our view below that the CMP192 processes should extend beyond the simple provision of financial security is accepted then it may be relevant to add sustainability to the list of supporting requirements.

4 CUSC modification proposal CMP192

4.1 CMP192 is relatively parochial in its scope in that it considers only the financial liability in respect of the development of the transmission system that should be shouldered by a new generator and the method for its calculation. Whilst this may be all that is necessary for smaller projects of a few tens of MW, larger schemes will require a much closer interaction between generation developer and the TO. For example at present the construction agreement requires only 3-monthly reports detailing progress of the project to be exchanged between the parties. Larger schemes, and especially those for nuclear sites, require almost continuous liaison between the TO and the developer

to ensure an appropriate engineering design, the satisfactory obtaining of consents, communication and consultation with the general public, and eventually the actual construction works. Indeed paragraph 2.3.2 of EN-5 notes "the Government envisages therefore that wherever reasonably possible, applications for new generation stations and related infrastructure should be contained in a single application to the IPC". Clearly it is expected that the consenting of both a new power station and the attendant transmission works will be made either jointly or in tandem.

4.2 If the CUSC is to be amended to provide an enduring arrangement for user commitment then we would suggest that its modification should also extend to defining methods of working that will help facilitate these larger projects and reflect the actual processes that are required, especially the design for the engineering works required and their joint consenting.

5 Prospects for a Significant Code Review

5.1 The objectives of CMP192 thus appear far too narrow for incorporating the concept of user commitment into the CUSC framework in an enduring manner. Causing the generator developer to secure financially some of the transmission reinforcement works may be appropriate, although we would suggest that this financial security should extend only to the transmission assets needed to connect the project to the Main Integrated Transmission System. Managing the risks of the reinforcement of the wider transmission system where investment will also be dependent upon the forecast of its future use by many other users, both generation and load, is best managed by National Grid who will be in possession of infinitely more knowledge of future developments and their expected timings. Obliging new users to provide more frequent information of their projects, and cooperate more closely with the TO might be reasonable in this respect. Crucially the development of the network will also be dependent upon the transmission technologies chosen for the purpose of its reinforcement, which are not the prerogative of the connecting party.

5.2 However, as we have implied above, the concept of user commitment should extend beyond the provision of financial security. It should also encompass the processes for the development of least cost engineering designs, cooperatively providing supporting studies for consenting procedures, and engaging jointly in the consultation of the works involved with a view to pursuing the development of both generation and network development in a holistic and coordinated manner. This suggests a much more comprehensive review of the CUSC than that proposed in CMP192.

5.3 The analysis undertaken to date in the CMP192 working group has looked at aspects such as the profile of transmission investment costs, SQSS boundary compliance ratios, and the prospect for asset reuse following project cancellation. In making this analysis the working group has drawn on 74 projects started since 2007. However, this portfolio is heavily influenced by on-shore wind farms in Scotland and cannot be said to represent the more substantial projects that will form the basis of generation

investments over the next decade. Furthermore timescales for the projects analysed are relatively short and cannot be taken as representative of the protracted programmes needed for nuclear developments. The limited scope of the modification and the restricted basis of the associated analysis both argue for a wider review that could be undertaken in a SCR.

6 TO licence reporting obligation

6.1 A challenge in the RIIO-T1 price control, and the principles that have been adopted following the RPI-X@20 review, is to ensure that investment in the core transmission system is as efficient as possible against a backcloth of disaggregated investment in new low carbon emitting generation. The difficulties and inertia of the sequential process of making connection offers, especially for wind farm projects where the success rate for completions is only around one in three, has led to government exercising its powers under S.84 of the Energy Act 2008 and imposing a “connect and manage” regime. This approach to helping meet low carbon targets is not without its problems, as has been apparent from the lost output from newly connecting schemes that have had to been constrained to ensure the system remains secure.

6.2 Regulatory oversight of how this position develops will be helpful in eventually determining a more enduring process for making and granting connection offers. To this extent an obligation on transmission owners to provide information that will enable Ofgem to assess how connection offers could be made more efficiently could prove helpful.