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By e-mail

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Dear Hannah,

Re: Project Transmit: next steps on connection issues

Thank you for your letter on the next steps on electricity connections dated 22 March 2011. This letter seeks views on (1) electricity user commitment and (2) a new Transmission Owner (TO) reporting obligation. Please find below our comments on these two matters.

In summary:

- we do not support a Significant Code Review;
- we believe Ofgem should work alongside the industry in the CMP192 process;
- we have serious concerns with the user commitment proposals for post-commissioning generators;
- we are not yet convinced about the need for additional reporting requirements for the TOs.

Electricity user commitment

We welcome the development and codification of an enduring user commitment arrangement. We very much support a timely solution and therefore we would like to see Ofgem work alongside the industry during the CUSC CMP192 modification process (see below). We believe this approach would be more efficient than having to go through both a CUSC modification process and a Significant Code Review (SCR). It would avoid a further delay in implementing an enduring regime which is in our view essential for investor certainty in respect of both existing and new generation projects.

We support the idea of reducing barriers for pre-commissioning generators, but we have serious concerns with the current user commitment proposals for post-commissioning generators. It is not possible for existing generators to provide long-term notice of TEC reduction and/or disconnection. Depending on the chosen methodology it will not deliver the

required network investment signals and/or will result in premature generator closures which could have serious implications for security of supply and will increase costs to consumers.

These issues have been extensively and thoroughly debated as part of CAP131 and the TAR process. Therefore we believe a line should now be drawn under the issue as part of the CMP192 process and that the issue should not be used as trigger for an SCR. It would not solve the problem, but only delay the implementation of an enduring user commitment regime for pre-commissioning generators and add to the uncertainty of existing generators.

In addition, when deciding whether or not to initiate an SCR, we believe account should be taken of the fact that CMP192 was effectively raised as a skeleton modification proposal, to be fully developed by the working group. We support this approach, but it means that standard modification timescales may not be sufficient in this situation and not meeting these should therefore not be considered a trigger for an SCR.

Finally, to enable the industry to develop an enduring arrangement in a timely manner, it would be helpful to better understand some of the points raised in the March letter, including:

- why Ofgem is not convinced that the current arrangements strike the right balance of risk between new and existing network users, the network companies and consumers (p.2);
- what risks Ofgem is trying to capture – in our view a distinction should be made between network stranding and under-utilisation;
- what the risks/costs to consumers are – we believe the risk/cost of premature closures of existing power stations should be taken into account, as mentioned above;
- what exactly the high-level principles (p.2) and “fit for purpose” (p.3) mean in the context of user commitment – the principles pull in different directions;
- the interaction between project Transmit in terms of aims (p. 3 and 4) and timescales – to avoid investor uncertainty further changes to a new user commitment regime should be avoided;
- any changes in Ofgem’s view regarding user commitment (including on discrimination) since CAP131 and the TAR process.

TO reporting obligation

It is our understanding that Ofgem is considering introducing reporting requirements on TOs to gather further information with regards to the connection process. Without further details and a cost-benefit analysis we are not sure how useful these requirements will be.

Our initial view is that at least some potential areas for development (fees and dialogue with connectees) may not require reporting requirements as there already seems to be sufficient evidence that these areas could be improved and that this could be done via the normal industry process. Regulatory burdens should, in our view, be avoided where possible.

Finally, it should be ensured that, whether as part of a formal reporting requirement or modification process, the views of all relevant stakeholders in the connection process are captured, including the SO, TOs, DNOs, and developers (with or without connection agreement).

We hope these comments have been helpful. If you have any questions or would like to discuss, please do not hesitate to contact Ricky Hill (ricky.hill@centrica.com) or myself.

Kind regards,

Merel van der Neut Kolfshoten