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Your ref. 12/12
Our ref. 120307_CMP192

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Dear Vanja,

RE: Impact assessment on National Grid proposal CMP192: enduring user commitment

DONG Energy is a leading energy company operating in Northern Europe and headquartered in Denmark. It is heavily one of the most active offshore wind operators and investors in the United Kingdom with a total pipeline capacity of 2.8GW. We also have a new CCGT gas fired power station of 824MW output at Severn in South Wales.

We welcome the opportunity to comment on Ofgem's impact assessment.

Question 1: We welcome stakeholders' view on whether we have identified all the relevant impacts of CMP 192.

Ofgem have identified the main relevant impacts.

Question 2: Do stakeholders agree with our assessment of the potential environmental impacts of the proposal?

Ofgem's assessment of environmental impacts is largely appropriate, and agree with the view that the proposals will lower the barriers to entry for new renewable generation capacity.

We question Ofgem's consistency in the question of whether the four-year user commitment period for post-commissioning generation will cause (thermal) plant to close early rather than risk uncertainty over future fuel/wholesale electricity prices over the four year period. Under the environmental impacts section the consultation document claims that there is such a risk, whereas in the chapter on post-commissioning generators such an impact is dismissed. If Ofgem's modelling results presented in chapter 6 are accurate and the four year period doesn't have an impact on early closure of plant, then there should be no environmental impacts as a result of the closing decisions of thermal generation.

Question 3: We seek stakeholders' views on the potential implications of the potential perverse incentives, and views as to how they may be mitigated.

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We do not believe this will be an issue. The level of investment at stake for an offshore wind farm vastly exceeds the liability that would need to be secured in the example given in the consultation. There are significant drivers for a developer to connect a project in a timely manner, such as meeting deadlines set out in the financial support regimes to ensure that the project will remain economically viable. Such pressures may increase under the new Contracts for Difference mechanism, which may include penalties for late delivery.

Question 4: Do stakeholders agree with our summary of the impact of the CMP 192 original proposal on pre-commissioning generation?

We believe the summary is broadly correct.

Question 5: Do stakeholders agree with our current thinking that placing a four-year liability for wider works on pre-commissioning generators is appropriate?

We agree that a four year period is appropriate.

Question 6: Do stakeholders agree with our view that the proposal to halve the liability on generators for local works that are designed to accommodate demand, either existing or in the future is not appropriate for the reasons set out in this chapter?

We believe it is appropriate to include some cost sharing with demand when assets are designed to accommodate demand. We understand Ofgem's argument that this may not be appropriate to do on a 50:50 basis across all shared infrastructure, as the share used by demand may be significantly lower.

Question 7: Do stakeholders agree with our view that the proposed credit cover arrangements are appropriate and provide valuable protection to consumers?

We agree that the credit cover arrangements are appropriate.

Question 8: We seek stakeholder views on the extent to which asset health and the associated plant life assessment could hinder generators in providing four-year user commitment notice.

Ofgem should clarify the implications of a reversal of a TEC reduction: will there be an opportunity for generators to change their minds regarding closing during the four year period?

Question 9: We would be interested to hear stakeholders views on whether we have appropriately identified all the relevant interactions with

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Our ref. 111205_EDCM

See comments for question 11. We could not fully understand what and how the risk have been assessed. This is a key element to understand the current analysis and we are not in the position to comment on that, unless further clarifications are provided.

Question 13: Taking into account various factors discussed in this document that may have an impact on generators' ability to provide four year notice and National Grid's analysis presented in this chapter, we seek stakeholders' views on the most appropriate length of the notice period for post-commissioning generators.

We think that a four year period is the most appropriate for post-commissioning generators.

Yours sincerely

Ebba John
Regulatory Affairs Advisor
DONG Energy

other policy developments, and potential impacts on user commitment arrangements in general and more specifically, our consideration of CMP 192 proposal.

We note the absence of Project TransmiT from Ofgem's list of current policy developments. Depending on the location and type of generation, changes to the TNUoS charging arrangements may affect the economics of post-commissioning generators, requiring some to close earlier than anticipated or vice versa.

Question 10: Do stakeholders consider that a level of uncertainty associated with policies currently being developed in greater detail could hinder generators in providing four-year user commitment notice.

The full details of the proposed Capacity Mechanism are still unknown, but could have a significant impact on the economics of e.g. gas plant which may choose to run for longer than previously anticipated. As mentioned above, Project TransmiT may also have an effect on the ability of some post-commissioning generators to remain on the system.

Question 11: We welcome stakeholders' views on the analysis presented in this section and, where available, any additional information and/or analysis in relation to the impact of CMP 192 on the efficiency of network investment.

The analysis produced by NGET is at a high level and provides a clear indication in support of the proposed four year notice. However, we believe that the results shown here should be considered only as worst case scenario, as it is highly unlikely that all investments at risk will not be needed, due to generator cancelling their connections less than the proposed four year notice. Therefore, although the proposed analysis shows the worst case unnecessary spending by NGET, we do not believe this to be realistic and therefore could not be used alone to support the proposal of this document.

We could not understand what the sentence in the footnote 44 means. What are "investments tagged as being for exit" and "investments tagged as entry"? and how do they refer to the Entry/Shared figures in Table 9?

We also believe it would have been useful to perform a historic analysis and show the extent of the impact of early cancellations on NGET investments. Although we understand that past conditions cannot be used to forecast the future of the grid, it is our opinion that a combination of past and future figures would have made the analysis more relevant to support (or not) the proposed methodology.

Question 12: We seek stakeholders' view on the approach to risk adopted in National Grid's analysis and on the potential alternatives to assessing the risk.