

Vanja Munerati
Electricity Transmission Policy
Ofgem
9 Millbank
London
SW1P 3GE

12 March 2012

Dear Vanja

Investment in electricity generation: Impact Assessment on National Grid proposal CMP192: enduring user commitment

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy welcomes the opportunity to respond to this impact assessment, the key points of our response are:

- EDF Energy welcomes the statement from Ofgem in this impact assessment confirming that different treatment of pre-commissioning and post-commissioning generators can be considered as not discriminatory.
- We agree with this view and continue to believe that a four year user commitment for post-commissioning generators should not be introduced.
- We welcome the focus Ofgem has given to regulatory and asset health issues for post commissioning generators.
- It is clear to us that these are sufficiently significant for generators that a four year notice period should not be introduced.
- The liability and security arrangements for pre-commissioning generators are well developed and we welcome their introduction into the CUSC.
- We consider that the option to share local connection liabilities with demand users might reduce or remove a barrier to entry for some classes of generator.
- However, in view of the increased risks for consumers, without further analysis or development we agree that this issue should not be progressed as part of the CMP192 proposals.
- Allowing developers the option to retain their current agreements through grandfathering might be beneficial; however, we acknowledge that there might be an additional burden on National Grid to achieve this.
- In conclusion we are broadly aligned with Ofgem's position on the key attributes of CMP192.

EDF Energy welcomes the statement from Ofgem in this impact assessment confirming that different treatment of pre-commissioning and post-commissioning generators can be considered as not discriminatory. We agree with this view and continue to believe that a four year user commitment for post-commissioning generators should not be introduced.

We have previously acknowledged the intention of National Grid to improve efficient transmission investment using data supplied by generators, and its specific view that for network planning purposes the entry capacity requirements of generators is not a function of generator lifetime. However, recent changes to the Security and Quality of Supply Standards have indicated that the future system will be planned and built on the basis of the economic trade off between transmission investment and expected constraint costs. It would therefore appear that factors other than the size of a generator and its future requirement to export power are used for network planning purposes. Consequently although there remains strong evidence that sufficient transmission capacity is needed to meet the needs of both generation and demand users, differential treatment of pre- and post-commissioning generators seems both reasonable and appropriate in the context of CMP192.

On this basis we strongly recommend that Ofgem should retain the existing commitment period for post-commissioning generators when making its decision on CMP192 proposal and its alternatives. We maintain that a four year notice period is not achievable and has the potential to introduce an incentive to retain TEC as plant approaches end of life. This is particularly true where factors other than fuel price can influence the lifetime planning of a station and we welcome the focus Ofgem has given to regulatory and asset health issues in this impact assessment. It is clear to us that these are sufficiently significant for generators that a four year notice period should not be introduced.

We welcome the analytical focus Ofgem has given to the potential impacts on thermal generation, which concludes that fuel and wholesale market price volatility over a four year period is likely to have only a minimal effect on plant closure decisions. We maintain that issues other than fuel price are likely to be significant for generators and acknowledge the difficulty of modelling this kind of decision making. It is likely to be extremely difficult to undertake a fully quantitative assessment of the proposals which would include any potential consumer impacts. Such an assessment might be considered to be inefficient, and the potential benefits of the information provided could be minimal, given the current strength of the case for rejecting a four year user commitment period.

The liability and security arrangements for pre-commissioning generators are well developed and we welcome their introduction into the CUSC. Regarding the notice period for pre-commissioning generators, the four year liability for local works has some merit, given the typical TO expenditure profiles presented in the proposal. However, we remain of the opinion that this generic profile does not reflect those transmission investments which are not average and contain the potential for late delivery by the TO of contracted connection dates. This imbalance of risk is not addressed by CMP192. However, we agree that a shorter liability for wider works for pre-commissioning generators has a limited materiality and we acknowledge that placing a four year liability on pre-commissioning generators is appropriate.

We consider that the option to share local connection liabilities would benefit some types of new generation projects, and it is notable that, in Ofgem's impact assessment for pre-commissioning generators, an onshore island generator has very similar liabilities under both existing arrangements and CMP192. However, where requirement for new local transmission investment is driven specifically by new generation projects, a 100%

allocation of the investment risk to the new generator does seem reasonable. Without further analysis or development, we agree that this issue should not be progressed as part of the CMP192 proposals, as the increased risks to consumers might be significant.

An option for pre-commissioning generators to remain on their current liabilities may reduce a contractual burden, particularly for those close to commissioning. However, it is notable that the reduced financial security arrangements benefit all pre-commissioning generators, and we acknowledge the administrative burden that grandfathering could present for National Grid.

In conclusion we are broadly aligned with Ofgem's position on the key attributes of CMP192 and we welcome the approval of a CMP192 alternative proposal with the following features:

- A four year user commitment for pre-commissioning generators.
- A two year user commitment for post-commissioning generators.
- Allocation of 100% of local liabilities to pre-commissioning generators.
- The exclusion of grandfathering of liabilities for pre-commissioning generators with existing bilateral connection agreements.

Finally, we consider that a short guidance note on the transitional arrangements would be beneficial. Guidance from National Grid including worked examples will allow both pre-commissioning and post-commissioning generators to adequately consider their commercial positions prior to any deadline for providing notice to National Grid.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Stefan Leedham on 0203 126 2312, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Linford', written over a light blue horizontal line.

Denis Linford
Corporate Policy and Regulation Director

Attachment

Investment in electricity generation: Impact Assessment on National Grid proposal CMP192: enduring user commitment

EDF Energy's response to your questions

CHAPTER: Four

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

We consider that the impacts of CMP192 have been identified and well summarised in this impact assessment.

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

The approach to assessment of environmental impacts seems appropriate. However, we would not that the issues relating to asset health of a power station might easily result in incorrect notice to National Grid of TEC requirements. This is apparent when considering Oldbury power station which announced the cessation of generation on 29 February 2012, however we note that the TEC Register¹ indicates Oldbury notified National Grid of a TEC requirement for 2012-13 suggesting that the planning of their closure was beyond April 12.

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

We consider that the mitigation of any potential perverse incentives might be dealt with post-implementation.

CHAPTER: Five

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

Yes, we welcome the manner in which this has been presented.

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

Yes, however please see our discussion of this issue above.

¹ <http://www.nationalgrid.com/NR/ronlyres/AA41B933-3CE1-453B-8AE6-CAF387768837/51937/TEC27February12.xls>

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 agree that the sharing of liability with consumers for local works should not be taken forward as part of CMP192.

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 CMP192 does not warrant a change in the credit cover arrangements.

CHAPTER: Six

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

We consider this issue to be critically important. While the analysis Ofgem has given has focused on the interaction of fuel price volatility and notice periods this issue of asset health and the decision to continue to invest in an existing power station in order to continue operation is likely to be relevant for a number of different technologies. It might therefore hinder all generators from providing a four year user commitment notice.

Question 9: We would be interested to hear stakeholders' views on whether we have appropriately identified all the relevant interactions with other policy developments, and potential impacts on user commitment arrangements in general and more specifically, our consideration of CMP 192 proposal.

The acknowledgement of other policy factors seems comprehensive.

Questions 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?

Yes, we agree that there are significant issues to be managed by generation in their lifetime planning many of which might have a very material impact on their decision to continue operation.

CHAPTER: Seven

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.

We consider that this analysis is fairly opaque and have no additional information.

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

The approach to risk described in the impact assessment seems to fail to take account of other sources of information available to National Grid.

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.

As we have discussed a four year notice period for post-commissioning generators should not be introduced. We do not believe that a four year notice is achievable and therefore do not support the view that transmission benefits will be realised.

**EDF Energy
March 2012**