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Dear Vanja,

### **Impact Assessment on National Grid proposal CMP192: enduring user commitment**

Thank you for the opportunity to respond to the above impact assessment. E.ON UK continues to support CMP192, but only those variants which retain the current notice period for post commissioning generators. Our comments on the specific questions asked in the consultation are as follows.

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

The impacts appear to have been largely accounted for, although we would disagree with some of the analysis associated with the ability of post commissioning generators to provide notice period of closure decisions. Closure decisions, like decisions to build new projects, require the management of a large number of issues. It is the interaction between these which determines when it is deemed best to close a station. Generators throughout the CMP192 process provided views that these sorts of decision are likely to be taken over a relatively short term timescale in reaction to information on a number of different factors such as market prices and the state of old generation assets.

The analysis undertaken in respect of power and fuel prices, where generating stations were considered as a number of call options, whilst interesting, doesn't seem to represent the reality of the situation that generators are faced with. It appears to ignore a number of considerations such as decisions that generators may have to make such as whether or not to refurbish part of a station in order to allow it to run for a short while longer, or to

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provide that option to generate. We remain of the opinion that the lack of long term energy pricing is a significant barrier to generators being able to provide four years notice, but is not the only limit on this. The health of generation assets is a significant factor too.

However, we do agree with Ofgem's conclusion that pre and post commissioning generators represent different circumstances and that to treat them differently would not represent undue discrimination.

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

Yes. For pre commissioning generators it seems sensible to assume that by assisting the development of new generation projects this will lead to a more rapid reduction of the carbon intensity of the generation market, although quantifying this effect is somewhat challenging.

In respect of pre commissioning generators, we believe that a four year notice period could lead to some plant closing earlier than would have otherwise been the case, particularly when implementing the new arrangements, in order to avoid the greater liability for charges. However, there is no reason to believe that this would lead to a higher carbon outcome than the status quo, but could have implications for security of supply.

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

The perverse incentives described in the document are potential issues. However, they are likely to occur in limited circumstances only. For instance, the example given in the impact assessment document describes the risk that a generator may ask for a later connection date than one it would have otherwise chosen to avoid providing user commitment for anticipatory investment made in local works. We do not believe that this is very likely to happen. Building a power station is a complex undertaking requiring the management of a large number of different issues. The timescales of the project are therefore driven by more than the user commitment arrangements. Issues such as planning consent timescales and eligibility for funding such as multiple ROCs are likely to play a big role in determining the required connection date. Another major factor will be the ability of the relevant transmission companies to carry out the required transmission investment.

Additionally, even if a developer was to delay the connection date in such a manner, it would not affect whether the anticipatory investment was correct or not. This would be dependent on whether it was used, not on whether a developer avoided providing user commitment for some or all of its local works. Therefore, we do not believe that any mitigating action is necessary at this time.

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

Yes. In general we agree that CMP192 will produce winners and losers, although the general effect of the proposal is to reduce the impact of the user commitment arrangements on pre commissioning generators.

**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. The working group assessment has shown that this is an appropriate timescale which reflects the period over when significant spend is undertaken in transmission investment prior to the connection date.

**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?*

Yes. This proposal was developed by the working group to assist with potential issues on islands and we agree with its aims. However, as is pointed out in the impact assessment document, the proposals are rather broad and not very well developed. Therefore, it would seem appropriate not to implement them at this time and perhaps develop something more sophisticated in due course. One solution may be to reassess whether the definition of local works is appropriate for all situations which may arise.

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

Clearly, the credit cover arrangements are relaxed as a result of CMP192 and to that extent could be considered to provide less protection to customers. However, the working group has shown that perhaps the present arrangements resulted in too much cover being required which could be hampering efforts to develop the new generation projects which are required to meet customers' demand. We believe that the correct balance has been struck.

**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.*

As we mention above in response to question 1, generators have to balance a number of issues when deciding whether and when to close a station. Asset health is clearly an important consideration. The issue with this is that it can be relatively short term events which are the determining factor. An example of this can be the failure of an important asset at the power station which is needed in order to operate the station going forward, but which would prove uneconomic to repair. Until this failure then it may have been profitable to operate that station for a few years more but the whole economics are altered by a very short term event. These sorts of issues are to be expected with old power stations where much of the equipment will have been operating for many years and

therefore more prone to failure.

**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 items identified appear relevant. However, two important policy uncertainties are not listed. The first of these is the possible change to transmission charging under Project Transmit. If significant change is made to the charging regime, such as by implementing the Improved ICRP model, then the significant windfall losses experienced by some plant in the south may cause them to close earlier than they would have and could affect new plant development. The second important uncertainty is the possible cash out review that Ofgem may undertake. Again, significant changes could impact on station's decisions to close or indeed could affect new development decisions.

**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?*

This is difficult to assess fully without knowing more of the detail associated with any new policies. However, it is possible that some may hinder the ability to provide notice further.

**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 conclusions drawn by Ofgem seem appropriate in light of the analysis undertaken. However, as we do not believe that post commissioning generators can give more than the current notice period, any potential benefit to the transmission company is unlikely to be achieved in reality. Instead, generators will end up paying a penalty for failing to give sufficient notice of closure, even though they are not in a position to provide it.

**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.*

We do not have any improvements on the analysis, except to identify that it is somewhat misleading to conclude that a benefit is delivered if it doesn't actually improve the accuracy of the information available to the System Operator (ie if generators give four years' formal notice of a closure but actually do so two years or less later).

**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 believe that the current notice period is sufficient. As generators cannot give the sort of notice period that National Grid would need to assist with planning investment in the transmission system, there seems little point in trying to design the notice period with that aim in mind. However, we can see the logic behind the current notice period, although it has already made the closure process more difficult for generators, as it prevents last minute closure notifications which can impact on transmission charge setting resulting in inaccurate locational signals and a greater risk of revenue under or over recovery.

I hope the above comments prove helpful.

Yours sincerely

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