ESB International
ESBI Energy Innovation

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Dear Vanja

**Impact Assessment on National Grid proposal CMP192: enduring user commitment – ESBI response**

ESBI welcomes the opportunity to provide views in response to Ofgem's impact assessment on the proposals contained within CMP192. As an independent developer and operator of conventional thermal and renewable generation, the costs associated with connection to and use of the transmission and distribution networks are key considerations for our business. We have played an active role in the development of CMP192 and its alternatives and generally welcome the impacts it will likely have, if implemented.

This response provides a brief introduction to ESBI, a high-level summary of our views on aspects of CMP192 and its alternatives and then provides our views on the specific questions Ofgem raises in its impact assessment.

**ESB International**

ESB International (ESBI) brings together our worldwide generation, engineering and related services businesses.

ESBI has been a developer and operator of independent Combined Cycle Gas Turbine (CCGT) generation projects in the GB market for almost 20 years. We own, operate and trade Corby power station and developed the 850MW plant at Marchwood, which was commissioned late in 2009. We are

also at an advanced stage with our latest 860MW development at Carrington which is intended to become operational early in 2015. Additionally, we own and operate the 406MW Coolkeeragh plant in Northern Ireland. We are also developing further large-scale CCGT projects at other locations across GB.

In addition to increasing our conventional generation fleet, we continue to grow our position in the UK wind market. Our operational and development portfolio will be around 165MW, comprising of: the 24MW West Durham Wind Farm in Northern England; the 20MW Hunters Hill; and 15MW Crockagarron projects in Northern Ireland. Additionally, we recently completed commissioning of England's largest onshore wind farm, at 66MW, at Fullabrook in Devon and we have recently started construction of our 38MW Mynydd y Betws Wind Farm in South Wales. We are also active in the ocean energy sector.

With increases in physical interconnection, in particular the commissioning of the East-West interconnector later this year, coupled with the further development of the regional market, our operations in Ireland will become increasingly linked with the GB market.

**Summary of views**

ESBI agrees that the principle of user commitment can help facilitate the development of an economic and efficient transmission system by providing National Grid Electricity Transmission (NGET) with signals as to users' intentions regarding connection to, and disconnection from, the system. We also agree that there are aspects of the current user commitment arrangements that are not delivering appropriate signals, either to users or National Grid, and should therefore be modified.

We support most aspects of the original proposal of CMP192 in its treatment of pre-connection user commitment but do not agree that symmetrical liabilities (ie 4 years) should be placed on users already connected to the system. Whilst we recognise the benefits that post-connection user commitment may bring, we are strongly of the view that many generators are simply unable to forecast closure four years in advance due to the many uncertainties that exist both in the market and operationally. This situation is particularly acute for conventional thermal generation which is currently not supported by extra-market mechanisms and therefore more sensitive to changes in fuel costs and wholesale power price. This effect is compounded by the lack of forward liquidity and price transparency in the wholesale market, meaning generators (particularly those that are independent) are simply unable to accurately forecast market

prices four years forward. In addition, the market is experiencing significant structural and institutional change as part of the Government's Electricity Market Reform (EMR) process. This uncertainty and the likely policy changes that will arise (such as the carbon price support mechanism) will invariably impact generators' closing decisions in timescales that are much shorter than the proposed four years user commitment period. We are therefore of the view that it would be appropriate, and not discriminatory, to require those already connected to provide 2 years notice of closure.

The current regime provides developers with a certain degree of flexibility in managing user commitment liabilities during the development and construction of power projects. In particular, developers are able to choose between the Final Sums Liability (FSL) methodology and Interim Generic User Commitment methodology (IGUC) to determine user commitment liabilities. We are concerned that the flexibility provided under this duel approach will be removed by CMP192. We would therefore seek for FSL to be maintained as an option available to developers. We note that there may be small additional administration costs involved in maintaining two methodologies; however we believe these will be small as NGET will be required to calculate both wider and local transmission costs for the proposed CMP192 methodology. We are of the view that it is very likely that these costs would therefore be outweighed by the benefits afforded to developers.

There are a significant number of developers holding connection offers that are underpinned by the current user commitment arrangements. Ofgem states in its impact assessment that it is of the view that these arrangements should not be grandfathered and that all future liabilities and associated securities should be based on the CMP192 methodology, should it be approved. Certainty is crucial for developers and investment decisions have been made based on assumptions of user commitment through the development process. Whilst we recognise that CMP192 is likely to reduce user commitment for most parties, we believe that developers should be able to avail of the user commitment regime that was in place at the time of signing connection agreements, if they so wish. For some, the costs and administrative burden of changing lines of credit may outweigh the benefits that CMP192 would bring in terms of reduced liabilities. We believe developers should be permitted to grandfather their current arrangements with the option of a one-way swap to the new arrangements.

Whilst we do not have strong views on the proposal to reduce local works liabilities by 50% where generators share those local works with demand, we share some of Ofgem's concerns regarding the

introduction of such a principle. In particular we are concerned that there may be scope for generators that are faced with significant local works liabilities gaming this mechanism to reduce their user commitment. We therefore support Ofgem view that this proposal should be developed further before a decision on its introduction is made.

**Responses to questions**

Below we provide response to the specific questions that Ofgem raises in its impact assessment.

*Chapter 4*

*Q1 We welcome stakeholders' views on whether we have identified all the relevant impacts of CMP192.*

In general we agree that Ofgem has identified the relevant impacts of CMP192. However, we are concerned that some of the impacts experienced by post-commissioning generation have been underestimated. In particular, we believe the impacts of Government's EMR proposals will very likely limit the amount of notice generators are able to provide NGET of closure to less than the requisite 4 years and a lack of forward wholesale liquidity means many generators will be unable to forecast market conditions 4 years out.

*Q2 Do stakeholders agree with our assessment of the potential environmental impacts of the proposal?*

We agree with the assessment of the potential environmental impacts of the proposal.

*Q3 We seek views on the potential implications of the potential perverse incentives, and views on how they may be mitigated.*

The unintended consequence described in the impact assessment is a function of the allocation of local works within the methodology. We do not disagree that, in theory, developers could defer connections for four years to avoid the liability but we are sceptical that developers would actually do that. User commitment is just one consideration amongst many that a developer must take in to account. Indeed for most it is of a lesser concern than others such as market conditions, financing requirements and supply chain factors. We therefore do not believe it requires specific mitigation measures. If, post-implementation, it is proved to be the case that generators are delaying connection simply to avoid user commitment liabilities, then an incremental change may be made.

*Chapter 5*

*Q4 Do stakeholders agree with our summary of the impact of the CMP192 original proposal on pre-commissioning generation?*

We agree with Ofgem's summary of the impacts of the CMP192 original proposal on pre-commissioning generation.

*Q5 Do stakeholders agree with our current thinking that placing a four year liability for wider works on pre-commissioning generators is appropriate?*

NGET has demonstrated that the lead time associated with transmission investment is, on average, approximately four years. We therefore agree that it is appropriate to place a four year liability on pre-commissioning generators.

*Q6 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?*

As discussed previously in this response, we are of the view that the proposal to reduce liabilities for generators where demand currently, or is forecast, to connect requires further development before it can be agreed. Whilst we recognise that it could be a tool by which liabilities for some users could be greatly reduced (such as those connecting on the Scottish Islands), we agree with Ofgem's view that the proposal as it stands would be open to gaming by generators seeking to reduce liabilities.

*Q7 Do stakeholders agree with our view that the proposed credit cover arrangements are appropriate and provide valuable protection for customers?*

As an independent generator, we are aware of the costs associated with providing credit for a range of activities associated with our business. However, in this instance we agree that the credit posted by generators against user commitment liabilities is a valuable safeguard for other generators and, ultimately, consumers. We therefore agree that the proposed credit arrangements are appropriate.

*Chapter 6*

*Q8 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 Ofgem states, asset health assessments are primarily made during planned outage periods. As a plant nears the end of its life, these outages can sometimes provide information that will lead to the imminent closure of the plant, particular if coupled with challenging market conditions which would make significant investment to extend the operational life of the plant uneconomic. Whilst many routine "wear and tear" eventualities are factored into the economic planning of an asset, more serious unexpected plant breakages, that often require material investment to remedy, could very well lead to the closure of the plant without the operators being able to provide the requisite notice.

*Q9 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 CMP192.*

We agree that the policy developments listed in the impact assessment appear to broadly cover the key interactions. Of those listed, we are of the view that the key considerations are:

- the probable introduction of a capacity market – if contract lead times are less than four years, this would not allow generators to provide the requisite notice to avoid liabilities
- the Carbon Price Floor – the CPF will only be known two years in advance and could be subject to significant fluctuations between CPF periods. This is likely to lead to generators making closure decisions within two years and will therefore make them unable to provide NGET with four years notice of closure
- Ofgem's proposals to improve the lack of wholesale market liquidity – we strongly support Ofgem's moves to improve liquidity. However, the proposals only take liquidity out to season+5 (ie 3 years) and therefore will not provide robust reference prices further along the curve, as would be required by generators in order to avoid liabilities under the CMP192 proposals.

*Q10 Do stakeholders consider that a level of uncertainty associated with policies currently being developed in greater detail could hinder in providing four year user commitment notice?*

Please see response to previous question.

*Chapter seven*

*Q11 We welcome stakeholders' views on the analysis presented in this section, where available, any additional information and/or analysis in relation to the impact of CMP192 on the efficiency of network investment.*

Whilst we welcome NGET's analysis, it is difficult to provide views or challenge without greater disaggregation of the supporting inputs. We therefore have no additional comment to provide.

*Q12 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 agree with Ofgem's view that the approach to risk adopted by NGET overstates the actual risk it faces. Our interaction with NGET, as a developer, leads us to believe NGET has significantly more information than alluded to in the assumptions underpinning the analysis provided in the impact assessment. That information enables it to take a more considered view as to the risk of projects not coming to fruition, than that presented in the analysis.

*Q13 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 in the most appropriate length of the notice period for post-commissioning generators.*

Whilst we recognise that generators providing four years notice of closure may result in some benefits with regard network planning and efficiency, we are strongly of the view that generators are unable to provide that length of notice due to factors outside of their control. We therefore believe that a two year user commitment would provide a better balance of risk between NGET, consumers and generators.

Should you wish to discuss any of the views expressed in this response further, please do not hesitate to contact me.

Yours sincerely

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