ESB International
ESBI Energy Innovation

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Dear Anthony

Electricity transmission charging: assessment of options for change

ESBI welcomes the opportunity to provide views on Ofgem's "Electricity transmission charging: options for change" document. As a developer and operator of conventional thermal and low-carbon generation, the charges that we pay for use of the transmission network is a key consideration and an integral cost to our business. We have been an active participant in the Project TransmiT process and recognise the time and resource that industry and Ofgem have invested to date. Whilst we welcome Ofgem's decision to not pursue the "socialised" option for change, we believe further consideration should be given to the continuation of the "status quo" option (with some evolutionary modifications), as we are of the view that the current "Improved ICRP" option does not provide a charging regime that would better achieve Government's policy objectives for the electricity market, particularly with regard future security of supply.

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

Industry and Ofgem have invested considerable time and resource to Project Transmit and ESBI welcomes the progress that has been made to date. Further, we welcome the additional clarity that Ofgem has provided in the document and strongly support its view that the socialised charging option should not be progressed further as part of Project TransmiT. We agree with Redpoint's analysis that demonstrates that the socialised option would have materially negative impacts on: competition; cost to consumer; the achievement of long-term carbon reduction targets; network efficiency; and security of supply.

ESBI supports the transition to a lower carbon economy but we advocate that any support mechanism should be explicit and mandated by Government. We would not support charging methodologies that provided implicit support mechanisms that would unduly discriminate in favour of certain types or locations of generation. We strongly believe that the socialised model would give rise to such implicit support and that the resulting incremental increase in cost to consumers is unsustainable.

We strongly support the principle that charges should, wherever possible and practicable, reflect the costs that users of the networks incur on them. Such signals are central to ensuring the networks develop in a

way that facilitates policy objectives at an economic and efficient cost. These cost-reflective signals should apply to all users, irrespective of type, technology or location and should continue to contribute to facilitating competitive energy markets. The current TNUoS charging methodology has provided a sound basis for charging and has provided generators with stable charging signals to locate at sites that minimise the cost of transmission.

Since its introduction, large numbers of generation developers have recognised and reacted to the locational signals inherent in the current TNUoS methodology and located in areas that incur less, or indeed reverse the need for, transmission investment. These developments can be seen to be both conventional and renewable technologies. We are concerned that any significant change to the methodology that unduly reduces the locational spread of charges could force some of these operational sites to close prematurely, and projects in development to be abandoned. This could have detrimental impacts on both security of supply and the achievement of Government's legally binding carbon reduction targets. We do not believe Redpoint's analysis sufficiently explores this effect and would therefore seek for Ofgem to provide additional analysis of this area as it further develops its thinking.

In a generation mix containing significantly more intermittent and non-flexible technologies, load factors for a lot of the plant that would be deemed "peak" within the Improved ICRP option are forecast to vary considerably from year to year. We are of the view that using load factor could give rise to charges that are highly volatile and unpredictable for the section of the market subject to that charge. It should be noted that it is this plant that the market will rely on to mitigate the effects of increased intermittent generation and therefore ensure security of supply. Redpoint's analysis does not appear to adequately look at the year-on-year charge volatility that would result from the Improved ICRP methodology. We would seek for greater clarity in that area and an assessment of the impacts it may have on plant operating and closure decisions.

We agree that the current methodology requires development to facilitate the changing nature of the transmission system and generation mix connected to it. However, we do not agree that the Improved ICRP model (as proposed) will deliver a charging solution that better achieves Government's electricity market objectives. In particular, we do not agree that historic load factor should be used as a proxy for the amount of investment individual generators cause the system. In addition, we are yet to be convinced that such a methodology more accurately allocates cost, particularly in areas dominated by one technology or

type of generation (such as areas with a predominance of intermittent wind).

The current methodology provides a charging regime consistent with the capacity-based Transmission Entry Capacity (TEC) access product that generators hold. We are concerned that a move to introduce elements of energy-based charging is not consistent with the TEC product. We believe that the use of load factor in calculating charges for some generators is a proxy for energy-based charging and if such a proxy were to be introduced, we believe there must be a reform of the TEC product to differentiate the levels of access and associated network costs assumed within the revised charging regime.

In summary, we welcome Ofgem's decision not to continue with the development of the socialised option but believe there are elements within the Improved ICRP methodology that would result in unforeseen detrimental impacts on security of supply and for low carbon projects that have rightly located in more southerly areas of high natural resource, such as South Wales and the South West of England. As such, we believe that relatively minor modifications could be made to the existing methodology (status quo) to better account for new transmission technologies and facilitate Island connections and that this approach should be adopted by Ofgem in taking forward Project TransmiT.

ESBI welcomes the progress made to date and looks forward to continuing to work with Ofgem and industry as part of Project TransmiT. In the meantime, 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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