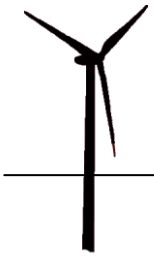

Fairwind (Orkney) Ltd

Reply address:
Horries, Deerness, Orkney, KW17 2QL

Tel : 01856 741370
E-mail: dennis@researchrelay.com
Date: 12th March 2012

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

Dear Vanja

Fairwind Orkney Ltd – response to consultation document Impact Assessment on National Grid proposal CMP192 – Arrangements for Enduring Generation User Commitment

Thank you for the opportunity to comment on the above document and bearing in mind Ofgem's initial views.

We note that Ofgem has stated that there is some justification of sharing in some local connections but that the level of development of the argument seems insufficient. We ask Ofgem to take into account that the Workgroup had to investigate a whole range of factors during its deliberations and that there was insufficient time to bottom out all the details for local sharing with demand.
It should be noted, however, that there was real support across the industry for a local sharing factor where demand is present – the highest rated single variant in the WG vote was for this (alternative8, 5 votes ) and it was also well supported by the CUSC Panel (highest single alternative 8, 3 votes). The clear majority in both the WG (11 of 14 votes) and CUSC Panel (6 of 8 votes) was for CMP192 alternatives including the Local sharing with demand element. We still believe that Ofgem should re-consider their initial view to reject the local sharing option (alternatives 2,4,6,8,10,12) and we have made our argument in the following appendix.

If Ofgem sees fit, however, to maintain its initial stance then a signal toward a further CUSC modification designed to arrive at an acceptable method and level of risk sharing with demand for some attributable assets would help to mitigate somewhat against further commercial uncertainty in peripheral areas of the UK network. Such a modification would need to take place as soon (or very soon after) such a move is allowed in the CUSC.

Yours sincerely,

Dennis Gowland
Director – Fairwind Orkney Ltd

APPENDIX2

Fairwind Orkney Ltd – response to consultation document Impact Assessment on National Grid proposal CMP192 – Arrangements for Enduring Generation User Commitment

**Question 1:** We welcome stakeholders‟ views on whether we have identified all the relevant impacts of CMP192.

Though the headline impacts have been addressed there seems to be insufficent regard to the barriers which may still remain for projects in high resource areas which are peripheral to the UK grid. There is insufficient assessment of the balance between adequate signals by generators to National Grid on the one hand and the impact, both to long term energy prices for the consumer and delay in bringing new renewable technologies on stream, on the other. The impact of the likelihood of, potentially, significantly higher liabilities for groups of generators in peripheral areas under some versions of CMP192 has not been adequately addressed in the assessment – with too much emphasis on the assumption that lower securities, alone, will mitigate against the present serious barriers to entry. The shifting of pre-commissioning liabilities heavily from generators who may be triggering significant network spend, but classed as wider, to those who may still be sharing extensive network connections, including with demand, but classed as local- is not justified (5.1 table 3).
The reduction of risk due to a mix of generator type each using resources which are high or even unique – thus making it more likely that other projects will step into the gap made by any terminating project is not a factor in the Impact Assessment. Instead there is an assumption that the project at the end of a peripheral network will always be to a single or a few generators of similar type and that this will always lead to a higher risk of stranding.

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

There is no attempt to assess the impact of a delay in bringing on high resource onshore wind and new tidal and wave technology which, in turn, impacts on the levels of CO2 reduction for a given level of risk to the consumer. In section 4.12 there is an emphasis on the reduction of securities demanded – alone – for Pre-commissioning generators, whereas (elsewhere in the document) for Post Commissioning generators, who need post no security, there is still cognisance given to the problems associated with liabilities alone. Indeed the assessment of impact addresses perceived changes in behaviour by existing generation due to the application of liabilities.

**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 example (4.20) shows a high liability, strategically oversized, offshore connection with a scenario of a second generator deliberately delaying ‘visibility’ to the Network Operator until the costs of the asset have been sunk – after connection by the first generator. The example points up the risk to the consumer and other TNUoS payers of taking the liability for the excess capacity not covered by generator 1.
It is normally in the interests of projects,, which need high levels of investment, to seek clarity and a degree of certainty from the outset. Early signing of a Connection Agreement with National Grid would normally be a prerequisite of achieving such clarity and predictability. However, where liabilities are perceived to be excessive and which may preclude investment – when compared to competing demands for investment – the motivation to avoid by delaying would surely be greater. It may be the case that in some

circumstances the imposition of higher liabilities may actually increase rather than reduce the risk to consumers and other network users.
Presumably one of the ways the Authority may use to avoid such behaviour is by refusing to grant 'headroom' on new networks – the risk here is that investment may end up inefficient in that duplicate effort may be needed to reinforce strategically important areas soon after circuits have been provided.

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

We have dealt with this question, partially, in response to Q1.
The main impact on Pre-commissioning generators – it would seem - from the Ofgem summary of the CMP 192 Original proposal is by reduction of the level of securities demanded (5.3 Table 4, p34).
The proposal suggests 42% of liability as the base level of security reducing to 10% after the necessary consents have been achieved by the Generator. The Ofgem assessment also shows how the 'Local Asset Re-use Factor – LARF' which may vary between 0 -100%, but may 'default' to 33% might compare with the situation under the interim arrangements for Local.

However, liabilities are clearly higher for a generator with an extensive local connection at 100% versus 50% under IGUCM. The reduction accorded by LARF is variable and could well be 0% if the TO maintains that an asset cannot be reused. Even with baseline securities at 42% (CMP 192) from 4 years out it is only, potentially, marginally better than the interim (current) arrangement of 50%. This based on up to twice the level of liability for local (attributable) works under CMP192 original.
The reduction of security, further, to 10% after the consents milestone is the biggest single mitigating factor to the high barriers to entry to new generation identified at the commencement of Project TransmiT. However the Ofgem assessment does not take into account the effect of extensive liabilities on the balance sheets of even large players – who may well have to set up Special Purpose (Project) Vehicles where the largest single item in the liability column may be the liability imposed by user commitment.
The shift in liabilities under CMP192 original from wider to local may also serve as a disincentive to invest in projects with extensive local works when competing for cash against those in the 'winners' column. This may result in delays or even no development in strategically important areas of renewable energy resource where these are on the periphery of the network.
It has not been explained how the magnitude of total local liabilities at x 10 that of wider liabilities actually reflects risk.

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

If National Grid requires a 4 –year build programme then it would make sense to reflect this in the timing of signals addressing the risk associated.

**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 do not agree with Ofgem's view that the proposal to halve liability on generators for local works, where these are designed to accommodate demand, is not appropriate for the following reasons:

- The level of risk for consumers (demand) associated with Local works in IGUCM was 50%. Presumably this was thought acceptable when Ofgem allowed this interim arrangement. It has not been made clear why the perception of risk has hardened or whether the end result looked for from CMP 192 is a redistribution of liability amongst the generator community – creating winners and losers.

- The definition of Local used in CMP 192 carries on the over-simplistic notion that all Local circuits are essentially single user (or used by a few generators) spurs with no enmeshing with demand. For Scottish Island connections - particularly – this definition does not fit, as numbers of new generators of different sizes and types are likely to be connected, together with long standing demand requirements. There may be some degree of undue discrimination when treating one set of generators where mixed generator types are enmeshed with demand and termed 'wider' differently to other mixed generators enmeshed with demand which are termed 'local'.

- For Island communities with distribution networks serving thousands of consumers, plus the industry on which they rely, new transmission links will remove the need to replace ageing existing sub-sea cables. In the case of Shetland there is an opportunity to bring a link to the UK grid network for the first time, removing the reliance on diesels and the consequent impact on CO2 emissions. The provision of replacement 33kV cables in Orkney, according to SHEPD (report Innovation Funding Incentive and Registered Power Zone Report for period 1 April 2010 to 31 March 2011) a cable circuit would cost around £25M. One of the circuits would be due for replacement in 2022 (after 40 years) some 6 years after the possible new transmission link. The other existing cable would be due for replacement 16 years later. A new transmission link (probably 132vV AC) would thus act as a replacement for the older cable and add 20 years to the newer one. It would be reasonable to net off the cost of 1.5 33kV cables – around £37.5M – when taking into account the value at risk for the transmission cable in this case. In Shetland some £19M per annum is set aside for ensuring security of supply in the absence of cable provision. This is the obvious counter to the Pre-commissioning generators there taking 100% of the risk for a new HVDC circuit.

- We welcome the statement, by Ofgem, that they do not, in principle, see anything wrong with an appropriate portion of the liabilities for Local works being shared with demand.

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

The reduction in levels of security demanded under CMP 192 may assist smaller parties, but the overall level of liabilities (under CMP 192 original), which remain at or higher than interim levels could force smaller developers to sell projects at an early stage. There may be longer term impacts on competition as a result.

**Questions 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.

This may be an issue at the margins of asset lifespan where predictability of energy prices and fuel costs may not run out beyond 2 years.

**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.

CMP192 should be viewed against relevant EU directives, not least :

in Article 16.3 of the Renewables Directive 2009/28/EC where it states that Member States should *take 'particular account of all the costs and benefits associated with the connection of those producers to the grid and of the particular circumstances of producers located in peripheral regions and in regions of low population density*' and then continued in Article 16.4 where it states *'Where appropriate, Member States may require transmission system operators and distribution system operators to bear, in full or in part, the costs referred to in paragraph 3.'*

**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.

It is unclear to us what the marginal benefit to risk may be in using a 4 year notice period rather than a 2 year.

**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 Network Operator has stated that it needs clear signals to avoid unnecessary or inefficient investment. We support imposition of user commitment to a degree commensurate with the achievement of that goal, noting that where levels of commitment are set inordinately high, signals are likely to be less than clear.

**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.

It is not clear whether the aim of CMP192 is to cover all spending at risk or to cover the element of risk that an asset will be stranded or significantly under- utilised. The two are not one and the same.
Our reading of the terms of reference for User Commitment under Project TransmiT was to reduce unnecessary barriers to entry for new generation, whilst at the same time providing such commitment designed to avoid stranding assets. The muddling of covering all value of assets at risk with the risk itself leads to inconsistency. Where the value at risk can be smeared across a large number of users, with a number of liability reduction factors applied as in 'wider', the sum in liabilities begins to resemble a risk premium. The converse is present, however, for new generators with extended and often shared local assets, where the risk is effectively set at 100%.

**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.

It is more likely that operators of ageing plant will come off the system rather than those with new plant or with a significant plant lifespan still to run. The imposition of a 4 year notice period may cause some in the former category to shut early to avoid liabilities whilst for the latter it would be reasonable to assume that there would be little risk of liabilities crystalizing for an operator giving 4 years notice. If the security of supply or energy mix requirement is such that the risk of closing early by key thermal balancing plant is seen as of more significance than the risk of losing 2 years of signal - then a 2 year post commissioning liability would seem to be the sensible approach.

Dennis Gowland

12.03.12