



MAINSTREAM
RENEWABLE
POWER



Vanja Munerati
Electricity Transmission Policy
Ofgem
9 Millbank
London, SW1P 3GE
Vanja.Munerati@ofgem.gov.uk

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Impact Assessment on National Grid proposal CMP 192: Enduring User Commitment

Mainstream Renewable Power Response

Mainstream Renewable Power is a leading renewable energy company developing renewable energy projects across several continents. The Company expects to be a major provider of renewable capacity for the UK and has a development pipeline in excess of 5,000MW.

We are developing onshore wind projects in North America, South America, and South Africa. In the German North Sea, we are developing the 1200 MW Horizont project.

In the UK, we are developing two large offshore wind projects. In Scottish territorial waters we are developing the 450 MW Neart Na Gaoithe project. Additionally, through the SMart Wind consortium, we are developing the 4000MW Hornsea Round 3 zone with our partners, Siemens Project Ventures. Transmission charging is a critical area for all generators, and particularly so for offshore renewables.

We welcome the work that has been done under the umbrella of CMP 192 to provide codification of the enduring user commitment regime under the CUSC.

The Consultation recognises that “We are entering a period of extraordinary levels of investment in electricity transmission infrastructure in Great Britain.....It is therefore essential onshore and offshore TOs are provided with appropriate signals so that this unprecedented level of investment is undertaken in the most efficient way. One such signal is through the user commitment obligation.” What it insufficiently recognises is that these levels of transmission investment are being driven by the considerably higher levels of investment in generation assets needed to deliver our national low carbon and energy security policy objectives.

Enduring user commitment should be developed against criteria which also include the need to facilitate this required investment in generation assets.

Ofgem notes that it considers the proposal allocates liabilities to generators in a manner reflective of the risk that any changes in their plans would pose to efficient transmission investment. However,

this risk is treated as generic and fails to properly address the spectrum of risk which generators face, the measures that they take to manage and mitigate these risks and the reality of unforeseen events, which if overall development activities are to proceed at least cost should not be treated in the same manner as other “liabilities”.

We welcome the proposal to separate securities from liabilities. Whilst this is a significant step forward, it may not reduce barriers to entry by the degree anticipated. It is true that the security obligations placed on pre-commissioning generation may be significantly reduced, but project developers and financiers will continue to treat the *liabilities* of the project in exactly the same way. More needs to be done to reduce the burden in this area.

Sharing of local works with demand. We strongly support the proposal to halve the liability on pre-commissioning generators for local works designed to accommodate demand and are concerned that Ofgem does not believe it appropriate to endorse it in light of the information presented to date. Ofgem should agree the principle now and direct National Grid to provide the required analysis/data to enable final endorsement in April 2012.

Duration of liabilities for wider works. We acknowledge the value to National Grid, and ultimately consumers, of an appropriate, planned de-commissioning process for generators leaving the system. We acknowledge National Grid’s view that signals from pre and post-commissioning generators are important in planning wider network investment. Conversely, we remain unconvinced that the pre and post commissioning processes are essentially “mirror images” of each other. This is not the case for the network planner or for the generation owner. The time horizons over which decisions to invest in new plant or to continue operating existing plant differ significantly. There needs to be recognition of the value of an appropriate process to the generator as well. We do not believe that CMP 192 as currently constituted is the most appropriate means to implement this. Generators facing an uncertain commercial future do not have the means to “recover costs incurred” by a particular regulatory mechanism and face an all or nothing commercial future. National Grid rightly needs to plan the system in an effective manner but should also have to deal with a proportion of the uncertainty which generators face. In attempting to insulate itself from this, unnecessary additional risks and costs will be passed to generators, to the ultimate detriment of the consumer. The “efficiency argument” needs to encompass more than the issue of *temporarily* underused network investment or short term marginal constraint effects and consider the net benefit to consumers of minimising the totality of network and generation uncertainties. In a heavily interconnected network, it is questionable whether transmission investment is subject to a significant degree of “stranding” or under-utilisation in the medium term. Given the increasing commercial uncertainty in the electricity industry over the coming decade, a four-year notice period for post commissioning generators is totally inappropriate.

Grandfathering – Grandfathering of arrangements is one of the cornerstones on which the broader electricity regulatory regime has been built since its inception. As such, we are deeply concerned that Ofgem is considering whether to apply this principle in its deliberations over CMP 192. National Grid is already operating two user commitment schemes in parallel and indeed it was a welcome initiative on their part which led to the choice being available. We are unaware of a significant operational or cost burden associated with the current arrangements. Even if this were to be a consideration, it would have to be weighed against the fundamental damage to stakeholder

confidence that any suggestion of altering the regulatory framework with regard to grandfathering would lead to. A stable and predictable regulatory climate is fundamental in attracting the investment required in the electricity sector, be it for directly regulated entities, or those that are subject to the wider impacts of regulatory decisions.

We agree that the timetable for transition, under which the current arrangements are set to expire on 1 April 2012 and potentially be replaced with proposals under CMP192, should be extended to 1 April 2013. New generators subject to the user commitment regime will need time to understand and evaluate the potential impact on their business of any final decisions regarding new arrangements and as such a transitional period of choice is appropriate. Those on existing user commitment schemes should continue to have the Grandfathering option available.

Grandfathering arrangements should be retained and clarified as part of any changes introduced under CMP 192.

In summary, we support the preferred option of both the Workgroup and the CUSC Panel, i.e. the option which allows for user commitment arrangements for pre-commissioning generators already holding connection agreements to be grandfathered until they connect, shares the liability for local works 50/50 with demand users and reduces the duration of the notice period to two years for both pre and post-commissioning generators.

Yours faithfully

Robert Longden

Head of Regulatory Affairs

Mainstream Renewable Power
25 Floral Street
LONDON
WC2E 9DS

CONSULTATION QUESTIONS

CHAPTER: Four

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

A1: No. The impact of liabilities (as well as securities) on project development has been insufficiently addressed. For many developers, significant barriers to progress are presented by liabilities and this issue needs to be revisited to reduce the burden on developers.

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

A2: Ofgem states "CMP 192 has the potential to encourage thermal plant, with a relatively high carbon intensity, to close rather than risk uncertainty in future fuel / wholesale electricity prices over a four year period." This needs to be examined further. The particular plant which may decide to shut down earlier as a direct result of the introduction of CMP 192 may play a significant role in contributing to either security of supply or providing balancing capabilities which the current market framework does not fully remunerate. Rather than a simple assessment based purely on plant type in isolation, a properly considered view on the potential impacts on the *overall system* should inform the decision making process.

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

A3: We understand that Ofgem should seek to identify potential undesirable outcomes and take steps to avoid them. However, in the offshore example quoted (and more widely) the commercial imperatives for a generator to commence generation far outweigh any theoretical benefits of "gaming" of transmission commitment regimes. A generator simply would not delay its programme for the speculative reasons quoted. Similarly, a TEC reduction is a major event in the project development process. Generators have a constructive relationship with National Grid and many other parties regarding the capacity of a particular project. Again, any potential incentives leading to actions to manipulate the timing of TEC reduction notification would not stand up to scrutiny – which comes from many quarters.

CHAPTER: Five

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

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

A5: No. As Ofgem notes, "The magnitude of the local liability is far greater than that of the wider liability, by a factor of almost 10. Shortening the duration of the wider works liability to two-years is likely to have little material impact on liabilities 3 to 4 years prior to connection." The objective should be to provide sufficient incentives and *no more* to achieve the desired outcomes. If shortening the duration will not change outcomes but will place less liability on users, then it should be done.

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?

A6: No. Ofgem should ensure that work is carried out to address its concerns over the proposal being too broad and insufficiently developed. This would then allow a workable solution to be implemented in line with its recognition that “In principle, we do not consider there to be anything wrong with an appropriate portion of the liabilities for local work 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?

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.

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.

Question 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?

A10: Yes. However, the level of uncertainty for generators in a highly competitive market which is not subject to current policy uncertainty still means that a four year notice period is inappropriate. We are concerned that Ofgem dismiss the impacts of unpredictable future fuel / wholesale prices with the statement: “This is unlikely to be a reason why generators cannot move to a four-year commitment.”

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.

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.

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.

A13: Two years is appropriate.