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Dear Vanja,

Impact Assessment on Proposal CMP192: Enduring Generation User Commitment

We welcome the opportunity to provide a response on the impact assessment consultation for CMP192 Enduring Generation User Commitment. We concur that financially backed user commitment arrangements are vital in ensuring that transmission owners (TOs) have accurate and timely information to develop the network in an economic and efficient manner. Furthermore, we welcome Ofgem's recognition that we have been responsive in trying to address industry concerns over user commitment arrangements through the introduction of interim regimes.

National Grid, through our subsidiary National Grid Electricity Transmission plc (NGET), owns and operates the electricity transmission system in England & Wales, and is the National Electricity Transmission System Operator (NETSO) for the whole system across Great Britain. In our role as NETSO we are responsible for coordinating new generation connections with the other TOs and OFTOs, ensuring that the potential costs of abortive transmission investments are appropriately targeted without creating an unnecessary burden on generators that would stifle investment.

We believe that the impact assessment strikes the right balance between detail and brevity. Focusing on the potential impact to a number of high risk generators is an appropriate way of assessing the likely impact of the proposal, and we support Ofgem's approach to the analysis. We have made detailed answers to the questions raised as an annex to this response, however we have summarised our opinions on the main points below.

We agree with Ofgem's developing thinking on the main alternative areas. The sharing of local works 50% with consumers has merit in principle. For island consumers in particular, a transmission connection to the mainland will no doubt have some benefit. However, the scale of the proposed island generation projects in comparison to island demand demonstrates that the main driver for transmission works would be to allow island generators to access the GB electricity market. We therefore agree that a simple 50% share of liability is difficult to justify. We will continue to work with the various bodies representing island generators to further

develop the user commitment regime such that a more appropriate balance of risk can be established.

On allowing generators to 'grandfather' their existing interim arrangements, the additional administrative cost of operating several regimes in parallel (as noted in the impact assessment) could be managed by National Grid, and hence is not a reason in itself for rejecting this alternative. However, we agree that this approach is potentially wide-ranging and raises a number of questions that have not been fully explored. We also consider it unlikely that the majority of generators would desire to retain either Final Sums or IGUCM liabilities given that they are likely to be more onerous, as shown in Table 5 of the impact assessment. The exception to this may be pre-commissioning generators that are very close to connection, which by definition have minimal risk. We will continue to work with developers and may initiate a CUSC proposal covering this latter class if we can agree more specific and limited drafting.

As noted in the impact assessment, post-commissioning generators will not always be able to provide a great deal of notice of closure or TEC reduction. However, whilst there may be instances where individual generators are unable to provide more than, say, one, two or three years notice, it does not follow that the incentive on all generators to try to provide such notice should be removed or reduced. Furthermore, there are a wide range of factors that drive generators' operational decisions, some of which have a much longer visibility than others. We therefore believe that there are circumstances where even marginal plant would be able to provide a useful period of notice to TOs. We therefore maintain our position that greater notice will afford end consumers more protection without unduly burdening generators.

We consider that it is important to note that although the CMP192 report refers to four years for the notice period for post-commissioning generators, this is four financial years as TEC is an annual product. In the same way, the existing arrangements as extended by DECC through Connect & Manage are for two financial years. Therefore care should be taken when comparing the current and proposed notice periods, and where the existing arrangements are described as being one year and five days, the CMP192 proposal should be described as being three years and five days.

If you would like to discuss any of these points further, please do not hesitate to contact me or Adam Sims (adam.sims@uk.ngrid.com 01926 655292).

Yours sincerely,

Patrick Hynes

Electricity Charging & Access Development Manager

Annex 1 - Responses to Specific Questions Posed in the Consultation

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

We consider that all the relevant impacts have been identified in the assessment.

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

Due to the difficulty in forecasting the behaviours of plant with varying asset lives, maintenance costs, commercial positions and fuel stocks, we consider the environmental assessment included in the report to strike an appropriate balance of detail and brevity. More in-depth analysis would require making a significant number of subjective assumptions, and may result in a misleading appearance of accuracy.

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

In those circumstances where shared attributable works are being sized to facilitate future generation, we agree that there may be an incentive for generators to propose later connection dates to avoid a liability for attributable works. We consider this to be minor in comparison to the benefits that a generator would receive from participating in the electricity market, however. Additionally, there is an element of strategic anticipatory investment in oversizing the connection works for potential later generators, and hence it is appropriate that later generators have a lower liability for these works.

We consider that the incentives and Government targets around offshore generation make it an attractive prospect for construction of new plant, and hence it is unlikely that any such overbuild of capacity would go unutilised for long. Indeed, there would be a risk for the second generator that in delaying their connection date they either fail to signal the requirement for additional capacity to the TO, or lose the right to the capacity to another generator who can connect sooner. However, should it become apparent that perverse incentives are materially affecting generator decisions, we consider that the CUSC governance process could deal with these in a timely manner.

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

We agree that the CMP192 arrangements are unlikely to change the aggregate level of liabilities, although individual generators may experience a change. We agree that this will be most significant where generators are currently securing through the IGUC methodology, as this is a generic methodology. In those cases where a generator is either near or far from the transmission system, or in a negative TNUoS zone, the switch to a more specific approach is likely to have a greater effect on their liabilities. We also note that in the majority of scenarios, the liabilities that generators would face under the CMP192 approach are lower than both Final Sums and IGUCM.

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

Which transmission investments are wider and which are attributable is set by the location of the generator which has the liability. From a transmission perspective, there is no difference in the scope, cost or timeframe between the majority of wider and attributable works. We therefore see limited justification in having a different notice period for attributable and wider works.

However we also recognise that limiting the liability will reduce the absolute cost of user commitment, which is particularly important for smaller and new entrant parties.

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?

Whilst we understand that generators planning to situate on islands are concerned that the liabilities they are currently being asked to secure are large, this is as a direct result of the considerable amount of transmission investment that would be required to connect them. However, we consider that under the CMP192 approach, island generators will benefit from the upfront asset reuse, TO strategic overbuild and sharing factors, as well as the reduction in required securities.

The alternative proposal to share attributable liabilities 50% with consumers is based on the assumption that consumers will benefit from such works, particularly on islands where the attributable works can be extensive. For island consumers, any connection to the mainland will no doubt have some benefit, however the scale of the proposed island generation projects in comparison demonstrates that the main driver would be to allow island generators to access the GB electricity market. We agree with Ofgem's assessment that whilst some sharing of these more extensive attributable works may be appropriate, a simple 50% split has not been sufficiently justified.

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

The existing sliding scale of credit allowances set out in the CUSC has been designed to ensure that consumers are protected from the risk of a generator defaulting, whilst recognising those generators who may pose less risk. We agree that these arrangements remain appropriate and non-discriminatory, and that smaller parties will benefit from the reduced security amounts proposed by CMP192.

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.

Before answering this question, it is worth clarifying the terminology used when discussing notice periods for user commitment. In the impact assessment, the time periods for post-commissioning generators to provide notice of TEC reduction are described as being 1 year and 5 days under the current arrangements, and 4 years under CMP192 (paragraph 6.2). It is important to note that both the current arrangements and CMP192 are based on financial years with a minimum notice period of 5 days. Therefore if the current arrangements for the minimum notice period are described as being 1 year and 5 days, it is more accurate to state that the CMP192 proposal is 3 years and 5 days for comparative purposes.

As stated in the impact assessment, user commitment is vital to ensuring that adequate information is available to TOs to minimise the risk of being too early (risk of inefficient financing costs) or the risk of being too late (risk of inefficient congestion costs). We understand that, in some cases, issues of asset health may arise unexpectedly which could hinder generators in providing advance notice of closure. In such circumstances, however, it is the generator who would have the first sight of the issue, the skills to assess the impact, the knowledge of the cost to their business, and therefore ultimately it is the generator who is best placed to manage and mitigate this risk.

Furthermore, whilst a generator may not be able to provide the full four years notice due to asset health issues, they may be able to provide more than the current minimum notice. This is the reason the proposal includes a tapered profile, as this reducing liability provides an incentive

for generators to provide the greatest notice that they can, even though it may not be for the full four years.

We would also note that for generators who, for whatever reason, are only marginally economic and are hence unwilling or unable to provide long term notice of their intentions, there are a number of options available to them to manage their risk. These options include moving to a short term firm access product such as STTEC¹ (Short Term TEC) or LDTEC² (Limited Duration TEC), which are more flexible products than standard TEC and do not incur the same level of commitment to the NETSO. These alternative access products are offered to allow generators to tailor their rights and obligations without affecting the industry as a whole.

We therefore believe that the possibility of unexpected asset health events occurring to a small number of generators is not justification for reducing the inducement on all generators to accurately predict their future economic and physical operation. We will continue to look for innovative options for increasing flexibility around TEC and access rights which could be introduced into the CUSC at a future point.

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.

We consider that there are no current policy developments which would have a material impact on the proposed methodology that have not already been identified in the impact assessment.

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?

We note that the main direction of the majority of the policies identified is to make carbon intensive generation more costly whilst supporting renewable generation. Therefore we consider that whilst there may be uncertainty regarding exactly what will be implemented, in terms of generators assessing the profitability of their plant, this uncertainty can be accounted for.

On the Retail Market Review and liquidity proposals, we note that although the forward electricity price curve does not go out further than two years, this is not the only information that a generator would use when assessing whether to continue operating up to their current TEC level. We would also reiterate the point made in response to Question 8 that there are short term TEC products available to generators who feel that the economics of their plant is marginal and they therefore cannot provide long term notice of their intentions.

In summary, we do not believe that the perception of regulatory uncertainty is a sufficient justification for reducing an incentive on generators to provide accurate and timely information.

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.

We have no further information or analysis to provide on this topic.

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.

¹ <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/stfirm/>

² <http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/ldtec/>

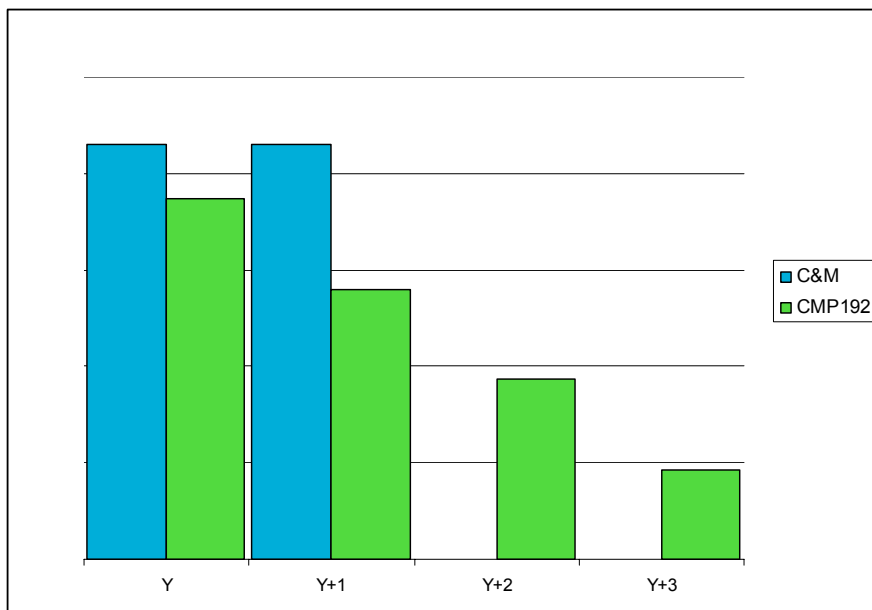
The impact assessment notes that the benefits to the TOs may be overstated in the analysis as National Grid is likely to have other sources of information on generators' decision-making. Whilst there are publicly available sources of information which facilitate the discussions that National Grid has with generators, there are still many occasions where generator decisions have not been foreseen. An example of this is the Teesside power station, where in 2011 it reduced TEC by approximately 1800MW with little more than five days notice. This event was unexpected, and resulted in National Grid having to reassess and restructure investment plans in the North East.

We therefore consider that, on balance, the analysis presented in the impact assessment accurately reflects the financial benefit to the TOs of improved generator information.

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.

The question of the appropriate duration for the notice period for post-commissioning generators cannot be taken in isolation from the accompanying user commitment arrangements. In the current methodology, generators are liable for either two years of TNUoS charges or nothing, depending on when they notify the NETSO. This is a crude measure which fails to reflect that the value of information increases progressively through time. Under these arrangements there is little difference between a generator giving one years notice or two years notice, they would have the same liability. In the CMP192 proposal liability reduces progressively through time, which recognises that the further in advance the information is provided, the more valuable it is to TO investment plans.

When considering the proposed four year notice period, therefore, it is important to remember that it is for a declining scale of liability reducing to zero through time, rather than a sharp delineation as is the case currently. Therefore we believe the question is not whether generators can provide four years notice, but whether generators can provide more notice than they currently do, and over what time period an incentive to do so should apply. This difference is illustrated in the following diagram.



Whilst there may be instances where individual generators are unable to provide more than one, two or three years notice as the case may be, it does not follow that the incentive on all generators to try to provide such notice should be removed or reduced. Furthermore, there are a wide range of factors that drive generators' operational decisions, some of which have a much longer visibility than others. We therefore believe that there are circumstances where even marginal plant would be able to provide a useful period of notice. We therefore maintain our position that the appropriate duration for post-commissioning user commitment liabilities is four years.