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Vanja Munerati
OFGEM
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Our Ref: EN01-2930

12 March 2012

Dear Vanja,

Re: RES Response to OFGEM CMP 192 Impact Assessment Consultation

Thank you for the opportunity to respond to the OFGEM "*Investment in electricity generation: Impact Assessment on National Grid proposal CMP 192: enduring user commitment*" document (ref: 19/12) published on 13th February 2012.

RES is one of the world's leading independent renewable energy project developers with operations across Europe, North America and Asia-Pacific. RES has been at the forefront of wind energy development since the 1970s and has developed and/or built more than 5GW of wind energy capacity worldwide, including projects in the UK, Ireland, France, Scandinavia and the United States.

The issue of generator user commitment to connect to or use the GB transmission system has been one of the key issues for developers of new renewable generation plant since the implementation of BETTA in 2005. The need for rationalisation and codification of generator user commitment is long overdue; for this reason RES welcomes the CMP 192 process. In particular, RES welcomes the reflection of risk of early termination or TEC reduction in calculating the level of security that will be required of generators. However, RES remains of the view that post-commissioning wider liabilities should remain at two years (the effect of the current generator TNUoS liabilities); to expect operating generators to provide a commitment to terminate four years ahead of time is not realistic and is likely to lead to premature closures potentially undermining continuity and security of supply. **RES remains of the view that Options 6 and 8, as set out in the Working Group report, are the outcomes that would best meet the applicable CUSC objectives.**

As per its vote at the end of the CMP 192 Working Group process, RES continues to be of the view that the non-refundable pre-trigger date £1,2,3/kW liability serves no purpose other than to impose an arbitrary barrier to market entry – it provides no useful signal to NGET nor has it any basis in cost-reflectivity. **For this reason, RES particularly objects to the adoption of the CMP192 Original Proposal.**

Responses to the questions set out in the consultation document are set out below.

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

RES broadly agrees that the Ofgem have appropriately summarised the impacts of CMP192.

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

RES agrees that CMP 192 is likely to reduce a barrier to entry for new sustainable generation, which should in turn reduce overall CO2 emissions.

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

RES understands the potential perverse incentive to falsely manipulate TEC and / or connection date in order to avoid assuming liability relating to anticipatory local investment however would note that the circumstances in which such perverse incentives would arise will be limited. It would also seem reasonably straight forward to reveal instances where a generator is either installing generation in excess of its claimed TEC or aiming to hit a completion date earlier than set out in its Construction Agreement. This could be achieved through detailed project information exchanged through the routine Quarterly Reporting and / or Construction Programme meetings. Where information exchanged is not consistent with the generator's contracted position then the generator in question should be risk of breach of Construction Agreement. For these reasons, RES does not consider this risk to be material.

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

In respect of the Original Proposal, RES particularly welcomes the long overdue reflection of risk of termination in deriving generator security amounts. However, as per its vote at the end of the CMP 192 Working Group process, RES continues to be of the view that the non-refundable £1,2,3/kW liability pre-trigger date serves no purpose other than to impose an arbitrary barrier to market entry – it provides no useful signal to NGET nor has it any basis in cost-reflectivity. For this reason, we particularly object to the CMP192 original proposal as the only option that includes no flexibility around acceptance of the pre-trigger date £1, 2, 3/kW liability.

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

RES broadly agrees a four-year liability for wider works on pre-commissioning generators is appropriate.

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?

RES considers that the issue of liabilities for generator local assets that perform a function beyond that of serving generation is a matter that warrants further investigation and is encouraged that Ofgem agrees that there is nothing "wrong with an appropriate portion of liabilities for local work being shared with demand". RES looks forward to contributing to further investigation of this issue.

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

RES understands that credit cover arrangements are necessary to some degree for consumer protection purposes. However, RES considers that the burden of establishing that credit cover could be significantly reduced without additional risk to consumers by expanding the acceptable forms of cover to include performance bonds to be provided by unaffiliated insurance and bonding companies. RES understands that this issue extends beyond the remit of CMP 192 but Ofgem should understand that satisfying CUSC credit security obligations for smaller players will remain a significant challenge even post-implementation. A prudent additional credit cover option such as this would give such small players an additional option through which that challenge can be managed.

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.

Many of the generation technologies that will make significant contributions towards GB's generation background of the future will be using plant that will have been proven on a commercial scale for only a short period of time. To then seek a commitment to remain connected from such generators for a minimum of four years will be likely to undermine critical investor confidence. RES firmly believes that the current two year notice period represents a better balance of providing investment signals to National Grid and supporting effective competition in electricity generation.

Question 9: We would be interested to hear stakeholder's 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.

RES broadly agrees that all relevant interactions with other policy developments have been identified.

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?

At this stage, RES agrees with the view that uncertainty associated with policies currently being developed would hinder generators in providing four-year user commitment notice. The detail of the EMR arrangements in particular is an area critical to all new low carbon technology generators and remains largely unknown. Imposition of a minimum four year notice obligation upon post commissioning generators at this early stage of development could have a detrimental impact on investor confidence. It is not clear whether this sensitivity has been taken into account by National Grid in its analysis.

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.

It is unclear why National Grid has approximated the current minimum post-commissioning notice period to one year. The effect of the definition of the "Full TEC Reduction Notice Period" in the CUSC of a "minimum of one financial year and five business days" and the definition of Chargeable Capacity in Section 14 of the CUSC effectively means that generators which currently pay TNUoS are liable for a minimum of two years of charges.

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.

RES is confused by Ofgem's comment that it considers National Grid's assessment "reasonable". Ofgem notes that the analysis has been performed on the basis of "National Grid having no information on the likelihood of the investment being commissioned and will bear the same risk at any one point in time". Ofgem also notes that this level of risk is "very unlikely as National Grid would probably have a certain level of information and certainty on commissioning dates and likelihood of post-commissioning projects going ahead and therefore be able to leverage the risk of overinvesting". RES agrees that a generator minimum notice of termination or TEC reduction is one of a number of sources of information that it will use to inform investment decisions. Much of the information that it receives is provided through the Grid Code; participants are therefore incentivised by compliance with regulatory framework to provide that information on time and to required levels of accuracy. In light of this position, RES considers that the National Grid analysis in section 7 of the consultation document exaggerates risk of overinvestment.

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.

For the reasons set out down in responses to Questions 8, 10 and 13, RES is strongly of the view that two years is the most appropriate period duration for post-commissioning generators.

If you wish to discuss any of the views raised in this response please do not hesitate to contact me.

Yours sincerely,



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