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RWE response to the Ofgem consultation on “Impact Assessment on National Grid Proposal CMP 192 – Arrangements for Enduring Generation User Commitment”

Dear Vanja,

Please find enclosed the RWE response to the Ofgem Consultation on the “Impact Assessment on National Grid Proposal CMP 192 – Arrangements for Enduring Generation User Commitment” published by Ofgem on 13th February 2012. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

We welcome the opportunity to comment on this consultation.

We believe that the impact assessment provides an important insight into the potential effects of CMP192 on the GB generation market. In this context:

- We support the conclusion that differential treatment with respect to user commitment for new and existing generators “may not be discriminatory”. We would accept a two-year user commitment for existing generators and a four year user commitment for new generator, reflecting the different risks that face market participants;
- We are concerned that Ofgem have concluded that “introducing grandfathering arrangements would not be appropriate”. The lack of grandfathering will introduce considerable risks and have a material impact on costs for generators seeking connection while providing limited benefits. In particular, we are concerned about the potential for re-opening the financial arrangements of individual projects, particularly where they are near to completion. The lack of grandfathering may reduce administrative costs for National Grid whilst introducing excessive administrative costs for projects under construction;
- We are very concerned that CMP192 original does not allow pre-commissioning generators to reduce TEC without incurring significant costs. Unlike IGUCM or final sums, CMP192 original

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treats TEC reduction the same as plant closure resulting in a significant liability even where National Grid has not yet incurred any costs (up to £3 per kW of TEC reduction). Therefore, we support implementation of a variant of CMP192 with respect to pre-commissioning generators that includes the capping of the advanced works amount and replacing the £1, £2, and £3/KW with actual costs for cost reflective (we do not support implementation of the original); and

- We note Ofgem's view with respect to sharing local works with demand.

We remain of the view that the liabilities for transmission access for post commissioning generators should reflect their commercial view of the value of firm transmission rights. We believe some users may require firm rights that cover a number of years, while other may require firm rights for a shorter period. Furthermore, some form of overrun arrangement would enable users to give up firm capacity while remaining connected to the transmission system. Given the extent of plant closures over the next few years, we believe that robust and enduring arrangements for firm and non firm transmission rights should be considered further once Ofgem has concluded on CMP192.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely,



Alan McAdam
Wholesale Economic Regulation Manager

Attachment 1: Answers to the "Electricity transmission charging: assessment of options for change" consultation questions

Annex 1: Answers to the “Impact Assessment on National Grid Proposal CMP 192 – Arrangements for Enduring Generation User Commitment” consultation questions

CHAPTER: Four

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

Yes. The consultation document considers all the relevant impacts of CMP 192. We note in particular the consideration of different treatment for pre and post commissioning generators and welcome the conclusion the different user commitment periods for wider works and post commissioning generators “would not be discriminatory” (Impact Assessment, para 4.9). This is helpful in determining the appropriate solution for user commitment.

We also believe that the reduced level of securities under CMP192 is a welcome development, though we note that it is ultimately the extent of the liabilities that determines the risks for new generators. We believe that further thought is required as to whether these liabilities can be reduced in an enduring user commitment regime.

We note that Ofgem has now published its initial thinking on the coordination of offshore transmission investment. This has significant implication for the user commitment arrangements and we look forward to working with National Grid and Ofgem in the evolution and delivery of these arrangements. If there is coordinated of transmission investment, including wider benefits then we would expect that there would be a significant reduction in individual user commitment and sharing with the wider user community.

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

We agree with the assessment of the potential environmental impacts of the proposals.

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

We note the example cited with respect to potential unintended consequences and perverse incentives in the impact assessment. While we believe that there may be specific circumstances where users may seek to optimise connection dates with respect to potential liabilities, these opportunities are limited in nature and carry with them the risk that any spare capacity could be utilised by other users.

We also note that the issue associated with significant transmission reinforcement and spare capacity is not confined solely to offshore connections but apply equally to other “lumpy” local transmission investments. However, these risks are not confined to the CMP192 proposals and relate to the existing arrangements and treatment of local capacity. Consequently, we believe that further consideration of the arrangements for sharing of local capacity should be considered separately from the assessment of CMP192.

CHAPTER: Five

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

We agree with the summary of the impact of CMP192 original on pre-commissioning generators.

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

The four year liability for wider works on pre-commissioning generators represents a snapshot view of the generic lead time associated with such works. We believe that there is a case for keeping this lead time under review in the light of the significant volume of work required to deliver new capacity and the wide variety of potential lead times. For example, the lead times associated with HVDC connection may be significantly different from the lead times associated with onshore reinforcements.

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 support a reduction of liabilities in cases where local works are associated with demand. We believe that the cost reflective solution should apportion the liabilities to those users that require the wider works. In most cases it is the generation that instigate the requirement for investment, though the improvement in security of supply for some customers could be taken into account (if such benefits can be identified).

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

We agree with the proposals on credit cover.

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.

We agree that asset health and the associated plant life assessment process should be considered in assessing the impact of the CMP192 on existing generators. We believe that there may be circumstances where users will be unable to provide a four year user commitment for existing power stations. We also note that recent events may indicate that any longer term user commitment may introduce further regulatory risk on existing generators (for example, recent events in Germany with respect to nuclear capacity).

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.

The impact assessment has appropriately identified the relevant interaction of CMP192 with other policy development. We believe that the uncertainty created by the various proposals indicate that it is unlikely that existing generators will be in a position to provide a four-year user commitment. Consequently we believe that Ofgem should consider whether the four-year user commitment simply represents a potential closure tax on users. Ofgem should assess the inefficiencies of this approach for existing users. In addition, Ofgem should consider the extent that such closure penalties will be reflected in power prices and incremental costs for customer.

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?

As noted in the impact assessments there is a wide range of potential policy interventions which will have a significant and material impact on the potential for existing generators to provide a four-year user commitment under CMP192. In particular we believe that the carbon floor price represents a major issue for a four-year user commitment since market participants remain uncertain as to its application for more than one or two years. As a result users are unable at present to hedge efficiently due to the carbon floor risk.

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.

With regard to existing users, a longer user commitment for firm access may improve transmission investment decisions. However, this is offset by the potential for inefficient closure decisions by generators.

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.

We believe that there is considerable uncertainty as to whether the contracted background indicated by the TEC register represents that total capacity that will ultimately connect to the transmission system. However, we agree that user commitment is intended to avoid unnecessary investment, not to indemnify underutilised investment.

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.

We support a two-year user commitment period for post-commissioning generators.

