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Electricity Transmission Policy
Ofgem
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12 March 2012

Dear Vanja,

Impact Assessment on CMP192: enduring user commitment

Thank you for the opportunity to provide views on behalf of ScottishPower and ScottishPower Renewables on Ofgem's Impact Assessment on National Grid's proposal CMP192: enduring user commitment.

ScottishPower supports the aims of this proposal to codify an enduring user commitment methodology within the CUSC where it will become subject to normal industry governance. The proposal represents a more equitable and logical approach to user commitment by pre-commissioning generators.

We agree that it is not appropriate to introduce a 4 year notice period for commissioned generators who can provide 2 years notice at most based upon forward market data availability and uncertainty regarding future energy market reform.

Our responses to the detailed questions in the consultation are set out below.

I hope you find these comments useful. Should you wish to discuss any of these points further then please do not hesitate to contact me.

Yours sincerely,

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Commercial & Trading Arrangements Manager

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

We believe that all of the most significant impacts of CMP192 have been identified and assessed.

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

The primary environmental impact of CMP192 is on the delivery of future generation investment and on the closure decisions of existing generators. Assuming that future generation investment will have lower carbon intensity, including a significant proportion of both renewable and nuclear generation, we believe that CMP192 removes barriers to the delivery of new generation and will have a positive impact on the delivery of the Government's low carbon objectives.

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

ScottishPower sees the possibility of developers seeking to exploit any potentially perverse incentives as extremely remote. Such a scenario would require firstly the Transmission Owner to significantly overbuild transmission capacity on the assumption of future generation connection and secondly a developer being willing to split or delay development of the second generation site in order to avoid the relatively minor cost of financing the user commitment security required.

Question 4: Do stakeholders agree with our summary of the impact of CMP192 original proposal on pre-commissioning generation?

We agree with Ofgem's assessment that while the overall level of liability on pre-commissioning generators will not change there will be significant changes, both increases and decreases, for individual generators. The exact impact will depend on which methodology is currently applied (FSL or IGUC) and the extent of Local Works to be undertaken.

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

In the Workgroup Consultation, National Grid provided analysis[1] that justified a four-year notice period for pre-commissioning generators. If user commitment is based upon avoiding unnecessary future capital expenditure then a 4 year period reflects the period of highest investment by the TO.

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 believe that a sharing factor could be applied to local works. Using the CUSC Section 14 definition of Local Works, there is no demand connected to the local works, however, the connection of additional generation capacity does provide an additional level of security of supply to consumers and therefore generators should not necessarily bear all of the risk. While a 50/50% factor may not be justified for local works, a lower sharing factor may be appropriate.

[1] CMP192 Arrangements for Enduring Generation User Commitment, Workgroup Consultation, paragraph 4.61

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

We agree with Ofgem that while there may be a cost associated with posting security for user commitment liabilities that this cost is reflective of the risk of credit default by the developer and that the provision of security provides valuable protection to both consumers and the wider TNUoS paying community.

Question 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.

Generation plant nearing the end of its original design life is subject to regular re-assessment of its remaining useful life and the costs associated with either achieving or extending that life. However, all generation plant can be subject to unexpected failure, particularly as it enters this stage and such failures may determine that it is economic to reduce the capacity or even close the plant at that stage. It does not seem appropriate to add to this uncertainty by imposing the possibility of a four-year "closure tax" on generators.

There is a clear interaction between justifying the costs of maintaining or extending generation plant life and the expected returns in the wholesale power market. Where there is uncertainty in both the fuel costs and wholesale electricity market prices due to the lack of liquidity for a full four-year period, provision of four-year user commitment could precipitate early closure of some generation plant.

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 CMP192 proposal.

We believe that Ofgem has identified the key interactions with other policy developments, namely the four elements of DECC's Electricity Market Reform project and agree that any or all of these measures (Feed-in Tariffs, Capacity Mechanism, Emissions Performance Standard, Carbon Price Floor) could significantly affect the assessment of future generation plant profitability and potential plant closure dates.

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?

We do not believe that all of the above policies are sufficiently well developed to enable generators to make a rational economic decision on the continued operation or closure of their generation plant.

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 CMP192 on the efficiency of network investment.

Neither National Grid nor Ofgem has produced any evidence of stranded transmission investment in the past. In most cases, transmission assets will be reused either by a new owner

acquiring existing generation assets or by the redevelopment of the connection site with new generation assets. There is therefore no need to indemnify historic investments.

User commitment should therefore, as proposed under CMP192, be directed at avoiding future unnecessary investment, where possible, bearing in mind that it is widely recognised that there is an asymmetric risk from the late delivery of transmission investment (as evidenced on the Cheviot boundary).

Therefore the costs of "over building" the wider transmission system should not be overstated as it provides additional capacity and security which will most likely be utilised by future connectees who will have to wait a shorter time for connection.

We believe that Table 10 overstates the amount of National Grid capital spend at risk as it does not appear to take account of ongoing communication between National Grid and the developer as the project progresses and National Grid's ability to reduce TEC or cancel the Construction Agreement where evidence of progress is requested but not produced by the developer as established under CAP150.

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.

As stated above, we believe that National Grid's methodology overstates the level of risk to National Grid's capital spend. The key to minimising risk is communication between developers and National Grid and the use of the powers provided in CAP150 to require developers to provide evidence of progress towards key milestones contained in the Construction Agreement or face TEC reduction or cancellation of the Agreement.

It is widely recognised that there is an asymmetric risk from the late delivery of transmission investment (as evidenced on the Cheviot boundary).

Therefore the costs of "over building" the wider transmission system should not be overstated as it provides additional capacity and security which will most likely be utilised by future connectees who will have to wait a shorter time for connection.

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 notice period for post-commissioning generators.

Different treatment of security for pre and post-commissioning generators is justified on the basis of the risk associated with each. While a pre-commissioning generator faces development and project finance risks until completion, the post-commissioning generator has assets which can survive the demise of the current owner and which will continue to be used and pay TNUoS under new ownership.

A four-year notice period for post-commissioning generators is not appropriate as they do not have the information to make an efficient economic decision on closure in these timescales. A notice period of two years would reflect the market data available to generators and the current uncertainties faced over major policy reform such as EMR when making closure decisions.