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Dear Vanja,

Impact Assessment on National Grid proposal CMP192 (19/12)

Thank you for the opportunity to respond to this consultation. We have answered the questions posed by the consultation below and would like to make the following high level points.

At a high level we agree with your initial view that placing a four-year liability on pre-commissioning generators is appropriate.

Whilst we support the principle that there is nothing wrong with an appropriate portion of the liabilities for local works being shared with demand, we agree that the proposal to halve the liability on pre-commissioning generators for local works designed to accommodate demand is not appropriate in light of the information that has been presented to date. However, we hope that if CMP192 is implemented that time will permit a more fully developed alternative to be brought forward on this important matter as it has a significant impact in relation to island connections.

We have formed the view that the most appropriate notice period for post-commissioning generators is the current CUSC 'baseline' of two years notice; i.e. one year and five working days, and that it is appropriate to impose different user-commitment periods on pre and post-commissioning generators.

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

We concur that all the relevant impacts of CMP192, as summarised in Figure 5 have been identified and agree that the assessment of the impacts on barriers to entry for pre-commissioning generators, closure decisions for post-commissioning generators and efficient network planning on the part of the TOs are broadly appropriate.

However, with respect to unpredictable future fuel, carbon and wholesale prices we agree with the workgroup that this is likely to be a substantial (if not the main) reason why a post-commissioning generator cannot move to a four-year commitment.

By way of evidence, we note the way, over a lesser timeframe, the GB CCGT fleet has gone from being 'in favour' in the marketplace, to being 'out of favour' due to changes in, for example, fuel and wholesale prices.

In addition to the EMR concerns we would add an additional 'regulatory impact' which could have a more profound effect on post-commissioning generators than EMR, namely the developments with the European Network Codes and, in particular the first code being developed (the 'Requirement for Generator Connections' code). This code, which introduces the real possibility of retrospective application of standards, could, in extremis, lead to a significant regulatory impact; e.g. lead to the premature closure of plant with less than four years notice.

There are, we understand, another twenty plus codes still to be developed under the auspices of the European Network Codes including, for example, the Capacity Allocation and Congestion Management code, the System Operation code and the Balancing code, each of which could, like the Requirement for Generator Connection code, have a profound regulatory impact on post (and pre) commissioning generators.

In addition to the new European Network Codes having a profound regulatory impact on post-commissioning generators, they could also have a similar regulatory impact on pre-commissioning generators. For example the latest (24th January 2012) version of the Requirements for Generators Connection code indicates that if an existing project (with a signed connection offer with National Grid) has not signed a contract for the key components (machinery / plant etc.) for their power station by the date that the code comes into effect then they will have to comply with the new standards set out in the code. This would mean that projects under development could be rendered 'invalid' in that the design they have sought planning permission for and asked the manufacturers to tender against would be out of date. This is a significant regulatory impact that has only emerged very recently.

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

We agree broadly with your assessment of the potential environmental impacts of the proposal, although we note that if the original proposal of four years post-commissioning generator user commitment were to be implemented that, in our view, there could be a detrimental impact on the environment. We believe that the situation is not as clear cut as it perhaps appears at first sight and that there is the potential for an increase in harmful environmental effects in the short to medium term.

We therefore do not concur with the suggestion, in paragraph 4.17, that the long lead time would allow enough time for new generation to be commissioned. The reason is that during the 'transition' from the current CUSC 'baseline' two years notice period to the new four year post-commissioning regime (if the original proposal were to be approved) it is likely that such plant (and it is not just nuclear that could be affected)

would chose to give no more than two years notice (as the CMP192 proposals - original and alternatives - allow), and so close early.

This, coupled with our comments above under Question 1 about the negative regulatory impact that the Requirements for Generator Connections code could have on new plant could lead to a negative environmental (as well as potentially an adverse security of supply) situation.

We therefore believe, contrary to paragraph 4.17, that the scenario is more than theoretical and thus more likely (than unlikely) to occur if a greater than two year post-commissioning user commitment period is adopted.

We note the comments in paragraph 4.18 and concur that there does not appear to be any risks to health and safety.

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

As noted under Question 2 above, we fear there maybe unintended consequences if the post-commissioning notice period is greater than two years, particular when combined with other regulatory impacts, such as with EMR and the European Network Codes.

Turning to the examples shown in figures 6-8 we concur that there may be unintended consequences if Generator 2 chose to defer their connection date until four years after the anticipatory investment.

However, in such a situation Generator 2 would have to forego four years return on their investment and could, potentially, see another party connect in the area which might, in turn, impact on their project deliver. Whilst we do not disagree that the Generator 2 scenario exists, we suspect in practice that this risk should be small as its outweighed by the desire to connect (and start earning a return) and reduce the risk that the connection / project is impeded by delaying for four years.

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

We agree with your summary of the impact of the CMP192 original proposal on pre-commissioning generators as noted in paragraph 5.6 of the consultation document.

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

We agree with your current thinking that placing a four year liability on pre-commissioning generators (when coupled with the other CMP192 associated changes, such as a lowering of the security level etc.) 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?

We note the debate in the workgroup on the matter of sharing of local works equally with demand where they are designed to accommodate demand, either existing or in the future.

We support the principle that there is nothing wrong with an appropriate portion of the liabilities for local works being shared with demand. However, on reflection, having noted the comments in paragraph 5.11 (and in particular about the alternative being extremely broadly based) we reluctantly concur that it is not appropriate to support this particular alternative.

We hope that if CMP192 is implemented that time will permit a more fully developed alternative to be brought forward on this important matter as it has a significant impact in relation to island connections.

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 assessment (as well as that of the workgroup) that the proposed credit cover arrangements are appropriate and provide valuable protection for consumers. The conclusion, in paragraph 5.17, that the differentiation in the existing credit cover arrangements on the basis of a company's credit rating provides valuable protection to consumers against the risk of a generator defaulting is not discriminatory and is, in our view, correct.

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 note the comments in paragraph 6.12 and agree that the asset health and associated plant life assessment could hinder generators providing four year post-commissioning user commitments. This risk exists for all types of generation and is not limited, for example, to the existing fleet of nuclear generation.

Such assessments often arise when a plant suffers a technical failure / breakage, where a post event review may determine that the cost of repairing / replacing the equipment would not be warranted given, for example, the age of the plant or the current and anticipated wholesale market prices etc. Given that such technical failures / breakages can happen at any time, it's very difficult for a post-commissioning generator to give a long term (i.e. greater than two years) user commitment.

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.

As we have detailed in our answer to Question 1 above, there currently exists a significant amount of regulatory uncertainty for GB generators. In addition to the

EMR developments (such as CfDs, Capacity Mechanism, Emissions Performance Standard and Carbon Price Floor), the Retail Market Review and the Liquidity proposals there is also the profound change emerging from the development of the suite of some 20 plus European Network Codes.

As we have indicated above, the Requirement for a Generator Connections code could have a profound impact on both pre and post-commissioning generators which could; when combined with the other changes identified; see some new and existing projects being burdened with additional obligations which could render them uneconomic in these difficult times.

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 our response to Questions 1 and 9 above the level of uncertainty associated with the policies identified, as well as those we have identified e.g. the European Network Codes, could hinder post-commissioning generators from providing four year user commitment notice.

Furthermore, there may also be a case to be made that this particular development (of the EU Codes) will also hinder pre-commissioning generators from providing four years notice.

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 note the analysis provided by National Grid. Whilst in principle we agree with the statement in paragraph 7.1 that:-

“When generators are in a position to communicate their planned network use and other information relevant to National Grid’s investment plans over the successive years, related spend is at a lower risk of being inefficiently incurred.”

we note that this is predicated on ‘when’ the generator is in a position to communicate their planned network usage.

For the reasons outlined by the workgroup and as we have indicated above, there are serious impediments on post-commissioning generators which restricts them from being in a position to know their network usage beyond two years.

These impediments include a lack of (i) wholesale market, (ii) fuel and (iii) carbon prices etc., as well as significant regulatory uncertainties.

On a point of clarification, we note the comment in paragraph 7.2 that:-

“Under the current arrangements, post-commissioning generators are incentivised to provide one year and five days’ notice. For the purposes of this analysis, National Grid approximated the notice period to one year.”

It should be remembered that if a post-commissioning generator fails to give their one year and five working days notice then they are liable to pay **two** years of TNUoS and we (and DECC when they introduced this requirement as part of the ‘Connect & Manage’ regime) regard the current CUSC ‘baseline’ notice period for post-commissioning generators as being two years (rather than the one year implied in paragraph 7.2). It would be incorrect to ‘approximate’ this notice period to one year. Therefore it is imperative that the ‘2 year’ figures shown in Table 2 is recognised as equating to the current CUSC ‘baseline’.

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 concur with the assessment in paragraph 7.4 that the analysis may overestimate the benefits associated with a longer regime (for the reasons identified).

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.

Taking into account the various factors discussed in the consultation document along with those detailed in the CMP192 Final Modification Report (together with the reasons we have outlined above) we believe that the current CUSC ‘baseline’ of providing two years notice for post-commissioning generators is appropriate. For the avoidance of doubt, a four year notice period for post commissioning generators is not appropriate for the reasons we have detailed above.

We hope that these comments are helpful.

Yours sincerely

Garth Graham
Electricity Market Development Manager