

Statkraft

Annex to Consultation response - Investment in electricity generation: Impact Assessment on National Grid proposal CMP 192: enduring user commitment

Comments to questions

12 March 2012

This is an annex to our response letter that we refer to for more general comments.

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

We think there are two important gaps.

First the impact assessment under-estimates the importance of the total level of liabilities, as opposed to securities, in acting as a barrier to entry for new generation. The total level of liabilities remains broadly the same under this proposal, although there are redistribution effects, and the impact of this on the ability of new generation to secure finance should be recognised.

Second the impact assessment does not consider the impact on market entry of not including grandfathering arrangements and of the impact of transition arrangements for pre-commissioning generators. Managing the change process such that it does not create additional and unnecessary risk and uncertainty is an important issue for generation in process.

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

Broadly yes. We agree that the proposal could impact the environment through either increasing or reducing the rate at which new generation connects to the transmission system. The extent of these impacts will depend on the final form of the modification chosen, in conjunction with other external factors (e.g. the final form and timing of the EMR proposals). Consequently the differential impacts of the various alternatives require further consideration.

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 perverse incentives, and that they are particularly likely to be an issue for anticipatory investment for greater co-ordination of offshore. However, we do not consider that this can be resolved within the current scope of the CMP192 proposals as they stand and have been debated through the workgroup.

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

We agree with the general thrust of it. However, as we have already noted, the impact of a lack of change in the overall liability amounts in the proposal will also have an impact in terms of foregoing a greater level of competition and development of new generation.

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

No, we do not support the imposition of a liability for pre-commissioning generators for wider works or the proposed four year window. The current arrangements for interim Final Sums Liabilities were put in place after due consideration after the transmission access review and following a consultation by National Grid in 2010, and were endorsed by DECC. Ofgem does not explain why it believes this aspect of the baseline is deficient.

It was only recently determined that under the interim Final Sums Liability arrangements liabilities and therefore security for wider transmission investment works would not be sought. National Grid considered that the risk of stranded assets was low, and that the adopted approach would facilitate competition and assist in meeting government environmental targets. We do not consider that an adequate case has been made by National Grid for changing this approach, and the impact assessment is similarly deficient.

Two years notice is sufficient for signalling efficient grid investment and is a workable solution. A two year window is also more consistent with the underpinning concept of the connect-and-manage regime and the low risk of asset stranding observed to date. Conversely, a four year period would clearly increase the commitment period and cost to a developer without delivering any real risk mitigation.

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)?

No, we think that this proposal is broadly appropriate in that, where there is a demand side as well as generator beneficiary to the local works, this should be recognised. We understand the concerns that Ofgem has over the broad wording of the proposal and the fact that the proportion of the works for demand may be less than 50% in most cases.

If the proposal is not appropriate in its current form, then it should be subject to the “send back” process.

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

Yes, we think the credit arrangements are appropriate.

Questions 8: We seek stakeholder views on the extent to which asset health and the associated plant life assessment could hinder generators in providing four-year user commitment notice.

This may be an issue for generators towards the end of their lives. Ofgem makes the point that an assessment of these assets and the consequent decision over how long to extend the plant life can often only be made during routine outages, which would be unlikely to provide four years notice.

Question 9: We would be interested to hear stakeholders' views on whether we 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.

Ofgem notes that it does not have sufficient detail at this stage to consider the interaction between the CMP192 proposals and EMR and that the varying degrees of development and the implementation schedule of the proposals also complicates the assessment of these interactions. This is of course also a problem equally faced by generators who must make decisions with potentially major financial consequences against a background of significant uncertainty. In particular the current lack of detail on the CfD FiT arrangements (especially given the premature decision to close out the RO to new investment from 2017) and the Capacity Market are a major source of concern.

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.

Yes, this is the case, with reference both to EMR and other policy developments. One case in point is the risk that National Grid could take forward an offshore link as the economic and efficient solution to the boundary reinforcement issue recently considered, potentially requiring projects in Dogger Bank to come up with securities to cover the cost of two 1000 MW links between Dogger Bank and Hornsea. This is an important issue that is part of the grid co-ordination discussion going on, but which has not been part of the CMP 192 consultations. This in our mind is a major weakness. This deficiency implies that with the new methodology for security and liability calculation major uncertainties will still remain in terms of future payment for Anticipatory Investment.

Question 11: We welcome stakeholders' views on the analysis presented in this section (7) and, where available, any additional information and/or analysis in relation to the impact of CMP 192 on the efficiency of network investment.

The analysis provides a basis for looking at the benefits to network investment of the new generator user commitment arrangements in terms of investment efficiency. But it takes no account of anticipatory investment or of the other information which National Grid may have available.

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 agree with Ofgem that the analysis may over-state the benefits of a longer regime because of the assumption that National Grid has no information on the likelihood of the investment being commissioned over time.

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 (7), we seek stakeholders' views on the most appropriate length of the notice period for post-commissioning generators.

The arrangements for post-commissioning generators should not be changed from those recently implemented by DECC. If arrangements are to be changed, we prefer two years notice rather than four given the many wider uncertainties Ofgem acknowledges.