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Kersti Berge
Partner, Electricity Transmission
Ofgem
9 Millbank
London
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13 August 2014

Dear Ms Berge,

Consultation on CUSC modification proposal 224

Eggborough Power Limited (EPL) is an independent generator which owns and operates Eggborough Power Station (EPS), a 2,000 MW coal-fired power station situated in the Aire Valley in North Yorkshire. EPS was previously owned and operated by British Energy (and latterly EDF) to provide flexible and reliable mid merit support to the “baseload” nuclear portfolio. EPL is now owned by substantial private shareholders and is operating as an essentially merchant power plant in the wholesale market. EPL provides flexible generating capacity to today’s challenging electricity market.

EPL welcomes Ofgem’s consultation on CMP224, but believe that TNUoS needs fundamental reform to address the current distortions in cross border trading and we would rather see implementation of CMP227 as it provides a more robust and longer term solution to the problem that CMP224 seeks to address. TNUoS is a significant charge for generators and it is difficult for parties to manage unforeseen changes, especially as these are not costs that a generator can hedge. The risks to the profitability of marginal plants imposed by transmission charges lead EPL to support a system where charges on generators are minimal, or zero, and are calculated in such a way as to try to limit volatility.

EPL understands Ofgem’s concerns about customers’ costs, but EPL believes that the differences between the revenue National Grid receives from generation and demand will be reflected in the wholesale price. While we have often shared Ofgem’s concerns about competition in the electricity market as a whole, we believe that competition in marginal, price-setting generation largely results in cost reflective electricity prices. This should mean that if the revenue to be recovered from generation reduced by £1 this would result in a corresponding reduction of £1 in the wholesale price of electricity paid for by customers. The customers should therefore be neutral to this proposal as they will simply pay the charges directly rather than indirectly.

EPL suspects that the customers may, in fact, be better off as the forecasting errors of generators in costing TNUoS into their own generation prices is likely currently to be adding to

costs. The inability to hedge transmission charges means that generators must take a view on forward costs when pricing in longer term energy sales. At the current time, when selling energy at least a year out, where we do not know what the TNUoS costs will be, EPL and all other generators will use a TNUoS forecast based on their own experience and views on National Grid's allowed revenue. It is highly likely that each generator undertaking this calculation will factor in an error margin that simply pushes up power prices. National Grid has more experience and information on which to make a robust forecast, even using a bandwidth, which then sets a TNUoS charge that generators can factor into their cost base.

Given the level of transmission costs, which seem only ever to go up, there is not only an impact on power prices, but also a distortion on cross border trading as many EU Member States do not impose such charges on generators. Customers should be the longer term beneficiaries of increasing competition in generation. EPL would therefore support implementation of either the original or WACM2 as being able to deliver cost savings to customers sooner rather than later.

On the question of which charges are included in the generator cost "bucket", the strict interpretation would appear to be the most logical as the connection and spur costs are transmission charges faced by generators. In fact we would argue that all transmission-related costs should go into the calculation. While we recognise the concerns expressed by the working group around the definition, the legal opinion received by National Grid would suggest it would be safer to include the spur costs. We agree with Ofgem that the potential for a generator to challenge the strict definition creates additional regulatory risk for all parties and that it would be more prudent for Ofgem to agree a definition that captures more rather than less costs that could reasonably be defined as generator transmission costs, which could always be reviewed were any subsequent guidance to be issued by the Commission or ACER.

EPL supports the original and WACM2 modification proposals as both better meet the applicable CUSC objectives and, more importantly, address the legal issue that National Grid's proposal identified. We would disagree that a short implementation timetable creates unnecessary risk for suppliers as they rarely sell energy out on a longer term (over 1 year) basis and have been aware of this potential change for nearly a year and must have known some change was required in the UK to remain compliant with EU law. It is also apparent that a breach of the regulations is now looking imminent and therefore Ofgem must have a duty to ensure that National Grid (and other parties) are not put in breach of EU law by delaying sign off of the modification and implementation.


WACM1 or WACM3, with longer notice periods, create the potential for charges to get out of line with National Grid's allowed revenue and the average charges paid by generators could also diverge from target. As a general rule EPL favours longer notices for charges, but this has to be balanced against the need for charges to accurately reflect costs and limit the possibility that charges could swing around unpredictably if National Grid's forecast turns out to be totally inaccurate due to some unforeseen circumstances. It would also appear to be prudent to implement the change sooner rather than later if a breach of the regulation is to be avoided, so either the original or WACM 2 would be our favoured options.

Both the WACM2 and WACM3 proposes to exclude the generator only spurs element(s) of the local charges currently applied to generators in the calculation of the annual average transmission charges paid by generators in GB. EPL believes that these charges should not be excluded and therefore these two options, while being an improvement over the baseline,

would not better meet the CUSC objectives and we suspect risk National Grid being in breach of the EU Regulation. The original and WACM1 present a better solution, but the 12 month notice period under WACM1, along with the resulting wider bandwidth, makes it a less attractive solution for the reasons outlined above.

Please do not hesitate to contact me if you would like to discuss any of the issues raised in this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michelle Dixon". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping tail.

Michelle Dixon
Commercial Director