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Mr. Andrew Self
OFGEM
10 South Colonnade,
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3 July 2019

By email

Dear Andrew,

Company Background

Calon Energy was founded in October 2012 and, following a series of acquisitions, is the owner of 2.1 Gigawatts (GWs) of flexible and efficient Combined Cycle gas-fired generation:

- Baglan Bay (Port Talbot)
- Sutton Bridge (Lincolnshire)
- Severn (Newport)

Calon Energy has also acquired the Willington site in Derbyshire with a view to building a 1.6GW Combined Cycle Gas Turbine (CCGT) power plant subject to acquiring a Capacity Market contract at a price which renders the project economically viable.

Capital is deployed into Calon Energy from a range of major international investors. Calon Energy remains keen to participate in the continued development of a sustainable, secure and economically-efficient electricity generation sector in the UK.

Targeted Charging Review

Our assessment of the open consultation into OFGEM's Targeted Charging Review (TCR) does pose some questions and concerns for Calon Energy which are detailed as follows.

There are wider industry and regulatory changes which are in flight or proposed which haven't been taken into account, such as TERRE.

Should we exit the EU with a withdrawal agreement and participate in the EU replacement reserve exchange the TCR doesn't take into account how this would impact or support an eventual outcome of the review. An alignment of charging, for example where BSUoS (the equivalent of) isn't charged to generators in EU countries. Two modifications were raised by First Hydro & EDF Energy under CMP 307 & 308 to propose extending BSUoS charging to embedded generation (CMP 307) or removing the charge from generators (CMP 308), aligning with European counterparts and creating effective competition between cross EU energy trading. These modifications are now wrapped up within the TCR, which makes sense from a practical point, however the objectives and principles of those separate modification proposals must be assessed with the same merit and not overshadowed by the wider scope of the TCR.

The establishing task force must ensure close alignment with the overall TCR. It does seem that all charging mechanisms are up for review and the TCR could become, if not already one of the biggest industry changes for a number of years. It is vital therefore that all workstreams and parallel changes are aligned and interlocking. Other unintended consequences of the TCR not referencing or interlinking with other reforms is the wider access and forward looking charges review. A new cohort of participants will begin trading and exchanging power on the existing markets from virtual lead parties, non BM parties and aggregators, revenue collection downstream at the point of demand would be a less complex as an alternative approach. The possible removal of Triad

payments could see a shift in behaviour resulting in an imbalance of costs, analysis of the impacts of Triad removal must be considered as part of the TCR.

The consultation proposal doesn't ensure that a balanced fuel mix will be an outcome from a review of the charging mechanisms. The high level principles don't take this into account either, to ensure that the charging regime can deliver the right balance of generation through different technologies without distorting or incentivising one technology type over another.

With regards to the principles of the TCR, Fairness is one of the core objectives to the eventual outcome. The proposal doesn't detail how all types of embedded generation, such as exemptible will contribute to the overall costs of the using the networks and closing the gap of cost recovery. To ensure complete fairness whilst removing distortions, all users of the same networks should be charged appropriately and where costs can be avoided or reduced passed onto the end consumer. Cross mutualisation of residual shortfalls in the recovery of costs must be phased out over a period of time and recovered, as proposed by fixed charging, which we support, although across all users. Should fixed charging be the eventual option that is taken forward BSUoS would have to be removed or radically changed due to its cost volatility and unpredictable nature.

Investment in our energy infrastructure is a growing concern for generators such as ourselves to maintain security of supply in Great Britain. The outcome of a charging reform must address the current imbalance of charging, in the current climate of uncertainty over the UK's economic and trade future under BREXIT, the suspension of the Capacity Market and new build transmission connected generation being halted through investor uncertainty the TCR must protect the backbone of our current and future generation capacity.

We would be happy to discuss this in more detail should you wish to do so.

Best wishes



On behalf of.
Andrew Mackintosh
Director of Government & Regulatory Affairs