Andrew Self
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Dear Andrew,

Re: Calon Energy's response to the minded to decision and draft Impact Assessment of CMP264/265

About Calon Energy

Calon Energy was founded in October 2012 and, following a series of acquisitions, is the owner of 2.1GW of flexible and efficient gas-fired generation at Baglan Bay, Sutton Bridge and Severn. It also bought the Willington site in 2016 with a view to building a 1.6GW CCGT power plant once a capacity market contract has been awarded.

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

Calon Energy response

Calon Energy welcomes the opportunity to comment on Ofgem's minded to decision and draft Impact Assessment of CMP264/265. We support the industry view put forward by Energy UK that we want a charging methodology which is cost-reflective, transparent, stable and predictable, and fair.

It has been our long-held view that the treatment of sub-100MW embedded generators has created a distortion to investment, the capacity market bidding and energy market operation. We are pleased that these serious issues are finally being addressed and urge Ofgem towards a swift implementation of the proposed changes. Specifically, we agree with the LCP/Frontier Economics analysis that embedded generators generate out of merit during Triad periods which artificially distorts the short-term wholesale electricity price and dislodges more efficient plants. The dampening effect on the capacity market clearing price to unrealistic and unsustainable levels is self-evident. We think that this has a negative impact on security of supply and ultimately will not result in the lowest costs to consumers.

We understand the concerns of some industry participants regarding the need to demonstrate consistency in the regulatory framework for investor confidence. We believe that grandfathering is appropriate in certain situations but it has been clear for some time that the embedded benefits issue was not sustainable and was leading to perverse economic outcomes. We believe that informed industry

participants should also have been able to reach similar conclusions and hence the arguments for grandfathering are significantly weakened. Evidence of this direction of travel includes the Ofgem open letters on charging arrangements in July and December last. In our opinion, these rational expectations should be, and are, reflected in the Ofgem minded to decision. We think the transitional arrangements proposed represent a generous compromise in these circumstances and we do not believe it should be extended beyond the currently proposed period of phasing. Therefore, we support Ofgem's minded to recommendation of WACM4.

Furthermore, we support the views that:

- There is no justification for the current levels of TNUOS Demand Residual embedded benefit
- Enduring tariffs for embedded generators should be similar to those of transmission connected generators in the same geographical location due to the impacts on transmission investment costs are essentially the same

We would like to stress the importance of avoiding any special measures to sit alongside the phasing out of the TDR Embedded Benefit. As seen with the Supplemental Balancing Reserve such measures can themselves be counterproductive and create distortions. We believe that the combination of energy markets and capacity markets are sufficient and should be allowed to, and will, function.