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Future Electricity Networks Team
Department of Energy and Climate Change
Area D, 4th Floor
3 Whitehall Place,
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10 April 2010

Dear Sir/Madam,

Response to 'Improving Grid Access – Technical consultation on the model for improving grid access'

ESB International (ESBI) welcomes the opportunity to respond to the Department for Energy & Climate Change's (DECC) consultation on 'Improving Grid Access – Technical consultation on the model for improving grid access'. As a leading developer and operator of power stations within Great Britain (GB), the proposals for Improving Grid Access outlined in the consultation document will have significant impacts on our future in the GB market.

Introduction to ESBI

ESBI has been a developer of independent Combined Cycle Gas Turbine (CCGT) generation projects in the GB market for over fifteen years. We currently have interests in the 350MW Corby power station and in the 850MW development at Marchwood, which commissioned in late last year. We also recently announced our latest 860MW development at Carrington which is planned to commission around 2014. We are also considering other large CCGT developments at various locations across GB. It is ESBI's intention to build 3GW of thermal generation in GB in the next decade.

In addition to expanding our conventional generation portfolio, we are also seeking to expand our GB portfolio of renewable generation sites, having recently completed the acquisitions of Fullabrook Down and West Durham windfarms. All these developments are set within the context of a wide-ranging programme announced by the ESB group to facilitate the transition to a low carbon economy.

Overview and General Comments

Later in this response we provide our specific comments in response to the questions posed by DECC in the consultation document. However, we first summarise our key comments and the context in which our views have been formed.

As a developer of both renewable and conventional thermal generation, grid access is critical to ESBI. The “invest then connect” basis of connection management has led to significant queues in particular areas of the country, as plant have had to wait for the completion of reinforcement of the wider network before being permitted to commence operation. This has in turn posed a serious threat to the achievement of the Government’s environmental targets and to the future security of supplies.

Thus, ESBI supports the move to the 'Connect and Manage' approach detailed by DECC in its consultation document, and the socialising of the associated constraint costs, as a mechanism to move towards a smoother, more timely connection process. There are, however, some specific points relating to the detailed design of the proposed arrangements which we would seek to be addressed.

We welcome the publication of DECC’s supplementary note on the introduction of the concept of Enabling Works. The note usefully provides some additional clarity regarding Enabling Works. There remain, however, a number of aspects upon which we have concerns.

The definition of Enabling Works provides the Transmission Owners with the ability to increase the scope of the required works beyond the Maximum Enabling Works, should they “consider it necessary”. In ESBI’s view this introduces considerable uncertainty and ambiguity for new investors, increases risk and potentially deters new entry. This would be inconsistent with the Government’s stated objectives for the access review. We are therefore of the view that there should be better clarity in the process to avoid ambiguity. If, however, such discretion is deemed essential by DECC, we would wish to see a transparent and time limited process through which such decisions could be appealed. A failure to adopt such a process would risk a return to an “invest then connect” approach at locations deemed “necessary” by the Transmission Owners (TO), with the formation of queues for both the appeals process and the completion of enhanced (beyond Maximum) Enabling Works.

DECC’s consultation usefully provides guidance and associated network diagrams showing the TO’s provisional views on what is currently deemed as the Main Interconnected Transmission System (MITS). For developers such as ESBI, it will be critical to understand the network upon which NGET will determine grid applications. The network will be subject to significant development over the forthcoming years. As such, substations which are currently not classed as MITS will become MITS in the near future. Our key question is therefore whether NGET will provide an offer based on the MITS assets at the time of the application or at the point of forecast connection? In many cases, these will be materially different and therefore the associated Enabling Works will also be different.

The proposed self-derogation process is to be welcomed as it could streamline and speed up the connection process. However, ESBI wishes to see greater transparency in this process than exists in the current derogations process so as to avoid additional costs being unnecessarily incurred by investors due to a lack of clarity in connection information.

Additionally, we are of the view that there should be a transparent and prescribed route of appeal for generation developers who feel their connections should not have required derogation, or alternatively are of the view that NGET should have self-derogated in order to better facilitate a more timely connection. For this appeals process to be fair and consistent, we are also of the view that NGET should be required to share the network data used to justify the derogation with the developer, as well as the Authority.

Finally, we welcome DECC's move towards enhancing the commitment to be provided by all users as a mechanism for providing greater certainty both for network planning and generation investment. However, we feel that the proposed notice of termination, notionally of 2 years (but actually a minimum of 1 year and 5 days), is still much too short to benefit any of the stakeholders involved given the lead times associated with the construction of both new generation and transmission infrastructure. We propose both that user commitment be extended to 4 years to be consistent with infrastructure and new generation investment timescales. This would also be more balanced with the Interim Generic User Commitment Methodology (IGUM) for new connections, under which securities ramp up prior to the operation of the generation facility to a maximum commitment equivalent to 10 years' transmission charges.

Specific responses to DECC consultation questions

Proposed models ability to meet Government's objective

In general we believe that the proposed 'Socialised Connect and Manage' mechanism will help to meet the Government's objectives and will reduce the GB queue for connection to grid.

Definition of 'Enabling Works'

The establishment of an upper limit on the extent of Enabling Works by reference to the MITS, linked with a set of minimum requirements which Enabling Works should comprise, is welcomed by ESBI. However this definition is undermined by provisions which permit the Transmission Owners to determine that the Enabling Works can exceed the upper limit. This provision is granted by clause 13.2.5, and in particular clause 13.2.5.2, which allows these parties to determine that the Enabling Works should exceed the Maximum Enabling Works should they "consider it necessary".

ESBI is concerned that the degree of freedom provided to the Transmission Owners through clause 13.2.5 will create ambiguity and uncertainty for investors, which

will work contrary to the Government's objectives for the reforms in respect of the promotion of security of supply and the meeting of 2020 renewables targets.

The establishment of a definition of Maximum Enabling Works should provide for a maximum limit on the extent of work required before connection. We are of the view that the drafted definition could well result in queues forming at those locations where the Transmission Owners determine that clause 13.2.5.2 applies, leading to a return to the "invest then connect" access policy which the reforms are seeking to improve upon.

If DECC determines that the provision of a degree of discretion to the TO's is unavoidable, ESBI would wish to see clarity around the process through which investors will be permitted to appeal such decisions by the TO's and would strongly advocate a time bound and transparent appeals process. This will avoid unexpected project delays and the formation of another queue, awaiting the outcome of the appeal process.

The process for derogation from the SQSS

At a principle level we approve and welcome this move from DECC as it will help streamline the connection process and fast track projects. However we have some concerns around the lack of transparency in the process proposed.

We understand that there are over ten derogations relating to the GB transmission network currently being progressed through the existing process, yet none of the details are available to industry. Whilst it is recognised that some elements of such derogations may require to be kept confidential, we would prefer to see much greater transparency wherever possible. This could perhaps begin with a published register, updated on a regular basis, identifying where derogations are envisaged/required. Under the proposed new process of self derogation, such transparency becomes more significant and easier to facilitate since all the requisite information will reside with the TO's. In our view this will help companies in their investment decisions since all the information about any relevant development will be publicly available, enhancing the decision making process.

The extension of user commitment

ESBI firmly supports the proposal for an extended user commitment as a tool for enhancing supply security but feels that the additional year proposed by DECC is insufficient. If security of supply is to be enhanced through the access process, the user commitment period should be consistent with the timescales for the construction of the new generation capacity required to meet the needs of the market. Even under DECC's proposed 2-year commitment period (which in practice could be as little as 1 year and 5 days in the absence of other changes to the user commitment rules), investors would not be able to react to the market signal and bring on new capacity in time to meet the deficit.

Additionally, for benefits to be realised by the network operators, user commitment must be more consistent with lead times for network investment. Even if investors could construct new generation capacity in such timescales, the completion of the necessary Enabling Works would be likely to delay operation of the new capacity since, as DECC highlight in the consultation document, Enabling Works take (in general) 3 to 4 years to complete, subject to local planning constraints.

ESBI proposes that user commitment be extended to 4 years. The reasoning being:

- a) This would be consistent with the investment timescales for new generation capacity;
- b) It would be consistent with the timescales identified by DECC for the construction of Enabling Works for new capacity; and, furthermore
- c) It would be consistent with the Interim Generic User Commitment Methodology (IGUM) for new connections which provides for a maximum 4 year period over which charges ramp-up prior to the operation of a new generating facility.

In recognition of the impact such a change would have on market participants, particularly those who have already determined that they should close stations in response to the emissions limitations imposed by the Large Combustion Plant Directive (and its successor the Industrial Emissions Directive), we propose a transition period. This transition period would set the go-live date for the extension of user commitment to 4 years to generation sites closing from 2014 onwards, that being 4 years from DECC's June 2010 implementation date for the new access regime. Users wishing to close in 2014 would therefore have to give notice in 2010. Additionally, those users wishing to close between 2010 and 2014 should be subject to the 2 years user commitment (actually 1 year and 5 days) proposed in DECC's consultation.

While (a) and (b) above are essential from the perspective of promoting security of supply, (c) - which we note the consultation does not address - would not only provide for consistency between the IGUM charging methodology and the access arrangements for new connectees, but would also be a step towards addressing the current disparity between new connectees and parties exiting the market, in respect of the liabilities they face. New connectees currently face a liability 10 times their annual TNUoS charge in the final year of the "ramp-up" period while an exiting connectee faces a much smaller multiplier - effectively 5 days under the current regime. Extending the user commitment period to 4 years would be less discriminatory and promote competition. Further, we would seek to see the 10 times multiplier within IGUM reduced in order to provide better symmetry between entry and exit commitments. This would reduce the current barrier to entry resulting from prohibitively large securities and better facilitate Government's objectives for the access reforms.

Should you wish to discuss any of the comments raised in this response further, please do not hesitate to contact me.

Yours sincerely,

Michael Dodd

GB Regulation Manager

By e-mail