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9 April, 2010

Dear Lorraine,

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

Thank you for the opportunity to respond to the above consultation. This response is made on behalf of E.ON UK plc. We continue to support the introduction of a Connect and Manage regime, but remain concerned about the intention to socialise balancing costs that arise from derogated boundaries. If socialisation is pursued as proposed, then we would urge DECC to put in place formal monitoring and reporting of constraint costs associated with Connect and Manage with a view to possibly reviewing this policy decision in future.

Our responses to the questions raised in the document are as follows:

Question 1: Do you agree that the proposed model for reforming grid access would best meet the Government's objectives for this reform? We would particularly welcome comments on:

- ***The definition of 'enabling works';***
- ***The process for derogation from the SQSS;***
- ***The extension of user commitment;***
- ***The transition arrangements.***

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Although this consultation is aimed at assessing implementation issues rather than reviewing policy decisions, at a general principle level we remain concerned about the proposal to socialise constraint costs incurred as a direct result of introducing Connect and Manage access arrangements. There are two main issues that remain for us in the context of these balancing costs.

Firstly, we are concerned about the effect these increased costs will have on customers' bills. We note that Redpoint's analysis has arrived at costs which are some way below those estimated previously by National Grid and Frontier Economics. We have not had access to the detailed modelling assumptions from each of these studies so are not in a position to determine which of these seems most realistic. However, we remain concerned that without appropriate commercial drivers, such as some form of targeted charging of those costs, there is still significant scope for levels to outturn higher than those assumed by Redpoint.

Secondly, if generators fail to see the costs of their actions in particular locations, either in terms of where they build generation or when they operate that generation, then inefficient decisions will be made. This will have implications for meeting renewable energy targets, as well as wider impacts for security of supply. We accept that some of the more congested parts of the network offer good potential renewable resources. However, those resources also need to be accessible to be of benefit. If inefficient decisions are taken to site or operate generation then either the targets will be not be met, or met at too high a cost.

We note that the main conclusion from Redpoint's analysis in respect of the locational BSUoS model was that it "*could potentially reduce both congestion and costs to consumers while having little impact on renewable output*." We believe that this conclusion pointed to locational BSUoS as being the most appropriate option to maximise renewable output while still containing costs. Whilst we appreciate that this model could have implications for a timely implementation of enduring arrangements, we believe it could be problematic to rule out a locational balancing charge entirely, particularly if the analysis of costs outturns to be overly optimistic. We note that the consultation states that the licence can be changed should costs rise to unacceptable levels. We would suggest that as part of these proposals, National Grid is formally required to monitor and report on the costs associated with the adoption of Connect and Manage, so that the situation can be kept under review. This would also provide an additional signal of where transmission infrastructure is most needed, ensuring that timely investment is maintained.

The definition of 'enabling works

Through the work undertaken by the industry in 2008 to assess the various transmission access models raised by National Grid, it became apparent that a simple definition of enabling works (or local works) was not possible without unduly restricting the applicability of Connect and Manage arrangements to different network configurations. Therefore, we agree that National Grid should be allowed the flexibility to determine the assets that would be classified as enabling works on a case by case basis. However, in order to avoid perceptions of discrimination and to provide transparency to developers this should be undertaken against a pre-defined set of criteria. The proposal to use a similar set of criteria for the enduring arrangements as that derived for interim Connect and Manage seems sensible.

Additionally, when entering into discussions with National Grid to acquire a new connection offer, it is also useful for developers to know what the "worst case scenario" could be. We therefore support the inclusion of the Maximum Enabling Works threshold term in the legal drafting. However, we are concerned that the present CUSC drafting includes a widely defined exclusion term (paragraph 13.2.5.2) which allows Transmission Companies total discretion to allow enabling works to be defined beyond this maximum, thereby somewhat negating its purpose. Whilst we accept that there may be exceptional circumstances where even this maximum limit is too restricting, and so would agree that some sort of clause similar to 13.2.5.2 is necessary, the clause needs to be more tightly drafted than at present. One option would be to seek the permission of the Authority for such as extension, to ensure procedurally that it is used infrequently. If with experience it appears that this clause is required to be used more often than this, then the definition of Maximum Enabling Works could be reviewed and perhaps revised.

The process for derogation from the SQSS

Clearly there needs to be a process for applying the various derogations from the SQSS that the Connect and Manage arrangements will require. We understand the concerns about continuing the current formal process of applying to the Authority for each individual derogation required and the implications that this would have for the workload of the transmission companies. However, it is also important that checks and balances are maintained within this process.

One issue which has already been addressed within the present drafting by allowing the system operator the power of veto over derogations sought by Transmission Licensees, is to ensure that minimal technical standards are maintained. However, it is also important to ensure that Connect and Manage applications are undertaken on a non discriminatory basis. Therefore, some form of regulatory oversight should be introduced in order to avoid derogations being granted against particular projects, but not others, without sound objective justification. This is particularly important where the local transmission companies have associated generation and supply interests, in order to avoid perceptions of bias.

Furthermore, as the intention is to socialise the balancing costs incurred as a result of derogating boundaries, then it is important that these derogations are not allowed to endure for significant periods. We note the DECC believes that ultimately balancing costs should be controlled through investment in transmission assets which removes the associated constraints from the network and we agree with this view. We therefore also agree that an obligation should be placed on Transmission Companies to complete these works in a reasonable timescale as has been proposed in the legal drafting in paragraph 8 of the new SCL C[x]. However, there is nothing presently included in this drafting to say what timescales would be reasonable, or how in practice this condition would be monitored and enforced by the regulator.

Another area of concern for us is the interaction of this process with the revenue drivers in the transmission companies' price controls. If licensees are rewarded for the generation capacity they connect with no regard for the physical assets they put in place, then there would be little incentive for them to focus on removing derogations in a timely manner.

We also note that clause 8 currently allows for the requirement for wider works to be completed in reasonable timescales to be waived, if agreed with the Connect and Manage applicant. Clearly the effects of such a decision would be borne by a significant greater number of parties than just the Connect and Manage applicant alone, as it would affect all payers of balancing costs. As the purpose of timely investment is to maintain downward pressure on balancing costs, it is not clear why the Connect and Manage applicant is allowed sole veto in the manner proposed.

The extension of user commitment

The proposed extension of User Commitment from one year to two years is on the limits of what is potentially manageable by generators and in that context is a sensible duration to specify. However, the practical benefit of this to transmission companies should not be overstated, as they typically plan their networks over longer timescales than this. The implementation approach, whereby generators would be exposed to the current one year user commitment for the charging year 2010/11 appears sensible in order to assist a smoother transition to the new regime.

On a legal drafting issue we note in various places reference is made to notice having to be given one year and five business days prior to 30 March. We assume that this should read 31 March instead.

The transition arrangements

Our interpretation of the transitional arrangements as set out in the document is as follows:

1. Generators with an existing agreed connection date under the Interim Connect and Manage arrangements will automatically receive a Connect and Manage offer under the new enduring arrangements. This new offer will not affect the date agreed.

2. Generators with an existing unsigned offer under the Interim Connect and Manage arrangements can either agree this offer or request a Connect and Manage offer under the new enduring arrangements. It is not clear whether requesting an enduring Connect and Manage offer will potentially alter the offered connection date from that under the existing Interim Connect and Manage offer.

3. All existing Interim Connect and Manage applications without offers and new applications after the implementation date will be processed under the new arrangements. A key issue here is whether this process will delay the issuing of offers for applications which have already been submitted.

4. All generators with existing Invest and Connect offers will have the option of applying for a Connect and Manage offer.

Under all scenarios, where an offer is being changed for an equivalent Connect and Manage offer under the enduring arrangements, the system operator should only be able to change the terms of the relevant offer or construction agreement solely to implement the new Connect and Manage arrangements. This should not become an opportunity to

include alterations to other terms of the offer/construction agreement which are not related to introducing Connect and Manage.

Question 2: Do the proposed licence and code amendments deliver the policy aim?

In the main yes. We have a number of detailed comments which relate to typos and minor process issues. These have been included in the attached appendix.

Question 3: Do you think there are any other changes to industry codes and licences or any other actions needed to implement the model?

As we mention above, we believe that the drafting should include a requirement on the system operator to monitor and report on the level of balancing costs that are incurred under Connect and Manage. Otherwise, all appropriate changes appear to have been identified.

I hope the above comments prove helpful.

Yours sincerely

Paul Jones
Trading Arrangements

Appendix – Specific comments on drafting

Table 1 – Licence Condition Changes

Condition	Paragraph	Page of consultation	Comment
CONDITION C[x]: REQUIREMENTS OF A CONNECT AND MANAGE CONNECTION	10	55 to 56	We believe that the "without objective justification" should be removed as existing offers and connection rights should not be detrimentally affected under any circumstances. Additionally, who would determine whether justification is deemed objective?
CONDITION D[x]: REQUIREMENTS OF A CONNECT AND MANAGE CONNECTION	17	60	We believe that the "without objective justification" should be removed as existing offers and connection rights should not be detrimentally affected under any circumstances.

Table 2 – Code Changes

Code and Section	Paragraph	Page of consultation	Comment
CUSC Section 5	5.7.2 (c) i)	76	We assume 30 March 2011 should read 31 March 2011.
CUSC Section 6	6.30.1.1(a) and (b)	77	We assume 30 March 2011 should read 31 March 2011.
CUSC Section 6	6.30.1.1 (c)	77	This paragraph states that the required notice period must be given to reduce TEC. It does not state that less notice can be given, but that this will attract a charge of an additional year's charges. Therefore, as it is currently drafted giving less than the stated notice would presumably constitute a breach of CUSC and therefore licence. Therefore, this needs to be altered to reflect that less notice can be given at a cost.
CUSC Section 6	6.30.1.3	77	This section does not allow the TEC in the bilateral agreement to be altered until the expiry of the notice period required in 6.30.1.1. Therefore, it would not be possible for someone to give a shorter notice period and pay the additional charges owing.
CUSC Section 13	13.2.1 (b)	81	This appears to limit the definition of Enabling Works for an Offshore Connection Site to the Offshore Transmission Reinforcement Works.

Code and Section	Paragraph	Page of consultation	Comment
			However, in some cases it is to be expected that local or enabling works would extend onshore as well, as not all offshore transmission assets will be connected into an existing MITs substation onshore.
CUSC Schedule 2 Exhibit 3 – Construction Agreement	Definition of "Capacity Reduction Charge"	96 and 97 (two instances)	This refers to Final Sums being due for the elements of the Wider Transmission Reinforcement Works which are no longer required as a result of a Notice of Reduction. However, in the definition of "Wider Transmission Reinforcement Works" on page 95 it refers to works in part 2.2 of Appendix H of the Construction Agreement as being for wider system purposes whereas those in part 2.1 are for the User. Therefore, this definition should exclude part 2.2 works, similar to the amendment to paragraph 2.4.1 on page 98.
CUSC Schedule 2 Exhibit 3 – Construction Agreement	2.1 to 2.3.3	97 to 98	Numbering has been deleted.
CUSC Schedule 2 Exhibit 3 – Construction Agreement	2.17.3	102	As with the definition of "Capacity Reduction Charge" and paragraph 2.4.1, the reference to "Wider Transmission Reinforcement Works" should exclude Appendix H part 2.2 works.
CUSC Schedule 2 Exhibit 3 – Construction Agreement	3.1 to 5.5, and 6	102 to 105	Numbering has been deleted.
STC Schedule 8, Section 1	1.3.4	146	Requires under a Connect and Manage TO Construction Offer for details of the Seven Year Statement Works to be provided. However, throughout CUSC Schedule 2 Exhibit 3 (Construction Agreement) references to Seven Year Statement Works are removed in the case of a Connect and Manage offer. Therefore, we would question whether it is required for the corresponding TO Construction Offer.