VPI Immingham

VPI Immingham LLP

To - TCR@ofgem.gov.uk

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Dear Andrew,

Targeted Charging Review

Introduction

VPI Immingham (VPI) owns and operates a CHP plant near Immingham, on the south bank of the river Humber in the UK. It is one of the largest CHP plants in Europe, capable of generating 1,240 megawatts – about 2.5% of UK peak electricity demand and up to 930 tonnes of steam per hour, which is used by nearby oil refineries to turn crude oil into products such as gasoline.

The plant has a must-run base load element which is required to provide a constant steam supply. The profitability of the plant, and therefore its customers, namely Phillips 66 (at the Humber Refinery) and Total (at the Lindsey Oil Refinery) are sensitive to the level of all monopoly charges. While other parties may be able to operate to avoid some charges, VPI is not in a position to do that, so we and our customers need competitive, stable monopoly charges. VPI welcome Ofgem's proposed review of charges, but believe that a more fundamental, SCR style, review is required to create a stable, more future proof regime which will facilitate effective competition.

Limiting the review to the treatment of the residual risks creates unforeseen problems in other areas of the market. Even if a review only results in limited changes, it is important to revisit whether the charging regime is likely to be future proof against a background of growing intermittent plant and more embedded generation.

VPI has not answered all of Ofgem's questions, however there are a couple of key issues we wish to draw Ofgem's attention to:

Interconnectors

The treatment of interconnectors creates a material distortion in the GB wholesale electricity market. Generators operating in markets with no transmission charges can access the GB market at a significantly lower cost than GB based plant. They therefore operate out of merit order and at times will be displacing more efficient plant in the GB market. This undermines the profitability of GB plant, and erodes the case for investing in new plant.

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The way that different plants are charged in interconnected markets results not only in an inefficient GB market, but will be creating distortions in other states as well. It may be the case that GB customers do not mind benefitting from power supplies that are effectively supported by customers in other states, but they should have concerns about supply security.

In the longer term, if plant does not get built in the UK, as well as security concerns, there are likely to be spiralling costs of providing Ancillary Services (system support rather than energy) from local plants who run for very limited hours to give system support. Flows of energy using the networks must be charged for that use on an equitable basis with other market participants.

Furthermore, the interconnectors participate in the Capacity Market (CM) against power stations and DSR which are all paying some form of monopoly charges. This competitive advantage is distorting the CM and resulting in an inefficient allocation of CM agreements. Given their size, despite their inability to actually deliver power in a system stress event, they will have stopped new build capacity securing CM agreements. This obvious distortion is therefore having a material impact on security of supply.

VPI has always recognised the difficulties of establishing a CM that facilitates cross border participation. However, having established the current rules are resulting in the inefficient operation of the CM Ofgem should address this problem. As the interconnectors are competing directly with power stations, and they have no means to secure power, their de-ratings should be increased to limit their market impact and reduce their income as if they were facing TO costs.

BSUoS

VPI has had concerns about the costs going through BSUoS and the way it is charged for some time, and we raised CMP262 - Removal of SBR/DSBR costs from BSUoS into a 'Demand Security Charge' - to try to start to address this. It would appear that since NETA go-live BSUoS costs seem to have risen far beyond its original expected value. Additional costs have been added to the BSUoS "bucket" and volatility has also increased. VPI would therefore support a fundamental review of BSUoS.

A lot of the costs recharged through BSUoS should not logically be billed as a MWh charge; Black Start is fixed for a year and all customers benefit equitably from it. This suggests that each cost needs to be identified as 'energy' or 'system' related, its beneficiaries identified and then a charging structure designed. We suspect the outcome would be the creation of a number of different charges paid by different parties.

Given the scale of the SCR required on network charging, VPI believes that an industry working group could usefully undertake the initial work on BSUoS, with Ofgem in attendance. There have been a number of BSUoS proposal in recent times (CMP210, CMP208, CMP250, CMP262 and CMP267) meaning that there is expertise within the industry and analysis already undertaken that could be used to start a review. VPI would suggest that Elexon chairs the review, as NG has incentives around BSUoS under its price control and is the sole buyer of the services rebilled through BSUoS, which means it cannot have the perception of independence that a material review will require.

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Ofgem can agree the group's terms of reference and it can report to Ofgem, in a similar way to the reports on modifications, but identifying alternative ways to recharge the BSUoS costs. Ofgem can then take its own view on the alternative charging structures and consult more widely before the necessary code changes are raised.

If you or your colleagues wish to discuss any of these issues further please do not hesitate to contact me.

Yours sincerely

Adam White

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