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Dear Ofgem,

### **GB ECM-18 Impact Assessment**

This letter presents comments from SembCorp Utilities (UK) Limited (“Sembcorp”) to your Impact Assessment and Consultation on GB ECM-18 (Locational BSUoS Charging Methodology) published in December 2009.

#### Background

Sembcorp provides utilities and services to customers on the Wilton International manufacturing site on Teesside. Sembcorp owns a combined heat and power station on the site and sells steam and electricity to process plants on the site. We also own a biomass-fired electricity generating station (“Wilton 10”).

The Wilton Site is directly connected to the high voltage transmission grid and we have a Bilateral Connection Agreement (“BCA”) with NGC (and are a CUSC signatory). Our BCA lists a Connection Entry Capacity of 287MW.

#### General Comments

1. Our first comment is on the GB ECM-18 process. The way in which system constraint and operation costs are recovered is a key theme in DECC’s consultation on Improving Grid Access. Given that DECC exercised its special powers to intervene in this area and that this process is ongoing, it is surprising to us that you still plan to make a decision on ECM-18 in March.
2. Second, ECM-18 introduces yet more complexity into a set of charging arrangements which is already too complicated for all but the largest companies to understand. Further complicating charging arrangements simply adds to the barriers to entry for this industry and gives a further advantage to the large incumbents. This runs counter to your stated concern about lack of competition in generation.
3. Third, locational BSUoS will be calculated after the event and so will add to the unpredictability of charges. The calculation methodology is complex and users will not be able to forecast it in advance with any confidence. Hence they will not be able to change their behaviour in response with any degree of accuracy so any benefits of ‘cost-reflectivity’ must be heavily discounted.

4. Fourth, if ECM-18 is approved it could be implemented as early as April 2010 with a an associated change to TNUoS tariffs. TNUoS tariffs have already been announced and to change them at short notice is unacceptable. This would be the third time in three years that gas or electricity transport changes have changed at unacceptably short notice (and after we have set our budgets for the year).

To summarise, the claimed benefit of greater cost-reflectivity under ECM-18 does not outweigh the disbenefits of increasing complexity and reduced predictability.

### Detailed Comments on Chapter 3

#### **Question 3. Do respondents consider that there are any aspects of the proposal that have not been fully assessed?**

The impact assessment discusses the problem of additional complexity in charging arrangements but makes no attempt at quantifying this. When Ofgem weighs this up against the claimed benefit of increased 'cost-reflectivity' this assessment appears to be entirely subjective.

#### **Question 4. Do respondents consider that the key features of the proposal strike an appropriate balance between cost reflectivity, transparency, complexity and stability?**

No. The benefits of cost reflectivity are overstated. The charging methodologies involved (both for locational BSUoS and for the corresponding changes to TNUoS) depend on a number of subjective choices of assumptions and methods and so any statement that they are 'cost-reflective' should be heavily discounted.

Additionally not enough weight is given to the downsides of yet more complexity, instability, and lack of transparency in charges. These contribute to the lack of competition in the market which is helping to cause the problem of high constraint costs.

#### **Question 5. Do respondents consider that this modification promotes more effective competition? Conversely, do respondents wish to provide further detail of any discrimination concerns?**

See above. Making the rules more complex bolsters the position of the 'Big Six' incumbents who are the only players with sufficient resources to understand them (and to potentially work out how they can use the rules to anti-competitive effect).

#### **Question 7. Do respondents consider that the different methodologies used in the proposal are appropriate?**

No. The only claimed benefit of the proposal is increased cost-reflectivity but we are not convinced by this. In particular, how can it be cost reflective to move system operation charges from demand to generation?

### Detailed Comments on Chapter 3

#### **Question 7. Do respondents have any views on the interaction of NGET's charging proposal with TAR as set out in this chapter?**

See paragraph 1 under General Comments above.

In summary, nothing in the Impact Assessment makes a strong case that the claimed increase in 'cost-reflectivity' arising from ECM-18 does not outweigh the benefits of simplicity and stability in charging. It also appears to assume generators will change their behaviour in response to highly uncertain charges.

Please do not hesitate to contact John Bone on 01642 212112 if you have any questions regarding our response.

Yours faithfully,



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