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**Impact assessment on RWE proposal:
P229 Seasonal zonal transmission losses scheme**

Conoco Phillips (CoP) is the owner of the UK's largest CHP plant, owning the Immingham CHP scheme, and we welcome the opportunity to respond to this consultation.

We strongly oppose this proposal and believe it will present windfall gains to some parties and losses to others. We do not believe that the proposal is more cost-reflective than the current arrangements, and it is impractical to suggest that there is any locational signal for sunk investment. It is also clear that different market participants are able to respond to the changes, with large portfolio players in a much stronger position than smaller players with fewer options. Overall we consider the proposals will be detrimental to competition.

As well as creating an additional layer of complexity in its own right, the potential for implementation in the same timescales as the outcome of other major initiatives, notably Project Transmit and the Government's Electricity Market Reform proposals, means the creation of yet more uncertainty, which is damaging to the investment environment and further raises the level of regulatory risk in the market.

We agree with the BSC Panel's conclusion that neither the original nor the alternative proposal will further the relevant objective, and we concur with the concern identified by the panel that the predicted benefits might not be realised.

We think the timing of this move is at best unfortunate. Last summer DECC issued its decisions on the transmission access review, committing the market to socialised not locational transmission constraint costs. By this Summer, DECC will be unveiling a package of fundamental changes by way of its decisions on Electricity Market Reform (EMR), intended to eliminate longer-term price risk for generators to stimulate low-carbon investment. In between this Ofgem is contemplating introducing a measure that pulls in the opposite direction for modest assessed benefits that fail to take into account the significantly increased complexity the proposal will introduce. This is not in the spirit/definition of better regulation.

Below we have addressed the questions in the consultation. Additionally however we would further point that much of the data set used for the assessment by Elexon and its consultants is now somewhat out of date and would suggest this should not be relied upon.

Chapter 4

Qu1 Do respondents consider that we have appropriately identified and where possible quantified the impacts of P229 Proposed and P229 Alternatives?

Ofgem concludes that the main impact of changes would be changes in the marginal costs of different generators, which are likely to lead to changes in despatch. We think it is unlikely that the re-despatch benefits calculated are likely to arise in practice because there are other factors that will determine the operational decisions of parties, especially contracts between participants. More generally savings made by an operator are unlikely to be passed on, whereas charge increases will.

The regulator also concludes that at the margin the P229 proposals will make it more likely for plant to locate in the south rather than the north. We agree that the impact on siting decisions would not be material. But this reflects that in any case there are more important issues in siting plant. Plant location for CHP, for example, is largely tied to the industrial site it is associated with and would not therefore be responsive to the cost signals that these proposals seek to introduce.

Qu2 Do respondents consider that there are additional impacts which we should take into account in the decision making process and, if so, what are these?

Yes. The impact assessment does not take proper account of the damaging effects on competition. Portfolio market participants will be able to rebalance their output where they need to and will enjoy a diversity benefit. Smaller players will see a random change in their costs dependent upon location. Imposing locational risk on a market where there will be differing abilities to respond among the participants will discriminate against those who happen to be on the wrong side of the reallocation. This will artificially increase some participants' costs and could materially distort competition.

The change adds another layer of complexity to already complicated arrangements, which could increase barriers to entry in the market. Understanding, forecasting and managing the variation in locational transmission loss factors will be difficult and impose further transactional costs on the market.

Chapter 5

Qu 1 Do respondents consider that we have appropriately identified the potential interactions of the P229 proposals with Transmit and the EMR?

In respect of EMR there are no likely interactions identified except that the outcomes might at most require P229 to be undone. We note that for Project Transmit Ofgem has now proposed to look at potential TNUoS changes ranging from socialised charging to improved incremental cost-related pricing.

Both these initiatives represent substantial uncertainty for market participants. Ofgem's consultants have suggested that neither flat nor commoditised TNUoS charges would have little effect on the costs and benefits of P229. But the central place that the issue of locational charging has played to date in the discussions of potential developments to transmission charging strongly suggests P229 cannot be treated in isolation. This is most apparent in the interaction between the proposed losses signal and the current ICRP methodology. To be contemplating moving in a more marginal direction on one locational charge, while socialising the costs of another is an illustration of un-joined up regulatory thinking at its worst.

We have considerable concerns that there is scope for unintended consequences, which is not considered in the impact assessment.

Qu 2 Do respondents consider that we have appropriately identified the likely impacts of these interactions?

No. In respect of the EMR outcomes Ofgem has said it does not have sufficient detail at this stage to consider any potential interaction between them and the P229 proposals and it relies on the calculation that there are sufficient short-term benefits available, irrespective of the longer-term arrangements. It suggests the impact would simply be to undo the proposals. This ignores the impact on perception of regulatory risk that such an "in one moment, out the next" approach is likely to have on existing market participants and especially on potential new entrants. It also places greater confidence than we possess that the expected benefits over the short term will be realised.

We hope you find these comments helpful. Please let me know if you would like any further comment or clarification.



Kirsten Elliott- Smith