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Impact Assessment on RWE proposal P229 - seasonal zonal transmission losses scheme

Dena,

SmartestEnergy welcomes the opportunity to respond to Ofgem's consultation on Impact Assessment on RWE proposal P229 - seasonal zonal transmission losses scheme.

We are in favour of P229 on the grounds that it is economically justified. If a negative factor is appropriate we do not see that it should be set at zero. We are therefore not in favour of the alternative proposal.

We believe that the proposals meet all 4 of the BSC objectives (a rare feat indeed):

- (a) the efficient discharge by National Grid Electricity Transmission Plc (NGET) of the obligations imposed upon it by its electricity transmission licence;
- (b) the efficient, economic and co-ordinated operation of the national transmission system;
- (c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity; and
- (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

a) and b) are met because of the obligation on NGET to have cost reflective charging. C) and d) are met because cost reflective charging is in the interests of competition and efficiency.

Please find below our answers to the questions as they are laid out in the Consultation document.

CHAPTER: Four

Question 1: Do respondents consider that we have appropriately identified and where possible quantified the impacts of P229 Proposed and P229 Alternative?

Ofgem have identified environmental impacts and those associated with economic incentives for dispatch. However, we believe the proposals stand in their own right; even if another generator were never built or despatch were not affected, the value of generation should take into account the losses it incurs on the system.

We believe that Ofgem have it right when they say:

"To the extent that proposals promote or further cost reflectivity they could be argued to also ensure non-discrimination. If generators or suppliers are not facing allocations which accurately reflect the costs they impose, then the argument could be made that the existing arrangements result in a more discriminatory outcome."

We do not understand the argument that the P229 proposals reducing benefits received by generators that are embedded can have a positive impact on competition, as stated in the consultation document. This assertion is not justified.

We note with interest that the financial benefits of the P229 Alternative are only around 25% of the main proposal (£2.5m vs £9.1m). Compared with the main proposal the alternative would be a significant distortion and reduction in the overall effect and purpose of the modification.

We agree that the P229 proposals would not have a significant impact on fuel poverty or vulnerable consumers. However, even if it were deemed to be the case, it is important that the economics are set correctly and that any incentives or subsidies are placed to offset any additional impact outside of the basic arrangements, not as a part of them.

Question 2: 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?

No.

CHAPTER: Five

Question 1: Do respondents consider that we have appropriately identified the potential interactions of the P229 proposals with TransmiT and the EMR?

Interactions with TransmiT and EMR are largely irrelevant.

As stated in the document the type or impact of change cannot be known at this stage.

In industry discussions around TransmiT we have come across the argument that if location is dealt with in losses, it need not be a feature of other charging elements. This is a nonsense. "Locationality" is not a charge in itself that can be captured as a convenience along with one of the other charges. All aspects of charging (losses, TNUoS, BSUoS) would be more cost reflective if they were locational.

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

Mention is made in the consultation document of the possibility that EMR may have an impact but that the payback is less than two years. The implication being that EMR would take longer than two years to implement even if the changes rendered the P229 proposals ineffective. We do not believe it is appropriate to wait for the effects of something that may or may not happen.

The consultation document contains the following statement: "Any of these measures could conceivably affect the impact of the P229 proposals (by affecting the marginal cost of plant and ultimately the generation mix.)" This is true, but they would not affect the principles and any changes would be captured in the annual review of the factors.

Flat, locational or removed TNUoS charging could easily live alongside locational transmission losses.

Should you wish to discuss any aspect of this matter, please do not hesitate to contact me.

Yours sincerely,

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