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Mr Mark Cox  
Industry Codes and Licensing  
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Date: 31st January 2011

Dear Mr Cox

**SembCorp Response to Consultation Document “Guidance on TPA charges for licence exempt gas and electricity distribution networks”**

Thank you for the opportunity to comment on the proposals set out in your 20 December 2010 consultation document. This letter sets out the response of Sembcorp Utilities (UK) Limited (“Sembcorp”) and Wilton Energy Limited, which is a licenced electricity supplier wholly owned by Sembcorp.

**Background**

Sembcorp provides utilities and services to industrial customers on the Wilton International manufacturing site on Teesside. Wilton is a large petrochemical works formally owned by ICI before the chemical plants were sold to various different companies. Sembcorp owns and operates both private electricity and gas distribution networks. Sembcorp also owns and operates a good-quality combined heat and power station which supplies steam to customers on site and electricity to those customers, as well as the grid. We also own and operate the separate 35MW biomass (wood fired) power station called Wilton 10. In addition the 1,875 MW gas fired GDF Teesside Power Station (formerly called TPL) is on the Wilton site.

We generally agree with the approach Ofgem has taken to the consultation and have no issues with the 3 questions posed. However Wilton is an unusual and complex site and we have two specific significant concerns regarding how the proposals (mainly Chapter 2) would specifically affect the electricity arrangements at Wilton. We have no issues or comments in relation to gas.

**Consulation Response:**

The Wilton site electricity demand is ~ 140MW, made up of ~ 13 non-domestic customers the largest of which is ~65 MW demand. Most of this demand is met by licence-exempt supplies of on-site generation. Where this is not the case (for example where top-up electricity is imported from the Grid) the supply is made by our wholly-owned subsidiary Wilton Energy Limited, which holds an Electricity Supply Licence. SembCorp is also exempt from the requirement for a generation licence and a distribution licence.

### Comment 1.

**Sembcorp will ensure that all new contracts and contracts with any customers who request TPA comply with the terms of the guidance, but existing contracts with customers not requesting TPA should be set aside.**

If this were not the case Sembcorp would be placed in an impossible Catch 22 situation. The existing contracts were negotiated as part of complete utilities supply arrangements and vary from customer to customer according to their then requirements. They encompass not just electricity supply and distribution, but also steam, compressed air, demineralised water etc. The electricity distribution charges do vary and in some cases are not separately identified because the total charge is rolled up into a single facility charge. Sembcorp cannot unilaterally change these arrangements – it would need the customers to agree.

A possible interpretation of the proposed guidelines is that if a customer requested TPA the TPA provisions would immediately apply to all of Sembcorp's electricity operations. Sembcorp would then be immediately be non-compliant as it is outwith Sembcorp's power to force the existing customers to agree to altered use of system charges in order to bring them all under a common methodology. In order to avoid illegally operating a private distribution system Sembcorp would be forced to shut the system down, thus closing down one of the UK's major petrochemical sites. This is clearly not the intent of the Directive.

We therefore suggest that the guidelines' requirements for a common methodology be clarified such that they only apply to new customers and to existing customers requesting TPA. (Note as a precedent when Ofwat began regulation of public water companies' supplies of raw (untreated) water they allowed existing contracts to run to expiry before bringing them into the water companies' regulatory basket).

Our proposal would ensure that those parties requesting TPA would get it on a non-discriminatory basis – as required by the Directive.

### Comment 2.

One of the advantages enjoyed by customers on a licence exempt electricity distribution network is (if there is on-site generation) access to costs savings through on-site supplies. However on-site generation is finite and may require backup or supplement and so supply agreements for such backup/supplement may already be in place at the instigation of the ENO (we are concerned that these should not be viewed as triggering the TPA requirements for charging methodologies to be approved by Ofgem).

We therefore suggest that the guidelines' requirements for a common methodology be clarified such that they are not triggered by supplementary or backup supplies **initiated by the ENO and made on the same terms as the ENO's supplies** (but of course that they would be triggered by a request by the customer or another supplier).

Yours sincerely



**John Bone**  
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