

Project.Transmit@ofgem.gov.uk

Consultation on Electricity Transmission Charging: Assessment of Options for Change

Conoco Phillips welcomes the opportunity to respond to this consultation. We are an international energy company operating in over thirty countries and in the UK we own and operate the UK's largest CHP plant at Immingham with a capacity of 1,220MW and have Section 36 consent for an 800 MW CHP facility at Seal Sands in Teesside which would provide steam to the Teesside oil terminal.

Support for recommendations

We welcome the progress made by the Significant Code Review in developing and assessing the options on transmission charging. We support the initial view to rule out socialised charging on the grounds that the costs of this option make it prohibitive.

We can also see that the improved ICRP option has potential benefits in terms of improvements to cost reflectivity. We also recognise that improved ICRP would also be more consistent with the direction of European policy and would represent a relatively low risk evolution of the existing approach. In particular we do not wish decisions taken now which will need to be revisited at a later date in order to comply with decisions taken through the EU or elsewhere, as a stable environment is crucial to facilitate the investment in generation the country requires.

Need to endorse change to G:D split

We do however have concerns that the process of bringing the proposals to a state where they are implemented through the CUSC process creates uncertainty. This means that as many aspects of the way forward should be determined at as early a stage as possible, including the methodology for setting the year-round charge.

We are particularly concerned at the lack of a firm way forward on one particular area: the generation to demand split of transmission charges. Ofgem has conducted all the modelling on the basis of National Grid advice that there will be a change from April 2015 to 15:85 in the generation: demand allocation of transmission charges to remain compliant with European tariffication legislation. However you have concluded that it is not necessary to alter the split at this time. Rather, it has decided that National Grid should keep the split under review and make proposals for change as and when necessary through the normal modification process.

We are strongly of the view that Ofgem should make a decision now on this issue and commit to a firm date, instead of leaving it to some future date. This is an important issue for developers in particular who need to have clarity on allocation of these costs. There are also number of significant and complex changes currently in train, including the government's Electricity Market Reforms and a potential review of cash-out, as well as proposals to change the allocation of BSUoS, which are creating uncertainty for market participants. But we see no reason why the generation: demand split cannot be settled now, particularly if it will be necessary in any case under European legislation. The lack of clarity adds an unnecessary further element of uncertainty, and we urge the Authority to rethink its view on this issue.

Answers to consultation questions

4.1. Do respondents consider we have appropriately identified and where possible quantified the impact of the Project Transmit options?

Yes. We think the assessment provides a robust basis for endorsement of enhanced ICRP

4.2. 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?

A stable, predictable and transparent charging methodology is necessary to create the right environment for investment. It is therefore important that all decisions on the way forward are taken in a timely way. As stated in the preamble to these answers above we consider that failing to make a decision on the changes to the generation: demand split at this stage under the preferred option increases uncertainty, which will tend overall to make new investment more difficult. The Authority should consider the impact of uncertainty in the decision-making process and aim to minimise this where possible.

4.3 Do respondents consider that we have appropriately identified the potential interactions of the Project Transmit options?

Yes

4.4 Do respondents consider that we have appropriately identified the likely impact and consequences of these interactions?

Yes

5.1 Do respondents consider that we have appropriately identified and taken account of the key sustainability issues?

Yes

5.2 Do you think that there may be long term and strategic benefits associated with the development of HVDC technology, in particular the treatment of converter station costs for links that parallel the AC network, which Project Transmit modelling has not fully considered because of the timeframe of the modelling (i.e. 2030) and the limited nature of the bootstrap options?

We think this direction of travel is inevitable.

5.3 Do you have any supporting evidence for a different treatment of the converter station costs for the planned bootstrap HVDC options?

We have no comment.

If you wish to discuss these comments in more detail, please do not hesitate to contact me.

Kirsten Elliott-Smith