

Anthony Mungall
Electricity Transmission Team
Ofgem
3rd Floor
Cornerstone
107 West Regent Street
Glasgow
G2 2BA

Project.TransmiT@ofgem.gov.uk
Anthony.mungall@ofgem.gov.uk
andrew.macfaul@ofgem.gov.uk

Reference Number: 188/11
Date: 10th February 2012

Electricity transmission charging: assessment of options for change

Anthony,

Introduction

SmartestEnergy welcomes the opportunity to respond to Ofgem's Electricity transmission charging: assessment of options for change

General views on the approach

We note that it states in the text of the document that Ofgem is consulting on ruling out socialised charging as an option for transmission charging. There are no specific questions in the consultation on this or other significant elements of the work undertaken. We give our views on these elements in this section below:

We agree with ruling out socialised charging and with reaffirming the principle of cost reflectivity in transmission charging. We agree with pursuing the improved ICRP approach.

We are also of the view that changing the current 73/23 G:D split is not appropriate on the grounds that costs for consumers would rise. Ultimately consumers bear the full

cost of transmission charging, but removing charges for generation will reduce the economic efficiency of plant dispatch and the incentive to locate new plant optimally.

We are comfortable (although we are not convinced of the absolute need) with moving away from capacity only charging i.e. towards the dual criteria, based on two part 'peak' and 'year round' tariff; with the year round element multiplied by a specific load factor (calculated ex-ante based on historical data) but if this is to be applied to HH demand tariffs there must be a lead time for at least two years so that suppliers do not risk taking a loss on fixed contracts.

We are not convinced that improved ICRP appears more consistent with the direction of travel of EU policy. However, we agree that moving to socialised charging at this stage raises the potential for significant costs transitioning back and forth. It is best to keep the improvements on a small incremental basis.

Ofgem's specific questions

For your convenience we answer Ofgem's specific questions below in the order in which they are presented at the beginning of sections 3 and 4 of the consultation document.

CHAPTER: Four

Question 1: Do respondents consider that we have appropriately identified and where possible quantified the impacts of the Project TransmiT options?

Yes. The impact on demand of improved ICRP, namely that differences in demand TNUoS charges between status quo and improved ICRP are relatively minor (driven almost entirely by differences in generation and transmission backgrounds), is particularly relevant to the decision making process i.e. there is little to fear of the change.

We also think that it is appropriate to have modelled that under socialised tariffs rates increase dramatically in Scotland and tariffs rise rapidly because of increases in MAR and the assumed change to the G:D split, to say nothing of the increased costs caused by inappropriate incentives.

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?

If ICRP encourages proportionately more on-shore than off-shore wind then that is a desirable outcome as it will encourage smaller projects and increase competition.

Question 3: Do respondents consider that we have appropriately identified the potential interactions of the Project TransmiT options?

Yes. A notably good example of this is that "as a baseload generator with a high load factor, nuclear would be expected to pay an increased level of charge under the socialised approach. The effect is exacerbated by the fact that many of the pre-designated nuclear sites are in the south of England and would otherwise have benefitted from low or even negative locational charges under the status quo. High load factors are also associated with biomass plant and the location of most available projects in the south, where transmission charges are relatively low under the status quo, and would rise under a socialised approach."

Question 4: Do respondents consider that we have appropriately identified the likely impacts and consequences of these interactions?

Yes

CHAPTER: Five

Question 1: Do respondents consider that we have appropriately identified and taken account of the key sustainability issues?

We note that this chapter reviews wider sustainability issues not included in Ofgem's modelling. Ofgem's duties require them to have regard to the need to contribute to sustainable development. We believe that there is no need to overplay this in matters of transmission charging where economic (efficient and incentivising) considerations are more important.

Question 2: Do you think 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 are not convinced of this.

Question 3: Do you have any supporting evidence for a different treatment of the converter station costs for the planned bootstrap HVDC options?

Ofgem are of the view that there are arguments for and against the different options for dealing with HVDC "bootstrap" converter costs, including the possibility of greater uptake and higher learning rates for this technology if these costs are socialised.

It is inappropriate to presuppose the advantages of the bootstraps, in other words to assume pricing on a world that does not exist in an attempt to bring it about more quickly. Any subsidies need to be more transparent.

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

Yours sincerely,

Colin Prestwich
Deputy VP Commercial – Head of Regulation
SmartestEnergy Limited.

T: 020 7195 1007
M: 07764 949374