

Will Fletcher  
Project Manager  
Competition and Markets Authority  
Victoria House  
Southampton Row  
London  
WC1B 4AD

**DONG Energy Power (UK) Ltd.**  
33 Grosvenor Place  
Belgravia  
London SW1X 7HY  
United Kingdom

Tel +44 (0) 207 811 5200  
Fax +44 (0) 207 811 5298

www.dongenergy.com  
Company no. 49 84 787

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Our ref. CMA Response - Possible Remedies

almos@dongenergy.co.uk  
Tel 020 7811 1055

## **DONG Energy Response to the Notice of Possible Remedies in the Energy Markets Investigation**

DONG Energy welcomes the opportunity to respond to the Notice of Possible Remedies published on 7 July 2015 by the Competition and Markets Authority (CMA). We have previously responded to the CMA on various areas the CMA were investigating, including liquidity in the wholesale electricity market, cash out prices, locational pricing, the capacity market, microbusinesses and codes.

In this response we provide further views on the CMA's proposals for a remedy to introduce locational adjustments for transmission losses.

### **Remedy 1- Introduction of a new standard condition to electricity generators', suppliers', interconnectors', transmission, and distribution licences to require that variable transmission losses are priced on the basis of location in order to achieve technical efficiency**

Overall we view that it would be more appropriate for the CMA to make a recommendation to Ofgem on locational transmission losses, then to implement the remedy directly. The benefits and harm of locational transmission losses are highly dependent on the assumptions made, including the modelling. We note that the only recent modelling done on transmission losses has been in a submission from RWE, not a public body. As far as we can tell, this analysis was submitted privately to the CMA and other parties have not had the opportunity to scrutinise the model.

### **(c) What will be the distributional impacts of this remedy? Should the CMA take these into account in coming to a view on the proportionality of this remedy?**

In our view the distributional impacts of locational transmission losses need to be considered carefully as they will be significant. This has been highlighted repeatedly through the work that has been done on locational transmission losses by Ofgem and industry parties. The historic modelling performed has repeatedly shown that the distributional impacts are much higher than any

calculated benefit or harm. As a result we view that any proposal to implement locational losses would need to be heavily scrutinised, including the proposed method of implementation.

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We would also note that for the distributional impacts of locational transmission losses to be fully considered, any decision making body will need to consider up to date analysis or modelling. We have not seen RWE's model and results shared publically, and there is no way for other parties to verify their assumptions or results. In addition the last public results would have been as part of P229. Since then there have been significant changes in the energy landscape and we do not view that it would be appropriate to rely on P229's models.

**(d) Should the CMA implement this remedy directly, ie via an order, or should it make a recommendation to Ofgem to initiate a BSC modification instead? Are there any particular aspects of Ofgem's objectives and duties to which the CMA should have regard if implementing this remedy by a licence change?**

In our view it is more appropriate that the CMA recommends that Ofgem looks at locational transmission losses than making a direct order. This would ensure that there would be the opportunity for parties, including Ofgem, to perform up to date analysis, instead of relying on historical reports or modelling from RWE, which other parties have not had a chance to comment on.

If you have any questions on our response, please feel free to contact me (020 7811 1055, [amos@dongenergy.co.uk](mailto:amos@dongenergy.co.uk)).

Yours sincerely

Aled Moses  
Regulatory Affairs Advisor