

David Haldearn
Director, BETTA
Ofgem
9, Millbank
London
SW1P 3GE

Date: 3 October, 2003

Dear Mr Haldearn,

Transmission charging and the GB Wholesale Electricity Market

Powergen is broadly supportive of the proposals contained in the above consultation document. We have maintained that appropriate transmission arrangements are crucial if BETTA is to succeed in providing the full benefits of an integrated British electricity market. This response covers both Parts 1 and 2 of the consultation.

Part 1

We support the intention that the GBSO should be responsible for GB charging, that the charging methodology should be consistent throughout Great Britain and should seek to recover the cost of the total GB system from all GB users. Charging for parts of the network separately or exposing different categories of user to different charging regimes will risk creating further distortions in the market, whereas the aim of BETTA should be to remove the distortions which presently exist. Additionally, it is important that the charging regime is administered by a party which does not have interests in generation or supply. These proposals should achieve these aims.

The licence conditions that NGC presently operates under would appear to be an appropriate framework for the GBSO. Requirements to produce and publish a charging methodology, to keep it under review, to ensure charges are non-discriminatory and published, and to offer terms for connection will all remain necessary under BETTA.

Powergen UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
T +44 (0) 24 7642 4829

We also agree that the charging arrangements for England and Wales (E&W) should form the basis for the GB market arrangements. The E&W methodologies have been created to recover the costs of the whole E&W network in a consistent manner. The introduction of Scotland should simply entail extending these methodologies to cover a wider area. Additionally, the vast majority of participants in GB, including Scottish companies, are familiar with the arrangements for England and Wales and have the systems in place to operate within them. All participants would therefore be better placed to adjust to the new regime than would be the case if new arrangements were created.

The timetable set out in the consultation appears to be an appropriate framework for setting the initial BETTA methodologies. We agree that NGC should make extensive use of workshops and seminars within this process to allow user input from an early stage. It will be important that the proposals set out in March 2004 are as close as possible in terms of structure to the final proposals in October. Participants will find it easier to take into account changes in the absolute levels of charges in October than to change their systems and processes to cope with a significant change in the charging structure.

We would expect the present rules over who should be liable to pay transmission charges in England and Wales to be carried over into BETTA as there is no sound reason why this should change. In time there may be a requirement for the arrangements for paying embedded benefits in relation to embedded generation to be altered, as the changes made by charging methodology modification UoSCM-M-07 and BSC modification P100 are not robust to areas where there is a significant amount of embedded generation in relation to demand. This is a likely scenario in the north of Scotland with the probable level of renewables build.

Part 2

We are encouraged that the DTI believe that differential locational charges should be maintained for BETTA. However, we do not agree that this will lead to charging which discriminates against renewable generation in peripheral areas. To introduce a lower charge for renewable generation in peripheral areas would actually discriminate against other types of generation in those areas and against other generators, renewable and otherwise, operating in other areas.

Powergen UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
T +44 (0) 24 7642 4829

The aim of locational charging is to ensure that efficient investment is made in the transmission network by providing an incentive to locate generation closer to demand. To distort this signal risks inefficient investment in infrastructure and increased energy lost through transmission losses. Neither is desirable in terms of energy efficiency and visual impact on the environment. We therefore believe that a locational charging regime should be implemented in a non discriminatory manner, based on existing criteria, for all generation sources. If greater assistance for renewable generation is required, then this should be provided through explicit mechanisms such as the Renewables Obligation and Climate Change Levy rather than implicitly through distortions in the charging methodologies.

I hope the above views prove helpful.

Yours sincerely,

Paul Jones
Trading Arrangements

Powergen UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG
T +44 (0) 24 7642 4829