

Tracey Hunt
Competition & Trading Arrangements
Office of Gas and Electricity Markets
9 Millbank
London
SW1p 3GE

17th November 2003

Dear Ms Hunt,

TRANSMISSION INVESTMENT & RENEWABLE GENERATION

British Energy welcomes the opportunity to comment on the above document published in October, which raises a number of important issues.

Key Issues

- **While we are supportive of efficiently incurred investment by TO's which underpin reliability and security of the transmission networks the proposals set out in this consultation risk creating incentives for over investment. The onus should therefore be on TO's to prove the case for additional investment, however, we are not convinced by the arguments set out in this consultation.**
- **Of the three ways forward identified by Ofgem British Energy favours the do nothing (rely on mechanisms that exist within the current price controls as set out in the paper).**
- **As customers will ultimately pay all these costs, it would seem sensible and more efficient to directly charge demand on a 'pass-through' basis. Such an approach would also have the merit of aligning some of the GB transmission arrangements with EU developments in this area.**
- **This consultation is further evidence of a somewhat piecemeal consideration of important issues by Ofgem. We would again urge Ofgem to engage in a constructive dialogue with the industry so that an integrated approach can be taken for the benefit of the market, network users and customers as a whole**

As a nuclear generator British Energy takes a close interest in the investments which underpin reliability and security of the transmission system to which its stations are connected and upon which their safety cases rely. We are therefore not opposed to efficiently incurred expenditure and the re-charging of associated costs where they are legitimately incurred by transmission operators in enhancing the transmission system and where these costs are driven by clearly identified user demand. As a supplier, we are keen to see that our customers can rely on the transmission and

British Energy plc Barnett Way Barnwood Gloucester GL4 3RS
Telephone 01452 652222 Facsimile 01452 653246

Registered at 3 Redwood Crescent Peel Park East Kilbride G74 5PR Registered Number 162273

distribution network to deliver our product to them, but that they do not pay more than they need to for the cost of transport.

The proposals set out in this document, however, relate to the development of the transmission system deemed necessary in order to achieve a government target for renewable generation by 2010. Any arrangement that goes beyond the capex projections assumed at the time the current price controls were set must guard against creating an incentive on TO's to over-invest. Moreover, any additional spending which is recharged to users of the transmission network will increase the level of regulatory risk for those users. For these reasons the onus should be on the TO's to prove the case for such investment. We are not convinced by the arguments set out in this consultation paper. Ultimately, Ofgem will need to balance its desire to facilitate government policy on renewables against its primary duty to protect the interests of customers and in this context will need to show how such expenditure is consistent with this duty. . We await the RIA promised with the November consultation to clarify.

As stated in our response to the recent GB transmission charging consultation, government policy towards renewables should not be allowed to distort transmission charges and thereby damage or distort competition. The present proposals set out in this consultation will result in all transmission users being exposed to increased costs associated with transmission developments to facilitate large amounts of speculative embedded renewable generation. Under the present charging arrangements this new embedded generation is unlikely to make a substantial contribution to the costs it will impose on the transmission system and this raises concerns over cost reflectivity and the treatment of stranded assets if the anticipated generation fails to materialise. Additionally, there is the possibility that 'other' new entrants (non-renewable) could effectively 'free-ride' on this infrastructure investment. These are important factors that Ofgem will need to take account of when considering the transmission operators future investment plans to support this development. In addition, it is unclear how any of the proposals to load the costs of such infrastructure, which may be in geographically distinct areas, onto Use of System charges can be seen not to "restrict, prevent or distort competition in generation, supply, transmission or distribution." It is difficult to see how incumbents will benefit from these transmission system improvements and therefore why any of the costs should fall upon them for changes, which are government policy driven and not derived from the market.

Deleted: ¶

As customers will ultimately pay all these costs, it would seem sensible and more efficient to directly charge demand on a 'pass-through' basis. In doing this we would assume that the costs associated with the renewable infrastructure works would have been subjected to transparent and rigorous regulatory scrutiny, assuming Ofgem can demonstrate that their primary duty allows such speculative investment to be incurred. Such an approach would also have the merit of aligning some of the GB transmission arrangements with EU developments in this area.

As regards the specific issues for which Ofgem, invite views under paragraph 4.12 of the consultation paper we would comment as follows:

- As regards the appropriate principles and objectives to apply. Firstly the onus should be on TO's to demonstrate the case for change and secondly Ofgem should avoid creating perverse incentives and increasing regulatory risk for users of the transmission networks.
- The TO investment forecasts appear disproportionate and should be subject to independent audit.

- Of the three generic approaches BE favours the do nothing (rely on mechanisms that exist within the current price controls as set out in the paper). We are strongly opposed to re-opening the price controls. As to the use of an additional adjusting mechanism we consider the case for doing so is non-proven, and any such arrangement risks creating incentives for inefficiently high levels of investment. A 'quick fix is unlikely to address this issue.

It is worth noting that a proportionately large share of the investment is in SHETL's area where there is already an arrangement in place for charging reinforcement costs amongst new connectees (described in paragraph 2.41 of the consultation paper).

Finally, this consultation is evidence of a somewhat piecemeal consideration of important issues by Ofgem. It does not fully reflect the impact of other substantial and interacting developments such as BETTA, consideration of new price controls for DNOs and TOs and potential changes to distribution and transmission charging. We would again urge Ofgem to engage in a constructive dialogue with the industry so that an integrated approach can be taken for the benefit of the market, network users and customers as a whole.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David', with a horizontal line underneath.

David Love
Head of Regulation

Direct Line: 01452 653325
Fax: 01452 653246
E-Mail: david.love@british-energy.com