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Reference:

Dear David

The form of transmission owner revenue restrictions and consequential effects on NGC's revenue restrictions

Powergen believes that one of the main benefits from BETTA will be the ability of the GB SO to operate the entire GB transmission system in a coordinated way. Similarly, planning should take into account factors across the entire GB system as a whole. Therefore, we would urge Ofgem to ensure that incentives put in place between the GBSO and the individual TO's ensure that planning and operation of the system is optimised on a GB basis.

Investment planning. Whilst we accept that TOs must be ultimately responsible for investment on their system, investment must take place within a GB context. Therefore, the GB SO should have a major input into the TO's planning process and should be able to veto investment which it believes is not economically efficient. Investment and operation costs are not mutually exclusive. For instance, increased investment in assets could reduce balancing costs. We are concerned that the consultation implies that the SO will only be able to challenge investment in specific circumstances. The SO must be able to challenge investment it believes is not economically justifiable within the TO price control process, as this will have a knock on effect on the charges paid by all users for use of system and balancing services. If this is the case, then we agree with Ofgem's proposal that adjustments to the TO price control should be carried out on a case by case basis in response to changes to the demand and generation background.

Outage planning. We agree with the approach suggested that compensation for costs incurred by TOs as a result of a change to the week 49 plan should be the subject of a bilateral negotiation between the TO and the SO.

Transmission switching, transmission services and connections. It does not appear necessary to instigate any specific incentives in respect of Transmission Switching and the provision of Transmission Services. Instead, it would seem appropriate to place reliance on provisions in the STC as proposed. We also agree that LDs presently used in relation to contractors carrying out connections in England & Wales would be appropriate in respect of connections carried out by TOs under BETTA.

NGC's revenue restrictions

We have argued that NGC's present balancing costs incentive should have a lower sharing factor. We believe that NGC generally has in the past achieved an excessive return for what we would see as carrying out its licence obligations. We would therefore advocate a sharing factor of 25%. Within this context we do not believe that it would be necessary to further adjust the sharing factor to take account of any additional perceived risk associated with the actions of the TOs.

Should NGC's payments to the TOs increase as a result of an increase in the allowed revenue of the TOs for a change in investment or provision of other transmission services which reduces the costs of balancing services, then this cost should feed into its balancing costs incentive. In the initial year the costs should be added to the costs of other balancing services. Subsequently to that, it could either be included in the same way as the initial year, or the balancing costs target could be reduced to reflect the savings made and the additional payments to the TOs recovered along with other TO costs.

Please contact me on the above number should you wish to discuss this further.

Yours sincerely,

Paul Jones
Trading Arrangements