

31st March 2004

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Dear David

The form of Transmission Owner revenue restrictions and consequential effects on NGC's revenue restrictions – an Ofgem consultation document

Thank you for the opportunity to comment on the issues raised in your consultation paper of March 2003 in respect of the above. In doing so we note that many of the issues discussed in the above paper could be simply eliminated if a shallower definition of System Operator (SO) were adopted for BETTA Go-Live. We have consistently argued for an approach based on the tried and tested E&W SO model which we consider satisfies the previously published allocation criteria. Notwithstanding this, we note that Ofgem are nonetheless minded to implement a 'deep' SO role and our comments are therefore restricted to this proposal.

British Energy continues to support the DTI/Ofgem BETTA project in principle. However, we have previously expressed our concerns regarding the way in which the planning and execution of BETTA and other associated market reforms are being taken forward, which makes it extremely difficult for market participants to fully understand and assess the overall impact and effects of the proposed reforms. As a consequence this increases market uncertainty and regulatory risk

This response is an appropriate opportunity to reiterate a number of concerns particularly as the Ofgem programme timetable issued in November 2003 seeks to achieve 'designation' of key industry documents by the Secretary of State during July/August in order to maintain the April 2005 'go-live' date. The 'go-live' date seems an increasingly challenging target, given the nature and extent of progress to date on BETTA issues and other market and government initiatives. For example, the current status of fundamental E&W transmission charging reforms and their application across GB and the potential impact and interaction of government policy objectives for renewables are potentially incompatible. GB 'Transmission Charging' is in itself already proving to be an extremely contentious area for resolution.

We would continue to urge Ofgem/DTI to make greater use of other key industry stakeholders such as British Energy in the BETTA development phase to ensure timely progress continues to be made.



Key Points:

Specific

- **Notwithstanding our reservations regarding the expanded role of the GBSO under BETTA we are generally supportive of the proposals set out in this consultation paper. The aim of these arrangements must be to ensure that the GBSO and TO's work closely together, ideally emulating the actions of an integrated TSO so as to secure operational, security of supply and economic benefits for all users of the transmission system.**
- **We would not support arrangements which would have the potential to introduce a potentially adversarial relationship between the GBSO and the TO's. The proposals set out in this consultation paper seem to strike the correct balance.**
- **General**
- **We remain concerned that a number of significant regulatory reforms (BETTA included) are making it extremely difficult for market participants to fully understand and assess the overall impact and effects of these proposed reforms. In light of this it is necessary to caveat this and other BETTA-related responses.**
- **We remain of the opinion that the BETTA work programme should address the potential threats to timely implementation and include contingency provisions to allow for the introduction of a 'fit for purpose' GB-market should this prove necessary.**
- **BETTA provides the opportunity to bring the governance of the NGC charging methodologies within the scope of the GB CUSC. The existing transmission licence approach lacks transparency and limits the ability of users to propose justifiable changes.**
- **We maintain the view that the most appropriate method for licensing the GBSO role should be for a separate transmission licence to be issued. As a minimum we would expect all references to NGC to be specific to its activities as either SO or TO.**
- **British Energy should be permitted to raise amendments in respect of those sections of the STC dealing with NSLPA matters if justified on nuclear safety grounds.**

Further Comments:

There is a clear need for the GBSO and TO's to work closely together, ideally in a similar fashion to an integrated TSO. We are therefore supportive of any arrangements which facilitate such a relationship. The proposals set out in the consultation appear to strike the correct balance. Firstly, by providing the correct framework and incentives to deliver the benefits mentioned above to users of the transmission system. Secondly, by being relatively simple to implement and thus present no threat to BETTA Go-Live. Clearly the arrangements while encouraging efficiencies should avoid creating adversarial relationships at key interfaces. Here again, the proposals set out in the consultation paper appear to deal adequately with this potential concern.



We note that Ofgem intends to consult on enhanced SO incentives to apply from BETTA Go-Live. We would urge Ofgem to initiate this consultation exercise sooner rather than later to allow the fullest careful assessment of all the options.

Investment Planning Incentives

Given the limited period for which the proposed arrangements are intended to apply and the fact that BETTA is to be introduced in April 2005, we agree with Ofgem that the third option where the Authority would make any adjustments to the price controls on a case-by-case basis is most appropriate. Such an approach has the merit of consistency with existing and proven arrangements. In the longer term the first option which takes a more detailed approach to the various cost drivers faced by TO's has attractions and we would expect such an approach to feature during the next price control review.

Outage Planning Incentives

We support the second option of bilateral negotiation between the GBSO and TO's in combination with an obligation to declare efficient and reasonably incurred costs and to adhere to outage plans. The TO's would be placed under an obligation to make declarations which accurately reflect reasonably and efficiently incurred costs associated with an outage change. This will allow the GBSO to assess whether the cost of the outage change and the resultant reduction in balancing costs represents an economic solution.

Transmission Switching

We support the approach proposed whereby obligations are placed on TO's in respect of transmission switching and providing transmission services. A review of this approach can be undertaken during the next price control review.

New Connections

We also support Ofgem's proposal to reflect industry standard terms concerning liquidated damages between the GBSO and users, the GBSO and TO's and the TO's and contractors. Here again this can be reviewed during the next price control review.

Income Adjusting Events

We do not support the use of Income Adjusting Events in relation to the TO price controls. Such events will be rare and should be capable of being dealt with via the existing mechanisms.

Sharing Factors

We are not convinced that balancing costs will be any less predictable from the advent of BETTA and hence the need to review the sharing factors. No doubt this issue will feature in the intended review of SO incentives to apply from Go-Live. This illustrates the need for Ofgem to bring forward its thoughts on this matter at an early stage as advocated above.

G₁ Term

As we have stated previously any allowances to reflect the additional costs to the transmission system resulting from connections in excess of that anticipated at the time the price control is fixed should be avoided. Requests for additional allowances must be based on actual user demand i.e. signed connection agreements. The existing mechanisms should be used and Ofgem should avoid introducing new allowances based on speculative future transmission developments.



Revenue Restriction Re-openers

Should such a mechanism prove necessary we would prefer to see such events treated on a case-by-case basis and hence prefer option (a) whereby any proposed changes to NGC's revenue restriction are dealt with by the Authority at the same time as the TO revenue restriction is reviewed.

If you wish to discuss these issues further please do not hesitate to contact me.

Yours sincerely,

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