

David Haldearn
BETTA Project
Office of Gas and Electricity Markets (Ofgem)
9 Millbank
London SW1P 3GE

7th April 2004

Dear David,

REVIEW OF PRICE CONTROLS FROM 2005:
SP TRANSMISSION LTD SCOTTISH HYDRO TRANSMISSION LTD
INITIAL THOUGHTS

British Energy welcomes the opportunity to comment on the above consultation document.

We note Ofgem's declared intention to align the electricity and gas transmission price controls in 2007. We further note that the current price controls for SHETL and SP Transmission are intended to last until 31 March 2005 and that this consultation is intended to deal with any extension that may be necessary should BETTA Go-Live be delayed. We understand that the extension to the price controls to apply from BETTA Go-Live to 31 March 2005 will be the subject of a separate consultation.

British Energy supports the approach proposed by Ofgem and outlined in the paper that the price control extensions should be based on the roll forward of the present price controls. This would seem to be a proportionate response given the limited period for which they will apply and the intent to conduct a full review for 2007.

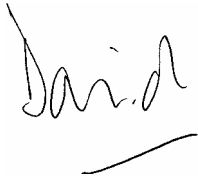
We also strongly agree that there should be separate consideration of the capital expenditure related to new renewable generation capacity. This will be a key issue in the rolling forward of transmission price controls and the design of the enduring arrangements to apply from 2007. In relation to this issue we would remind Ofgem of the headline comments we made in response to your consultation on 'Transmission Investment & Renewable Generation' published last October and contained in our response dated 17 November 03:

- **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**

I trust you will find this response helpful in formulating your proposals please feel free to contact me directly should you need clarification of any of the points raised.

Yours sincerely



David Love
Head of Regulation

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