



David Haldearn
BETTA Project
Ofgem
9 Millbank
London SW1P 3GE

7 April, 2004

Dear David,

Response to review of transmission price controls from 2005

Powergen agrees that it is important that the timing of the price controls of the System Operator (SO) and Transmission Owners (TOs) are aligned under BETTA, given their future interdependence. However, in setting the initial two year extension to the existing TO price controls to enable this, it is important that any agreed additional capital expenditure is necessary in the context of a GB transmission system.

Extension and alignment of SO and TO price controls

We agree that the price controls for NGC and the Scottish TOs should be aligned for BETTA. The price controls will be largely interdependent in a GB context not least because the SO will be required to recover the TOs' regulated income in its charges to Users. It would seem appropriate to extend the price controls of NGC by one year and the Scottish TOs by two years as proposed in the consultation. The alternative would be to carry out a review of all three price controls in preparation for BETTA, which would presumably not be possible given the expected timescales for its implementation. We would have been content with an extension of one year for the Scottish companies to correspond with the existing review timescales for NGC, but note that Ofgem wishes to align the electricity and gas controls also.

An extension of the existing form of control would be the simplest way forward. However, it is essential that a thorough and transparent assessment of the companies' past performance under the present review is carried out. Additionally, it is essential that any plans for increased investment are robustly examined. In particular any proposed new capital investment should be reviewed in the context of a GB transmission system and market arrangements. To do otherwise would risk denying users one of the benefits of BETTA, namely efficiency gains from operating and planning the GB transmission system in a unified manner, for a period of up to two years. We note a review of both existing performance and new additional expenditure is planned as part of the work programme in section 3 of the consultation.

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

Yours sincerely,

Paul Jones
Trading Arrangements