British Energy

11th June 2004

Mr Jonas Törnquist
Head of Electricity Transmission Policy
Ofgem
9 Millbank
London SW1P 3GE

Dear Mr Törnquist

TRANSMISSION INVESTMENT & RENEWABLE GENERATION
2nd CONSULTATION

Thank you for the opportunity to comment on the issues raised by the above consultation as issued in May 2004.

Key Points

- **BE has concerns over the scope and pace of change in the regulation of the transmission sector. We would stress the need for "joined-up thinking" between this consultation and overlapping issues (including: proposed extensions to transmission price controls, BETTA, transmission access and charging, treatment of embedded generators etc.)**

- **Given that the transmission investment for renewable generation will be driven by government policy rather than market signals, we consider it essential that all costs are ring-fenced and recovered either from the new connectees or the demand side. In no event should existing generators bear any of the costs or the risks.**

- **Before any adjustments to the existing price control arrangements are made the investment plans of the transmission owners should be subject to rigorous independent and transparent scrutiny so as to ensure that any incentives for over investment are minimised.**

- **These proposals will have the effect of increasing charges to transmission users and customers. They should not be taken forward until such time as Ofgem can clearly demonstrate that these costs are economic, efficient and in the interests of consumers as a whole. To that end, we still await the Regulatory Impact Assessment and associated cost benefit analysis that should as a matter of routine accompany any proposals for reform like these.**

- **We welcome the timely announcement of Ofgem's intention to conduct a review of the treatment of embedded generators in respect of transmission network charges.**

- **If an adjustment is to be made to the existing price controls an appropriately developed flexible revenue driver mechanism with suitable checks and balances appears the most optimal option of those highlighted. We would favour a simple mechanism along the lines of that built into NGC's existing price control.**

As a major generator in Great Britain British Energy takes a keen interest in the way in which the three transmission licensees fulfil their duty to invest in their respective transmission networks in an economic and efficient manner and in a manner which meets security standards. As a principle we are not opposed to investment expenditure, and the subsequent re-charging of associated costs by the transmission companies, that can be clearly identified as fulfilling this duty and that the impact on prices paid by users can be fully justified.

However, we still have reservations as to whether the transmission investments needed to accommodate new renewable generation as identified in this paper would satisfy the above duty. Indeed NGC in its response to the earlier consultation on this issue raised concerns as to whether the investments identified could be currently justified. Given that users of the system will be directly affected by any such investment decisions it is vital that before any adjustments to the existing price control arrangements are made the investment plans are subject to rigorous independent scrutiny so as to ensure that any incentives for over investment are minimised. Furthermore, we note that the promised Regulatory Impact Assessment (including a full cost-benefit analysis) accompanying any proposal in this respect has still yet to emerge. We would urge Ofgem to publish this as a matter of urgency. We are therefore unable to support any proposals that will have the effect of increasing charges to transmission users and customers until such time as Ofgem can demonstrate that these costs are economic, efficient, in the interests of consumers as a whole and satisfy the applicable charging obligations within the transmission licences.

As stated in our earlier response, we remain concerned that the present proposals will result in all transmission users being exposed to increased costs associated with transmission developments to facilitate large amounts of speculative generation driven by subsidy rather than economic efficiency. As most of this new generation in England & Wales will be embedded within the distribution network, under the current charging arrangements, this generation will make a limited contribution to the costs it imposes on the transmission system. Whilst the situation in Scotland is different, there is still the potential for a similar effect. With this in mind we fail to see how such a scenario would not have the effect of distorting competition given that incumbent transmission users will have to meet these new costs despite receiving little if any benefit from such transmission investment.

Again we note that NGC in its earlier response stated that the investment decisions taken in respect of renewable development are rather different to those taken to accommodate other generation since 1990. The reinforcements needed to accommodate the many gas fired power stations could be demonstrated as efficient expenditure as the new entrants were willing to make a suitable financial commitment to the reinforcement. However, this is not the case for the transmission investment for renewables as a significant proportion of these generators may not even enter into agreements with the transmission licensees and so avoid network charges. We note that Ofgem intends to review the treatment of embedded generation so as to ensure that these generators make an appropriate contribution to the costs

of the transmission network. We welcome such a review and look forward to suitable changes in this areas being developed.

Given that the network investment will be a direct consequence of government policy rather than market signals we consider it essential that all costs are ring-fenced and recovered either from the new connectees or the demand side. In no event should existing generators bear any of the costs or the risks. 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.

As regards the specific aspects of the proposals which Ofgem is seeking views we would offer the following comments:

- Given the huge uncertainty that remains as to the likely levels of renewable generation that will actually materialise we maintain the view that the existing price control mechanisms are sufficient and are the most optimal way to ensure that inefficiently high levels of investment are avoided.

- If an adjustment is to be made to the existing price controls an appropriately developed flexible revenue driver mechanism with suitable checks and balances appears the more favourable option of those highlighted. We would favour a simple mechanism along the lines of that built into NGC's existing price control.

- Except for the review of embedded generation arrangements we currently see no driver for significant reform of the existing contractual arrangements for transmission network users. A stable and predictable charging regime going forward is required in order to reduce the level of regulatory risk for transmission users and costs to consumers.

If you wish to discuss any of the points raised above please do not hesitate to contact me.

Yours sincerely

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