



taking care of the essentials

BY EMAIL

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Our Ref.

Your Ref.

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Dear Jonas

Transmission Investment for Renewable Generation: Second consultation

Centrica welcome the opportunity of responding to this consultation. We are pleased that it is recognised that the development of renewable generation will be facilitated by investment in the transmission system. We support new, necessary investment in the transmission system and consider a revenue driver approach to provide the best outcome. Although this option is more complicated it provides the right signals and provides proper controls to ensure efficient investment. The challenge will be in setting appropriate locational and incremental capacity differentiations. We believe that differentiation on both these factors is important and must be included. We would also ask that the following comments be taken into account when Ofgem is considering the efficiency of transmission investments.

Transmission investment must be efficient and economic, as required by the relevant licence conditions, and as such must achieve the right balance between investment in assets against the cost of constraints. Whilst we fully support the Government's targets for renewable generation we would not wish to see investment at any cost. We welcome Ofgem's intention to ensure no double counting of costs occurs. We would also encourage Ofgem to consider the level of investment that could be carried out within the existing price controls, in particular taking account of potential for displacement of conventional generation by renewable technologies.

We support the principle of cost reflective signals provided for users wishing to connect to the transmission system through the transmission use of system charges. We do however, question the effectiveness of these cost signals when they are set against the Government's policy to encourage the development of renewable generation. Currently there appears to be a tension between the desire to achieve more generation from renewable sources against the locational signals provided by transmission charges. We encourage Ofgem to take this opportunity to give more consideration to the Government's support for renewable development and include this within the investment decisions. We are concerned that the current situation is leading to investment decisions that could be judged as uneconomic in the future.

Any assessment of cost-effective investment must be done on a GB basis. Centrica are concerned and disappointed that this consultation is heavily focussed on the investment that is required in Scotland and the North of England. Although we appreciate that there is considerable proposed new generation wishing to be connected in Scotland, we note that there is also considerable work being undertaken to build and operate generation offshore, a significant

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proportion of which is located further south. Whilst there is uncertainty over the appointment of one or more offshore TOs, and the price controls that will be applied, it is essential that some consideration is given now to the costs that will be incurred and how these will be borne by the community as a whole. It is not helpful or efficient to continually adjust charges in a reactive manner as this weakens the signals to generators.

Centrica are also concerned that the focus of the consultation is on Scotland, where transmission and generation interests rest with the same companies, which in our view creates a potential for conflict of interest, despite the “Chinese Walls” that may be in place. It is notable that although post-BETTA any connection applications will be routed through the GBSO, it is still the TOs that are responsible for providing the SO with connection offers and for planning investment in the transmission network. There are few safeguards to assure users of the independence of investment decisions.

The market needs to have a clear and consistent policy for transmission investment. A balance must be struck between responding to the needs of new generators and not causing excessive costs to be passed through to other users of the system. We support the costs of investment being paid for across the GB charging base but, as discussed above, investment should be done in response to the right signals, i.e. locational signals to invest complemented by Governments policies. Centrica is becoming increasingly concerned that this interaction is being ignored at the expense of the market.

We hope the comments have been helpful. Should you wish to discuss any of the issues raised in more detail please do not hesitate to contact me on the number given above.

Yours sincerely

Danielle Lane
Contracts Manager

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