Mr Jonas Törnquist
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Dear Mr Törnquist

Reference: Transmission Investment and Renewable Generation – Consultation Document 98/04

Powergen welcome the opportunity to comment upon the second consultation for transmission investment and renewable generation. Given the necessity to roll forward existing price controls, Powergen remain supportive of the decision to utilise an adjustment mechanism to improve the existing signals and incentives for TOs to invest in an efficient and timely manner.

In terms of the three calculation mechanisms suggested by Ofgem, we consider a 'cost pass through' to be the least suitable methodology. Although we accept that this option would be flexible to changes in requests for access, there would be no efficiency drivers.

The lump sum approach seems to be a reasonable way forward as it would be a transparent methodology. We note that the main disadvantage associated with this option is the current uncertainty about the level and pattern of renewable generation. However, we would envisage that should a TO unnecessarily reinforce the system then Ofgem could determine not to add the reinforcement to the Regulatory Asset Base at the subsequent price control.

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The revenue driver would perhaps provide the strongest efficiency incentive provided that the correct output variable is chosen. The greatest efficiency is to be achieved when the advantages of a project for both renewable generation and other system functions are recognised. We therefore believe that network capacity would offer an appropriate variable for the consideration of output. We would expect network capacity to greater reflect efficiently incurred expenditure when compared against a variable which purely considers newly connected generation.

When analysing the future pattern of renewable generation it seems reasonable to suggest that in terms of location factors fuel availability takes precedence over the grid, hence the current issues. Assuming that this is the case, fuel availability should be used as the variable to approximate the likely pattern of renewable generation. It is clear that renewable generation is geographically limited, for example it would be futile to place a wind farm on a lee slope. However, other technologies face similar constraints with regard to location factors such as coal stations near coal fields or ports. As such it seems equitable for renewable generators to bear the same costs for their locational choices as for any other generator. With this in mind we are supportive of Ofgem's comments within the second consultation and concur with the opinion…..

"Ofgem notes concerns that the location of renewable generation in Scotland (rather than the South West of England and South Wales, where spare capacity exists) is inefficient. Provided that charging arrangements provide appropriate signals then generators will face incentives to build capacity where networks need little or no reinforcement"
(3.29, Pg27,98/04).

We appreciate that it is difficult to quantify the amount of reinforcement needed due to the uncertainty about the potential level of future generation. The amount of generation which is constructed/under construction is currently negligible compared to that in the feasibility/concept stage. However, it may be foolhardy to guarantee that a certain percentage of those schemes still in the feasibility process will go ahead. Consequently it would be advisable that only reinforcement which also benefits the majority of Users who are currently connected is carried out early, so as to reduce the risk of stranded assets, and provide an efficient dual benefit.

In conclusion, the plans in the appendices of the consultation indicate that a huge amount of additional generation is planning to locate in Scotland. Given present constraints and the problems for allocating access for BETTA then this even further emphasises the need not to water down locational charges for Scotland.

Yours sincerely

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