

18th June 2004

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Dear David

TRANSMISSION PRICE CONTROLS UNDER BETTA

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: transmission arrangements for renewables, BETTA, transmission access and charging in general, treatment of embedded generators etc.)**
- **Although we recognise the benefits of aligning the electricity transmission price controls of NGC and the two Scottish transmission companies, we are not convinced of the benefits of extending all three controls in order to align the electricity transmission reviews with the gas transmission review.**
- **Incorporation of the England-Scotland interconnector assets into the transmission price controls is a major step requiring proper and effective regulatory scrutiny. BE sees no compelling reason for the valuation of such assets to exceed RAV-based figures. Any valuation in excess of RAV risks imposing stranded costs on transmission users. Accordingly, BE considers that any valuation in excess of RAV should be ring-fenced within the price controls and recovered from the demand side.**
- **We agree that fundamental changes to the existing controls to allow them to be rolled forward should be avoided. A more comprehensive review of the arrangements can be performed as part of the next review allowing for experience of operating under the BETTA regime to feed in to the next transmission price control review.**
- **Despite still having reservations regarding the expanded role of the GBSO under BETTA, we are generally supportive of the proposals set out in this consultation paper in respect of the TO incentives. One of the aims of such arrangements must be to ensure that the TOs and the GBSO work closely together so as to secure**



operational, security of supply and economic benefits for all users of the transmission system.

Specific Comments:

Incorporation of the England-Scotland interconnector assets into the transmission price controls is a major step requiring proper and effective regulatory scrutiny. As the consultation paper recognises, there is a fundamental difference between the existing interconnector arrangements under which the asset owners invested in the assets in the full knowledge of their exposure to significant risks (e.g. of availability and utilisation) and incorporation of these assets into the price controls, whereby cost recovery will essentially be guaranteed, socialised and independent of the utilisation of the assets.

We note also that this is a key requirement of BETTA, and that the interests of the interconnector asset owners are diametrically opposed to the interests of transmission users (and of consumers). We would therefore urge Ofgem to exercise proper and effective regulatory scrutiny. This is particularly important at the present time when the form and incidence of transmission charging under BETTA remains subject to uncertainty.

We see no justification for the valuation of the interconnector assets to exceed RAV-based figures. This is implicitly the case for the pre-vesting Scottish interconnector assets. Given that the TOs have been entitled to earn commercial returns on their investments to date, and given that their risk exposure will be significantly reduced under BETTA, any higher valuation would seem to deliver windfall gains to the TOs (and hence windfall losses to consumers). Moreover, since no-one can predict the future utilisation of the interconnector assets, any higher valuation creates a risk of imposing stranded costs on transmission users (e.g. where utilisation of the assets declines). Accordingly BE considers that any valuation in excess of RAV is unjustified and, if imposed should therefore be ring-fenced within the price controls and recovered from the demand side to whom this must presumably deliver a positive cost benefit.

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

Yours sincerely

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