

Direct line: 020 7752 2200

Fax number: 020 7752 2128

David Haldearn  
BETTA Project  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE



**Date** 18 June 2004

Dear David

### **Transmission price controls and BETTA**

We are pleased to have the opportunity to respond to this consultation on the Transmission Price Controls and BETTA. We have provided some comments below on the issues considered by this consultation.

### **Roll forward price controls**

We agree with Ofgem that a rolling operating incentive mechanism, to remove periodicity from the incentives for efficiency improvements, may have some merit. We would be inclined to favour consideration of this issue as part of the main review. However, given the extended price control period, there may be a prolonged period of reduced efficiency incentives towards the end of the current price control period.

We agree with Ofgem's proposed approach to considering specific capital expenditure incentive arrangements as part of the review of transmission price controls in 2007.

We agree that a change to the use of a post-tax cost of capital would not be appropriate for the roll forward price controls and should be considered as part of the full price control review in 2007.

We agree with Ofgem's proposed limited review of capital expenditure as part of estimating the RAV at 1 April 2005.

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London SW1X 7EN

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## **BETTA price controls**

We agree with the proposed approach to the treatment of the one-off operating and capital costs associated with BETTA implementation, provided that these costs have been assessed as being appropriately and efficiently incurred. We agree that these costs should be recovered through BSUoS from all GB participants.

## **England – Scotland interconnector regulatory asset values**

We are uncomfortable with the use of market based valuations in setting Regulatory Asset Base values for the interconnector assets when they become part of the GB transmission asset base, as this is not consistent with the valuation of other transmission assets and could lead to a higher effective rate of return for these assets than for other transmission assets. As the interconnector is to be treated as part of the GB transmission system under BETTA, we believe that it is appropriate for the former interconnector assets to be valued on the same modern equivalent asset value basis as other transmission assets.

## **Transmission Owner Incentives**

We agree with Ofgem's proposed approach to Transmission Owner Incentives.

We hope that you will find these comments helpful and we look forward to seeing the draft and final proposals in the coming months. If you have any queries on this response, please contact Rupert Judson on 0207 752 2526 or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a stylized flourish at the end.

**Denis Linford**  
**Head of Regulation**