

9 July 2004

David Noble  
Senior Manager  
Networks Division  
Ofgem  
9 Millbank  
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Dear Mr. Noble,

### **Extension of NGC Price Control for 2006/07**

Thank you for the opportunity to respond to the issues raised in the above consultation paper of May 2004. British Energy is pleased to offer the following comments.

#### Proposed Approach to Extending the Price Control

British Energy agrees that option 2 offers the most suitable approach to setting the price control parameters for 2006/07. However, and as Ofgem recognise, there are important links between this issue and other areas of Ofgem's work. We would therefore stress the need for "joined-up thinking" between this consultation and overlapping issues that have a bearing on users of the transmission networks.

#### Review of Capital Expenditure

Before any adjustments are made, it will be important that cost assumptions are subject to a rigorous, independent and transparent scrutiny so as to minimise any incentives for over investment. Whilst we recognise that the issue of transmission investment and renewable generation is the subject of a separate strand of work within Ofgem, we would re-iterate our concerns regarding the exposure of existing transmission users to increased costs associated with developments to facilitate large amounts of speculative (embedded) generation. Given that such investment will be driven by government policy rather than market signals (and hence by subsidy rather than economic efficiency), we maintain our view that any additional expenditure required as a result of renewable related transmission investment should be 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.

#### Cost of Capital

We note Ofgem's views regarding the possibility of using different cost of capital assumptions based on those derived from Ofgem's current review of the distribution price controls. We are not persuaded that this is necessary for the purpose of the



current consultation and would argue that any review should be postponed until the next full review of transmission price controls.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Love', with a long, sweeping underline.

**David Love**  
**Head of Regulation**

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