

24th September 2004

Mr Jonas Törnquist
Head of Electricity Transmission Policy
Ofgem
9 Millbank
London SW1P 3GE

Dear Mr Törnquist

TRANSMISSION INVESTMENT & RENEWABLE GENERATION

Thank you for the opportunity to comment on the issues raised by the above consultation as issued in August 2004. We responded to the earlier consultation published in May 2004 within which we set out a number of key principles that we considered important when devising appropriate arrangements for transmission investment for renewable generation. We would like to take this opportunity to re-iterate these principles.

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: proposed extensions to transmission price controls, BETTA, transmission access and charging, treatment of embedded generators etc.)**
- **Given that the transmission investment for renewable generation will be driven by government policy rather than market signals, we consider it essential that all costs are 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.**
- **Before any adjustments to the existing price control arrangements are made the investment plans of the transmission owners should be subject to rigorous independent and transparent scrutiny so as to ensure that any incentives for over investment are minimised.**
- **These proposals will have the effect of increasing charges to transmission users and customers. They should not be taken forward until such time as Ofgem can clearly demonstrate that these costs are economic, efficient and in the interests of consumers as a whole.**
- **Ofgem's planned review of the treatment of embedded generation should be initiated as a matter of urgency.**

General Comments:

As stated in our earlier response, we remain concerned that the present proposals will result in all transmission users being exposed to increased costs associated with transmission developments to facilitate large amounts of speculative generation driven by subsidy rather than economic efficiency. As most of this new generation in England & Wales will be embedded within the distribution network, under the current charging arrangements, this generation will make a limited contribution to the costs it imposes on the transmission system. Whilst the situation in Scotland is different, there is still the potential for a similar effect. With this in mind we fail to see how such a scenario would not

British Energy plc Barnett Way Barnwood Gloucester GL4 3RS

Telephone 01452 652222 Facsimile 01452 653246



have the effect of distorting competition given that incumbent transmission users will have to meet these new costs despite receiving little if any benefit from such transmission investment.

Given that the network investment will be a direct consequence of government policy rather than market signals we consider it essential that all costs are 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. In doing this we would assume that the costs associated with the renewable infrastructure works would have been subjected to transparent and rigorous regulatory scrutiny, assuming Ofgem can demonstrate that their primary duty allows such speculative investment to be incurred. Such an approach would also have the merit of aligning some of the GB transmission arrangements with EU developments in this area.

Previously, Ofgem indicated that it intends to review the treatment of embedded generation so as to ensure that these generators make an appropriate contribution to the costs of the transmission network. We welcome such a review and consider that this should be initiated as a matter of urgency. We look forward to contributing to such a review with a view to developing suitable changes in this area.

As regards the specific aspects of the proposals which Ofgem is seeking views we would offer the following comments:

- We support the principle of separately identifying baseline, incremental and additional network investment with separate investment incentives for each category.
- In assessing the costs and benefits of proposed transmission investment projects alternative ways of relieving potential constraints should be explored and quantified before investments are approved so as to avoid the potential for stranded assets.
- As proposed, the revenue allowance allowed under both baseline and incremental projects should be based on independent estimates so as to ensure that any incentives for over investment are minimised.

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

Yours sincerely

David Love
Head of Regulation

Direct Line: 01452 653325
Mobile: 07770 731528
Fax: 01452 653246
E-Mail: david.love@british-energy.com