



Department of Trade and Industry

Energy Group

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Response to Initial Consultation

The Department of Trade and Industry is pleased to be able to respond to the first consultation issued on the 2007 Transmission Price Control.

The Department agrees with the thrust of Ofgem's document which acknowledges the evolution of energy markets as well as the goals of the Energy White Paper 2003, which details the Government's long term energy strategy. The Government's aim is to create a low carbon economy and the energy sector has a significant part to play in delivering this. The 2005 Distribution Price Control successfully dealt with similar challenges which now confront the Transmission Price Control. The Department is confident that Ofgem, and the businesses regulated, will tackle these challenges resulting in decisions which will satisfy all stakeholders.

On electricity transmission: You note the importance of larger scale renewable projects needing to connect to the transmission network. The achievement of the Government's targets and aspirations out to 2020 requires the necessary infrastructure upgrades to be in place. Given the time needed to develop new infrastructure, it is crucial that where investment is justified approval be given in sufficient time. The Department welcomes the transmission upgrades of over £560m that were approved by Ofgem in December 2004 to connect new renewable generation in Scotland. Levels of active consenting work for renewable projects in Scotland and offshore have continued to increase since then.

The Department, through the Transmission Working Group, has worked with the transmission asset owners to produce the RETS Revisited report to review progress since the original RETS Report in June 2003. The Department supports the RETS Revisited report which argues for the need to consider the case for further upgrades to the system.

We are confident that in undertaking its price control Ofgem will give due consideration to that case given its importance to Government targets. In addition to new onshore renewable generation, many of the projects needed to meet the Government's targets will be sited offshore. The development of offshore wind farms will require a co-ordinated development of grid upgrades to ensure that capacity is available to coincide with the projected delivery of Round 2 projects. The Department hopes that the price control will find a way to tackle this issue.

As well as the importance of renewables, the Department hopes that this price control will give consideration as to how transmission companies can be incentivised to connect all generation. As with the Distribution Price Control, the issue of re-wiring Britain, raised in the Energy White Paper, needs to be addressed to ensure that efficient investments are made so that our transmission networks are fit for purpose.

As Ofgem notes in its consultation, we are also seeing considerable changes in the GB gas market. During the course of this price control the importance of imported gas will increase. Delivering timely investments in import infrastructure will be necessary to ensure security of GB gas supplies. The adequacy of gas entry and exit regimes will also influence the timeliness of these investments. We also hope the Price Control review might consider the requirement for investment in gas blending or processing facilities, to ensure that future imported supplies continue to conform to the UK's gas quality specifications.

This price control is also the first which will take place following the restructuring of the gas distribution system following the sale of four of Transco's distribution networks. Decisions approving the sales were strongly influenced by the consumer gains which were expected to flow following the sales. The Department will be interested in seeing how the price control will help realise these anticipated benefits.

As with the distribution price control, the Department will remain an interested observer throughout this process, without jeopardising the principle of independent regulation of energy markets. We know this is only the start of the project but have every confidence that Ofgem, and the regulated businesses, will deliver a successful outcome.



Rob Lally
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