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Dear Mr Hull

Transmission Price Control Response to Initial Consultation

Objectives for the Price Control Review

Given the Authority's statutory objective to "carry out its functions in a manner which it considers is best calculated to contribute to the achievement of sustainable development" (paragraph 3.3.7) and to "have regard to the effect on the environment of activities connected with generation, transmission, distribution or supply of electricity" (paragraph 3.3.8), we consider that the stated price control objective to "promote social and environmental objectives" (paragraph 4.50) should make specific reference to the Government targets for renewable generation. An objective of "facilitating and allowing the transmission companies to facilitate the Government's targets for generation from renewable resources" would seem to fit the bill.

Addressing external factors

One of the external factors recognised in paragraph 4.10 of the consultation is

"the significant increase in distributed and renewable generation and expected future increases as a result of Government targets and associated Government policy initiatives, with its particular location, connection level and delivery characteristics"

The primary means by which we feel you should take account of this is for the base case transmission requirements to assume that that Government targets will be met. To do otherwise would be both inconsistent with Government policy and potentially could of itself prejudice those targets by increasing the hurdles that transmission companies have to overcome to finance the transmission investment necessary to accommodate Government targets. For the avoidance of doubt we use "base case" to mean the transmission network as assumed to be expanded over the price control, not the existing network.

We continue by outlining how we feel this assumption can be implemented in practice and then, importantly particularly for the protection of customers, how deviations from it can be accommodated.

Evaluating the base case transmission investment assumption

In chapter 5 the consultation document asks:

> "How, if at all, should Ofgem adapt its approach to assessing capital expenditure requirements related to growth in renewable and distributed generation and future plant closure?"

The RPA view as stated above is that the base case assumption in respect of renewable generation should be that the Government's renewable target is met. Clearly the requirement for transmission consistent with meeting the target will vary according to a number of factors, the principle one being the geographical distribution of the new renewable generation facilities.

In the absence of any better guidance we suggest that the geographical pattern of applications to connect to and use the transmission system by new renewable generators that has occurred over the past two years (for example) be scaled so that the Renewables Obligation is fulfilled. The transmission company should produce a transmission investment proposal consistent with this pattern of renewable generation and this should be used as the base case against which to assess capital expenditure requirements.

In following next section deals with deviations from this pattern so as to protect customers from excessive expenditure or to allow extra funding should the need arise.

We should of course point out that renewable or other distributed generation does not necessarily reduce the need for electricity transmission. Whilst at most Grid Supply Points additional distributed generation will reduce the need for future expenditure on Super Grid Transformers, the effect on the rest of the transmission system will depend on their location. Broadly speaking distributed generation connecting in the North will increase the need for bulk transmission whilst that connecting in the South will decrease it.

Revenue drivers and deviations from base case assumptions

As stated earlier by "base case" we are referring to the transmission system required over the price control period to accommodate, in the case of renewable generation, the Government target volume distributed geographically over a pattern consistent with applications by new generators made over the last two years.

We recognise that the eventual outcome might be considerably different from this and it is important to provide both additional income, should the transmission company require it, and protection for customers if a lower level of expenditure is required. Whilst re-openers may be necessary and can not be precluded we feel

that wherever possible this "known unknown" should be catered for by means of a suitable revenue driver.

For electricity transmission we feel that in terms of the bulk power system i.e. excluding Grid Supply point transformer expenditure, an output measure could be constructed from net system flows. What we would envisage would be a measure of generation minus demand in each generation use of system charging zone. Each zonal "generation minus demand" figure would be multiplied by a factor related to the cost of providing incremental (generation minus demand) capacity in that zone and the sum of the figures would be used as a revenue driver. An obvious candidate for the multiplication factor would be the locational component of one year's use of system charges in that zone.

It is important to use generation minus demand in each zone as it is that that determines the flows on the bulk transmission system. This would also of course cater for distributed renewable (and other) generation that was too small to be "seen as generation" by the transmission system. Having factors that vary by zone to multiply this by would reflect the different effects that more or less generation would have in each zone. The factors would be negative in some zones, particularly in the south.

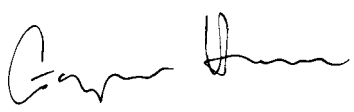
In this way an increase from the base case assumption in "generation minus demand" in a zone in Scotland would trigger an increase in allowed revenue whereas a reduction would trigger a decrease. Conversely an increase in "generation minus demand" in a "negative incremental cost" zone would trigger a decrease in allowed revenue.

Conclusion

The RPA suggests that the facilitation of the Government's targets for renewable generation should be a central objective of the Transmission Price Control Review and the targets should be assumed to be achieved for evaluating the "base case" transmission investment requirements. We have proposed a revenue driver that should adjust allowed revenue in a manner that will deal fairly with deviations from this assumption, protecting customers and ensuring that renewable power development will not be hindered due to inadequate finance for associated transmission expansion.

We would be happy to discuss any of these ideas further with you. Please contact us if you have any queries.

Yours sincerely,



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