

12 September 2005

Robert Hull
Director Transmission
Ofgem
9 Millbank
London SW1P 3GE

Dear Mr. Hull,

Transmission Price Control Review

Thank you for the opportunity to comment on the issues raised in the above consultation paper of July 2005.

We understand that the Association of Electricity Producers has submitted a detailed response to many of the specific questions raised by Ofgem under the above consultation document. As a member of the Association, we support the comments made by them. But we also have the following additional comments.

Objectives for the Review

We welcome Ofgem's recognition that the review needs to be transparent and inclusive. It is important that those affected by the review understand the basis upon which proposals are brought forward and the methods by which Ofgem determines the appropriate levels of revenue for the price control period.

Rolling Incentives

We support the use of rolling incentives given that they help deliver a consistent strength of incentive throughout the period of a price control. Further consideration should be given to the wider use of rolling incentives (for example in relation to operating costs), providing that any potential conflict in their use across both capital and operational expenditure can be satisfactorily resolved.

Treatment of Uncertainty

The treatment of uncertainty surrounding the levels of investment that will be required during the control period, particularly that relating to the accommodation of a potentially substantial growth in renewable generation is, in our view, the key challenge to be addressed under the review. The latter in particular has substantial implications for the capital expenditure plans of NGC given the uncertainty of the volume, timing and location of such generating capacity.

Whilst re-openers should generally be avoided, given the regulatory uncertainty they give rise to, we nevertheless recognise that the review proposals need to be sufficiently flexible to respond to future network uncertainties.



Connection Disputes in Relation to GB Security & Quality of Supply Standards

In the context of this TPC review, we consider that recent determinations by Ofgem in respect of transmission connection disputes arising as a consequence of BETTA highlights fundamental connection issues arising from the application of the GB SQSS. In the connection disputes considered to date, Ofgem has rejected arguments for the payments of constraints to generators with existing connections to transmission infrastructure that does not comply with the GB SQSS. However, the implementation of BETTA (and the creation of a single GB transmission system operator) should not have adversely impacted users' connection rights with regard to their access to the transmission system.

In conjunction with the transmission licensees, Ofgem should therefore consider fully quantifying the extent of the alleged GB SQSS non-compliance with a view to defining the shortfall of the connection designs. The identified connection infrastructure should then be upgraded as a matter of priority within the price control period. Otherwise there will be no economic incentive for the Transmission Operators to carry out the necessary improvement works, to the detriment of affected generators.

Reactive Assets

We consider that the review should also encompass the treatment of reactive compensation assets. This review provides the opportunity for further analysis of how 'reactive' is/should be dealt with and the potential for other market service providers in this area other than NGC, notwithstanding the need for clarity in the interaction between the TO price controls and SO incentive schemes.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Love', with a horizontal line underneath.

David Love
Head of Regulation

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