

Colin Sausman
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Office of Gas and Electricity Markets
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London
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Date: 9th December 2005

Dear Colin,

British Energy Response to Ofgem Discussion Document
Enduring transmission charging arrangements for distributed generation

This response is made by British Energy Group plc. British Energy is the UK's largest generator of electricity. We own and operate eight nuclear power stations as well as Eggborough Power Station, (a large coal plant with two units fitted with FGD) and four small, embedded gas generator sites. We are also currently in the application process stage for the biggest onshorewind farm in Europe, on Lewis, in a joint project with AMEC. British Energy is also a large supplier selling exclusively to Industrial & Commercial customers. British Energy Direct accounts for around 30 TWh of the UK supply. British Energy welcomes the opportunity to respond to the above discussion document and raises a number of important issues.

Key Points:

- **We support this review, which is strategically important and is connected to other areas of government and regulatory development/review and will have an impact on investment and operational decisions. It must therefore address concerns over free riding in respect of TNUoS and BSUoS charging liability and any associated distortion to competition and cost reflective transmission charging.**
- **The review will need to take into account the recent and ongoing developments associated with the transmission charge adjustment for generators in the Scottish islands, the ongoing review of distribution network charging and proposals for the regulation of offshore transmission.**

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- **A balance will need to be struck between the various competing requirements. It will therefore be important for Ofgem to adopt a pragmatic approach to developments in this area and engage with the industry as soon as possible to ensure change can be introduced on a reasonable timescale. A programme of work and industry code/charging methodology change should be developed so that the industry has a clear target to work towards. This will also serve to minimise any perceived regulatory risk.**
- **Of the options considered in the paper the agency models (Option 7) seem to be the most appropriate and proportionate solution to the problems outlined. Further work will be needed to determine whether the supplier or DNO agent route is the most appropriate.**

Other comments

We welcome this consultation which we believe to be very timely particularly given the significant increase in distributed generation anticipated. Under the present arrangements an embedded generator could have an impact on the transmission system for which it does not pay. In these circumstances the associated costs fall on all other transmission paying users. This can lead to inefficient investments being made and transmission paying users being charged the extra. This is both damaging to competition and creates transmission charges that are less cost reflective.

Ofgem has correctly identified in Chapter 4 of the consultation paper the range and complexity of issues that need to be addressed. It will be important to strike a sensible and pragmatic balance between these sometimes-competing issues and it is encouraging that Ofgem recognise the need for such trade offs. Early engagement with the industry and the development of a programme of work with milestones indicating when industry change will be delivered will minimise any perceived regulatory risk.

The options presented in the consultation seem to cover all the realistic means of addressing the issue. Of these we consider Option 7 ‘ Agency Models’ to be the most appropriate and proportionate approach to the problem identified. Further work will however be needed to identify which of the two approaches (supplier agency or DNO agency) is the most appropriate. Our comments on the other options are as follows:

Of these Option 1 ‘do nothing’ fails to improve cost reflectivity of charges associated with distributed generators and will result in the problem getting worse over time as the level of distributed generation increases. We do not therefore support Option 1.

We are also opposed to Options 2 and 3 largely for the reasons set out by Ofgem in the consultation paper.

Option 4 'extending the DCLF ICRP model to parts of the distribution network' does offer a potential solution. Indeed the DNO's are presently considering the application of this model to their networks as part of the long-term review of DUoS charges at the ISG. However the development of a common approach across all DNO networks would be complex and could from a practical perspective probably only be applied to EHV connections. For this and the other reasons set out by Ofgem in their consultation paper we do not support this option.

Option 5 'amend use of size definitions as a basis for charging and contractual arrangements' is also not favoured by us largely again for the reasons given by Ofgem in their paper.

Option 6 'creating a consistent liability for charges' would be disruptive and complex given that generation and demand charging zones are different. To ensure a consistent charging liability in these circumstances would require generation zones to mirror the demand zones. This would appear to undermine the present basis of transmission charging for generators. For this reason we do not believe that Ofgem could consider this to be a realistic option.

Should you wish to discuss any aspect of this response then please contact me in the office on 01452 654182 or by mobile on 07774 767722.

Yours sincerely

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

John Capener
Head of Transmission and Trading Arrangements
British Energy Power & Energy Trading