

30th January 2006

Robert Hull
Director, Transmission
Ofgem
9 Millbank
London SW1P 3GE

Dear Robert

TRANSMISSION PRICE CONTROL REVIEW – SECOND CONSULTATION

Thank you for the opportunity to comment on the issues raised by the above consultation as issued in December 2005.

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. British Energy Direct is a large supplier selling exclusively to Industrial & Commercial customers accounting for around 30 TWh of the UK supply. The views expressed below predominantly relate to the electricity transmission price controls.

Form and Structure:

Principally, we support the continued use of the basic form and structure of the existing price control i.e. RPI-X model, five year duration, together with the use of revenue drivers and sliding scale incentives. All of these elements have proved to be successful in past controls. However, the present uncertainties facing the electricity market due to the impact of renewables, the interpretation of the LCPD, emissions trading and the recently commenced energy review creates a need for a more flexible regulatory framework for the three transmission licensees. Such flexibility will significantly reduce the likelihood of the need to re-open price controls to accommodate unanticipated developments.

Design Options:

We agree with Ofgem that the application of regulatory design principles common to gas and electricity does not mean that identical arrangements across these two markets are necessary.

We also agree that the options for price control design range from changes to the 'traditional design' to application of a form of user commitment model. We note Ofgem's view that options based on user commitment model should be the focus of this TPCR. In principle, British Energy is not opposed to such an approach but we would wish to fully understand the implications of such a change before reaching a conclusion on the adoption of such a model. To this end, we consider Ofgem needs to engage actively with the industry to explain and develop the proposals. For instance, the suggestion of a move away from the traditional 'first come first serve' approach in respect of access arrangements needs careful assessment to ensure present and future investments are not undermined.

We agree that price control revenue allowances should be more closely linked to actual demand and that TO's should be appropriately encouraged to release incremental access through smarter operational practices.

The proposal to move away from the traditional revenue cap price control clearly has implications for transmission charging and commercial arrangements which sit outside the price control mechanism. It would require industry code and charging methodology changes which will need to be discussed with the industry well ahead of any change proposals being tabled. In this context we welcome Ofgem's proposal to hold a seminar in February to launch this debate.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Love', with a stylized flourish at the end.

David Love
Head of Regulation

Direct Line: 01452 653325

Mobile: 07770 731528

Fax: 01452 653246

E-Mail: david.love@british-energy.com