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Dear Bob,

### **Transmission price control review - Second consultation**

I have attached our response to Ofgem's December consultation paper on the transmission price controls. In our view, the key issue for this price control is dealing with uncertainty in the transmission investment requirements, given the volume of renewable generation wishing to connect to the system. Very large investments are required to accommodate this new renewable generation but the scale and timing of these investments is very uncertain.

We have carefully considered all the options available for dealing with uncertainty including revenue drivers and have reviewed the options in our response. We have concluded that dealing with uncertainty in electricity should be dealt with through enhancements to the mechanism already introduced for Transmission Investment for Renewable Generation (TIRG).

We note the reservations expressed by Ofgem in the consultation paper about the TIRG term. However, we continue to believe that the TIRG mechanism remains appropriate for remunerating investment to connect new renewable generation. The mechanism is simple, transparent and retains the usual incentive properties of RPI-X regulation. By contrast, alternative approaches involving “automatic” adjustments to allowed revenue via, for example, revenue drivers and/or auctions of capacity tend to be overly complex (leading to unintended consequences), difficult to set in advance and can produce inappropriate incentives (e.g. to delay investment). For these reasons, we would urge Ofgem not to rule out from the outset expanding the TIRG term into the new price control.

In addition to the enhancements to the TIRG term we have proposed, we are aware that there is no longer term signal for investment in transmission because, once connected, users only have a commitment to one year's TNUoS. We have therefore proposed a three year financial commitment for existing and new users in respect of transmission capacity. This commitment could be in the form of three years TNUoS payments, but we firmly believe that the current issues with stability of the system charging arrangements would need to be resolved before such a mechanism could be considered.

We hope you find our comments helpful and if you require any further information or clarification, please give me a call.

Yours sincerely,

Rob McDonald  
Director of Regulation