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Dear Bob,

Transmission Price Control Review 2007-2012: Third Consultation

In our response to the December 2005 second consultation for the transmission price control review, we highlighted that the key issue 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 also proposed a mechanism that dealt with the uncertainty and therefore protected the interests of customers while enabling the transmission licensees to finance the investment.

We are therefore very disappointed that this consultation has now proposed a locational revenue driver that demonstrably fails to achieve either of these objectives. Our earlier response set out in some detail the problems with the mechanism, and our response to this consultation includes worked examples from our portfolio of connection offers reinforcing this point.

Although Ofgem states that it is keen to make the revenue drivers robust to as many contingencies as possible, we are concerned that there has been no engagement with the companies on Ofgem's proposals. Making the revenue drivers robust means to us that it has to contain sufficient parameters to ensure that it is a reasonably accurate predictor of project costs. This implies a very complex revenue driver, which will have implications in drafting clear and accurate licence conditions.

We are therefore very concerned about the lack of progress on this key issue, given that initial proposals are scheduled to be announced in two month's time.

The second key concern relates to setting National Grid's gas transmission price control and the related Gas Distribution Network incentives. The DN incentive schemes are central to the success or otherwise of Ofgem's reforms to the exit regime and there are many complex issues that need to be resolved in designing such schemes. However, there has also been no dialogue on this issue and we now regard the timetable as pressing. We would therefore urge Ofgem to set up a workgroup to take forward discussions on the gas DN incentive framework.

If you would like to discuss our response further, please call.

Yours sincerely,

Rob McDonald
Director of Regulation