



taking care of the essentials

**Grant McEachran**  
**Head of Transmission Charging**  
**Networks**  
**70 West Regent St**  
**Glasgow**

**Centrica Energy**  
**Millstream East,**  
**Maidenhead Road,**  
**Windsor,**  
**Berkshire SL4 5GD**

Tel. (01753) 431000  
Fax (01753) 431150  
[www.centrica.com](http://www.centrica.com)  
Our Ref.  
Your Ref.  
10 April 2007

Dear Grant,

## **Zonal transmission losses – assessment of proposals to modify the Balancing & Settlement Code**

Centrica welcomes the opportunity to comment further on the suite of transmission losses-related BSC modifications. In summary, we do not believe that any of the modifications better facilitate the achievement of the BSC Objectives. As we (and numerous others) have stated in previous consultations on these modifications, the perceived benefits stated in the Oxera cost-benefit analysis are at best overstated, and very unlikely to be realised. The Ofgem document relies almost exclusively on the Oxera analysis – we were somewhat surprised to see this emphasis, as the conclusions have repeatedly been refuted by a large number and variety of industry participants.

While this impact assessment is not intended to be a ‘minded to’ statement, we were surprised to see that there is a clear leaning towards a decision to implement one of the proposals, even to the extent that there are factual inaccuracies in the text which serve to support arguments for a zonal losses scheme<sup>1</sup>.

Overall, we consider that too much weight has been placed on the unproven and hotly-disputed claims made under the Oxera cost-benefit analysis, and insufficient weight on the grossly disproportionate windfall gains and losses that would be introduced as part of any of these modification proposals. It was generally acknowledged in the modification working group and at the BSC Panel that the redespach benefits in the Oxera documents (which were the main basis for their ‘benefits’) were grossly overstated, and this point of view has not been adequately represented. It was also acknowledged that any longer-term benefits identified by Oxera are more likely to be caused by locational TNUoS giving the signal that plant ought to locate further south. Over the next few years we are likely to see a large proportion of major new generation being built

---

<sup>1</sup> For example, even as early as page 1, there is a statement that “*The existing BSC includes provisions for locational allocation of transmission losses, although these currently have no effect.*” This is clearly not the case – there is scope for differential allocation, but no mention of zonal losses at all, and the statement is clearly misleading.

**A *centrica* business**

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy  
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

in the south and, while this should improve the overall level of losses on the network, it is clearly more as a result of long-term investment signals from TNUoS rather than concerns about losses.

We believe that there has been far from sufficient recognition of the controversy surrounding the claims made in the Oxera report – a lay reader of this consultation document would almost certainly believe that the analysis is as close to fact as possible. In fact it is based on numerous disputed assumptions, a limited sample size and insufficient data. It was clear throughout the modification process from the number of times that Oxera either changed analysis or were asked to recalculate information that the analysis presented is not as robust as might appear from the Ofgem document.

Our responses to the individual questions for each chapter can be summarised as follows:

- We believe that, while a number of direct, indirect and environmental impacts have been identified in the report, insufficient weight of argument has been placed on the views of respondents to the numerous BSC consultation responses which did not agree that zonal losses should be implemented. Too much weight has been placed on the Oxera report, which, it should be made clear, was one additional voice to the debate rather than an authoritative and widely-accepted statement of fact.
- The main impact that has not been brought out in any section of the report is the grossly disproportionate reallocation of funds between parties, based on historic investment decisions taken under very different regulatory regimes. Even if one accepts the Oxera estimates of redespach benefits (which we do not), the funds reallocations and costs of implementation far outweigh any savings attributable to zonal losses allocation.
- We do not believe that there is any analysis we could provide that has not already been provided as part of the robust modifications process.

What has not been provided in this document, which we believe would have been extremely useful to anyone new to the transmission losses debate, is a summary of the arguments for and against the proposals at the working group level and from the BSC Panel. While these are available through the Elexon website, there is insufficient emphasis placed in this document on the work that has already been performed by BSC Parties – particularly where they have disagreed with the analysis presented by Oxera and a number of the assumptions made (and repeated as fact) in the Ofgem consultation.

We hope to see greater acknowledgement in Ofgem's future losses-related documentation of the previous discussions relating to the losses modifications. The industry has had a number of opportunities to air its views on both sides of the debate, and a reasonable decision can only be reached if all views are represented.

To conclude, we would reiterate Centrica's belief that none of the losses proposals would better facilitate any of the BSC Objectives, nor any of Ofgem's wider statutory considerations.

If you have any queries in relation to this response, please do not hesitate to contact me.

Best regards,

Dave Wilkerson  
Centrica Energy

T: 01753 431157  
M: 07789 572724  
E: [dave.wilkerson@centrica.co.uk](mailto:dave.wilkerson@centrica.co.uk)

**A *centrica* business**

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy  
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD