Drax Power Limited

Drax Power Station • PO Box 3 • Selby • North Yorkshire • YO8 8PQ • T. +44 (0)1757 618381 • F. +44 (0)1757 618504

Andrew MacFaul
Consultation Co-ordinator
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

31st July 2007

Dear Mr MacFaul,

Zonal Transmission Losses – the Authority's 'minded-to' decisions
Ref: 153 / 07

Thank you for the opportunity to comment on the 'minded-to' document referenced above. Drax views with significant concern the proposed adoption of P203. This modification, while bringing no proven material benefits to Great Britain (GB), will be detrimental to future investment and is severely prejudicial to the interests of generation located in the North and consumers in the South. In short we do not see the proposed change as one which provides benefits that are proportionate to the impact on Drax or a significant part of the wider industry, particularly as the existing uniform mechanism has worked successfully since privatisation in 1990. Consequently, Drax urges the Authority to reconsider its views in the light of this letter and follow the recommendations of the Balancing and Settlement Code Panel to reject all the proposed modifications associated with Zonal Transmission Losses (ZTLs).

Drax views the proposal as detrimental to the future investment required in GB due to the uncertainty it raises for investors as well as its disproportionality. As a consequence of following the current path, the Authority will raise concerns over the level of risk reward required to justify future projects. It gives warning to the investment community that regulatory proposals do not weigh the detrimental impact of a change on existing and future investments, which if the benefits were proven and considered material, could be introduced in such a way that could mitigate the impact. We would urge the Authority to seek clarification of the investment risks this proposal raises from its own independent economic advisors.

If the view of the Authority is such that it feels it must continue with one of the proposed changes, we suggest that it researches the potential of P200 and its alternative. At present it does not appear to have had the scrutiny it deserves. Although still advocating a change, which in our view is unnecessary, discriminatory, disproportionate and will lead to distortions, this proposal at least seeks to address some of the issues surrounding the concerns associated with regulatory risk.

Drax is also concerned that the Authority may not have had an opportunity to see or review the responses to the BSC Modification consultations, the Authority's impact assessment and that the same may be true of the responses to the 'minded to'. We understand that there have been attempts to establish in particular what the Authority has seen and considered through requests under the Freedom of Information Act, and to try to clarify the TNUoS position (see below), but that not all of these have been dealt with either satisfactorily, speedily or at all. We therefore seek assurances that all the information provided to OFGEM, including the BSC Modification consultation responses and the more recent responses to the 'minded to', are provided to the Authority and are given full consideration before a decision is made.

The lack of transparency in the decision making process is of serious concern to Drax, as it is prejudicial to providing clarity on the way the regulatory regime works and undermines confidence in the consultation process. In turn this only serves to heighten investor concerns regarding what changes will be next, therefore further increasing regulatory risk unnecessarily.

Appendix 2 of the 'minded to' also refers to the views of OFGEM rather than the views of the Authority, for example in the response to the many criticisms of the OXERA analysis. Given that the decisions are made by the Authority, it should be the Authority's views rather than OFGEM's. It is of concern that the views of OFGEM may not be those of the Authority.

The remainder of this letter seeks to provide further, more detailed views on P203 as well as seeking to address the specific questions of the 'minded to' in Attachment 1.

1. <u>Representative Losses</u>

Concerns over the adequacy of the Load Flow Model

The load flow model suggested by P203 will result in losses being attributed incorrectly. This is due to the Transmission Loss Factors (TLF) for a zone being the result of averaging and scaling of nodal data. Thus, those impacted by ZTLs will not only be affected in a systematically biased way, the bias will be incorrect. One outcome of this will be that some generators and suppliers will be paid for producing losses. The proposed change does not therefore allocate losses charges to reflect the extent to which parties have given rise to those losses. This fact is supported further by the way it affects investment decisions in that it gives rise to concerns over further change to correct these major anomalies.

Inducing the wrong investment decisions

In the longer term, there is the potential for investment in generation to move away from areas of demand due to increased costs introduced by ZTLs. This is despite the point already made that the generation may well be a zero contributor to losses while it resides close (within the same zone) to the demand. The alternative investment may in addition result in an increase in losses within a zone, but this will be cloaked by the change advocated.

2. <u>Discrimination and Distortion</u>

The introduction of P203 has conflicting issues associated with BSC objective (a) being met, all of which are related to Standard Licence Condition C7:

a) From the point of view of discrimination P203:

1. Discriminates against existing generation which is unable to respond to its claimed signal by moving;
2. Does not distribute the costs in a way that is representative of the causes of transmission losses resulting in generators in the South being paid for producing losses (while they continue to produce them); and
3. Implies that despite being close to areas of significant demand Northern generation is in the wrong place.

b) All generators cause transmission losses regardless of their location, but under P203 some generators will effectively be paid for producing transmission losses. Therefore there will be a distortion in the competitive generation market which favours some existing generation, whilst disadvantaging others.

c) Suppliers will be in the position of being able to choose whether or not to pass through the change to their customers where as Northern generators will have to live with an increase to their costs, distorting the market against them.

d) Smaller generators who cannot finance projects off balance sheet will be disadvantaged. Their cost of capital is potentially going to be higher than that of larger generators and vertically integrated players, distorting the market against the smaller generators and new entrants.

The proposed change therefore materially discriminates against Northern generation and distorts the wholesale market and is therefore anticompetitive. As such, it should not be taken forward.

3. <u>Consumers see no benefit</u>

Consumers in the South of Britain will see the cost of ZTLs passed through to them, with no consequential benefit from competition. This outcome is on the basis that suppliers in the South operate within GSP Groups which correspond to the ZTL zones. The suppliers will all be in the same 'position' and will pass the costs directly to the consumers. The outcome being that the objective of P203 to apparently give these consumers a signal that they are located in the wrong place is nullified below the level of the GSP Group. As in the case with generation, there are consumers who contribute to actual losses to a lesser extent than the signal provided and thus will be discriminated against because of:

a) the inadequacies of P203; and

b) an accident of location.

It should also be borne in mind that the consequential benefit to suppliers in the North will not necessarily be seen in the same timescale as a windfall for the Northern consumers. Indeed it is likely in the short term that while consumers in the South will see prices rise on a GSP Group basis, Northern consumers will see their prices stay the same or potentially rise to reflect a GB wide perspective.

The points made by energywatch, to the Impact Assessment, on the ability for consumers to respond to the signal should also be addressed. It is unclear whether the Authority is expecting consumers to respond to the signal, or not, however there is a clearly expectation on OFGEM's part that consumers should bear the costs irrespective of the magnitude of the hypothetical benefit so far claimed.

4. Impact on different generation technologies

When dismissing the concerns associated with the displacement of renewable energy in the North, there is considerable weight placed by the 'minded to' on the Seven Year Statement (SYS). This however carries no reference to the proposed change in general or in the form of P203. In particular the 'minded to' states:

> *"3.16. Tables 2 and 3 below are based on data from the current Seven Year Statement (SYS) and show the broad geographical distribution of generation of different fuel types, both at present and under the projected SYS background for 2013/14. It shows that renewable generation is currently, and is planned to be, located across the country and that this is not confined to onshore wind generation. In particular, while there is a significant volume of onshore wind in Scotland there is also planned to be significant offshore wind generation in the south and also CHP."*

In our view, rather than illustrating the value of ZTLs, this actually illustrates the point that under the present arrangements (where there are no ZTLs, rather a uniform charging mechanism) there are renewable projects across the country. Further, to introduce ZTLs will adversely affect projects that are currently on the margin in terms of development, for reasons associated with regulated risk, irrespective of their location. This together with the negative impact in the North will be detrimental to marginal projects and therefore the drive for renewables overall.

The 'minded to' also examines the displacement of renewables in the North with fossil fuel in the South. The costs associated with 'on' and 'off' shore wind are both significantly lower than those produced by the Sustainable Development Commission; we suggest the costs are re-examined. It is also clear that costs will vary depending on the wind project. It therefore follows that the marginal project will be displaced due to the change in costs introduced by P203.

This point is further supported by the impact of regulatory risk, discussed later, which will also have a severe impact on renewable technologies. These projects are capital intensive and are more sensitive to the cost of capital, which increases as regulated risk is seen to increase.

5. Regulatory Risk

In the 'minded-to' statement, paragraph 3.19 states:

> *"Primarily, we [OFGEM] consider that it is for businesses to manage their own risks, it is not the role of the regulator to manage risk on their behalf."*

Whilst we acknowledge this, the introduction of P203 will elevate 'regulatory risk' that is to a degree avoidable and dismiss other proposals on the table that potentially offer similar benefits, but mitigate this risk. In short the proposed change does not take into account the impact that the 'minded to' approach will have on future investments, in particular where they are associated with smaller generators or new entrants who have to go to the market for financing.

This risk will remain and be heightened due to a number of reasons, such as:

a) The decision is being made without apparent regard to existing investment, i.e. there being no meaningful lead time for the investments involved to accommodate the change;

b) Possible future changes to the differential in the transmission loss factors that are used for each zone;

c) Further modifications may be raised to change the way in which ZTLs operate;

d) Possible adjustments to the methodology implemented by modification P203, should it not work as intended;

e) There may be a reversal of the decision by government in the future. In the past the government has indicated its view that zonal losses are not appropriate in the GB market environment; this was raised in Teesside Power Limited's response to the impact assessment and has not been addressed; and

f) The recently announced Transmission Access Review potentially impacting on P203.

Further to this, paragraph 3.20 of the 'minded to' states that:

> *"In the particular context of the zonal losses proposals, this type of regulatory risk only applies in the period until the decision is made, whereas making that decision (whether it is to approve or reject) removes the risk by removing the uncertainty."*

This is not our understanding of the 'regulatory risk' as described by, for example, economic consultants NERA and is not supported by the uncertainty that P203 introduces, examples of which are given above. The consequence of the 'minded-to' position from a 'regulatory risk' perspective, as described by such economic consultants, is an increased cost of capital (requiring an increase in the rate of return) that is brought about by:

a) The significance of the decision and the apparent lack of regard for the consequential impact on existing and future investments; and

b) The ongoing uncertainty associated with the potential changes caused by the implementation of P203 and its inherent inadequacies.

The 'regulatory risk' will increase the cost of capital for new projects. As a result, investors will only invest in the industry when they feel that the rate of return from their investment will cover the costs of any associated 'regulatory risk'. If investors do not believe that the rate of return is adequate to cover the project's associated 'regulatory risk', a delay in investment will result until:

a) The rate of return increases, for example through an increase in wholesale prices, with the potential impact on security on supply and consumer prices; and/or
b) The level of risk sufficiently reduces, for example the Authority acknowledging the impact of its decisions on the cost of capital and providing assurance that where change is necessary, it will take such costs into account and seek to mitigate them.

As a separate point in regard to regulatory risk, Drax is concerned by the apparently incidental elevation of this risk caused by the lapse in identifying it in the 'minded to' as a consequence of the proposed change. In our view, if there was a desire by the Authority to heighten regulatory risk and its volatility this would be overt, with an opportunity for stakeholders to be consulted on it. We do not therefore believe that this has been intentional and will be addressed.

6. Over a single zone

P203 does not take into account that a generator, or a number of generators, in a single zone may be matching, producing less than or producing more than the demand in that zone. Therefore in some cases, even if the net position of a single zone is balanced, each generator in that zone will still contribute to the transmission losses that would represent their generation travelling a much longer distance.

7. Materiality of the fixed losses

Much of the analysis produced regarding ZTLs only focussed on the impact of variable losses, with only certain sections of data including the costs attributable to fixed losses. The combined effect will have a high materiality on market participants, although this point is not reflected in the case for P203 and therefore these market participants will have been disadvantaged when considering the modification. This flaw in the process should be addressed.

8. TNUoS

The introduction of ZTLs will create a second and confusing market signal for the location of future generation since they are to be used in combination with the existing TNUoS charges. There is a risk that the combination of the two could either over emphasise the locational advantage or give contradictory signals. The outcome of this interaction is not conducive to long term capital investment, as it will introduce uncertainty over short run marginal as well as fixed costs.

Drax acknowledge that additional analysis has been jointly undertaken by OFGEM and NGET; however the analysis and associated explanation are not clear. In addition Appendix 3 of the 'minded to' does not adequately explain why there is no overlap in the signals of ZTLs and TNUoS, and a clearer and more detailed explanation would be helpful to understand the point the Authority or OFGEM is making.

As TNUoS and the ZTL TLMs will change on a yearly basis, there has been no mention as to how the overlap will be monitored going forward. Such volatility from each of these signals will increase the risk that investors will have to contend with when locating new generation.

If both locational signals were to exist, it may lead to future change proposals to attempt to combine their effect or to remove TNUoS from the CUSC and promote a single, more transparent signal. This would lead to further uncertainty and regulatory risk (see section 5 above). To mitigate this, there should be a review of the locational signals provided by the TNUoS charging methodology prior to considering the merits and dis-benefits of the introduction of P203.

For further issues surrounding the interaction between ZTLs and TNUoS, we refer you to Scottish and Southern Energy's response to the initial Impact Assessment dated 10th April 2007.

9. Modelling Prepared by OXERA

The OXERA modelling, which the 'minded to' statement relies upon, is questionable in its scope and accuracy. It was in point of fact intended to assist the Balancing and Settlement Code Panel in their deliberations in regard to the Balancing and Settlement Code objectives, which resulted in a recommendation not to introduce any ZTL modification proposals including P203. The analysis has however been relied upon by OFGEM and apparently the Authority despite the wider duties of the Authority, a purpose for which it was not originally intended.

Based upon the OXERA analysis and the further analysis provided by OFGEM, the 'minded to' statement has failed to provide a clear explanation as to how the Authority came to its conclusion that P203 better facilitates the BSC objectives or provides a more cost reflective methodology than the status quo.

The OXERA analysis significantly overstates (a) transmission loss reductions, and (b) the volume of capacity that would react to such signals (or be able to react to such signals). The analysis fails to take into account other locational factors that are fundamental to an investment decision, such as the likelihood of obtaining planning consent and the availability of fuel or other resources required for generation. Despite this the BSC Panel still took the view that the modifications should not be adopted.

The analysis also fails to take into account the cost for the differing fuel types and the volatility of such costs. The projections of fuel costs and the ability to source the fuel will heavily influence investment decisions, regardless of the signals provided by ZTLs.

A number of issues regarding the OXERA analysis and its use are highlighted below:

a) OXERA's work does not take into account the Authority's wider duties;

b) The fuel pricing data is not referenced and is therefore questionable particularly as it is outdated;

c) The method by which OXERA modelled the wholesale electricity market is unclear and requires explanation;

d) Only summary cost benefit data is available for the period 2012/13 to 2015/16; and

e) The lack of transparency in OXERA's analysis makes it difficult to verify its statements on the "little, if any, impact on renewable new build".

The OXERA analysis is neither robust nor transparent. OFGEM's reliance on the analysis to provide a basis on which the Authority is to approve any of the proposed modifications is therefore a cause for concern. There is not enough evidence to justify OFGEM's claim that P203 will significantly reduce transmission losses through locational investment decisions and short term redespatch. Therefore the Authority should seek further evidence to support such a material and damaging decision which has only minimal claimed benefits.

10. Disproportionate effect to Consumers and Generators

On calculating the hypothetical benefit to the consumer, as determined by OXERA (which has already been questioned both by us and the majority of respondents to the Impact Assessment), the value gained (on average) when ZTLs are applied can be seen to be disproportionate to the demonstrable:

- impact on the industry as a whole; and
- redistribution of costs, which amounts to hundreds of millions.

Over the ten year period used by OXERA (2006/07 to 20015/16), the consumer will hypothetically benefit, in total, from a reduction in losses by approximately £3.71. Only 50% of this will reach the domestic consumer, making the average household benefit over the same period £1.85, the equivalent of 18.5p per year. This is without taking into account the time value of money, which will further reduce the supposed benefit.

Please do not hesitate to call me if you wish to discuss our views.

Yours sincerely,

Ian Foy

Head of Energy Management
Drax Power Limited

Attachment 1

Response to questions in the Minded-to statement

This response to the questions should be read in conjunction with the main text of the letter above.

2. Responses to the impact assessment

Question 1: Do respondents consider that we have appropriately summarised the key themes of the responses to OFGEM's impact assessment on zonal losses?

- We believe that the Authority has identified a number of the key themes of the responses to OFGEM's impact assessment. A number of key themes that were not identified by the Authority are listed in our answer to question 2 below, although this is not necessarily exhaustive and other respondents may well identify further valid themes;

- Although the Authority has identified a number of key issues, the way in which these issues are addressed in the document is not transparent and therefore not satisfactory.

Question 2: Are there any other themes which respondents consider should have been highlighted?

- Themes that should have been highlighted in the 'minded-to' include:

  - The concerns raised by parties, including energywatch, on the Authority's view of the impact on consumers;

  - The inadequate consideration of P200, there appears to be a misunderstanding of this proposal and we would urge the Authority consider it further.

3. Additional analysis

Question 1: Do respondents consider that the additional analysis we have provided addresses the concerns expressed by respondents to the impact assessment regarding analytical gaps in the impact assessment?

- In the analysis of the "Impact on different generation technologies" (paragraph 3.15 onwards), Table 2 and Table 3 are used to demonstrate that "renewable technology is currently, and planned to be, located across the country and that this is not confined to onshore wind generation." Whilst these tables demonstrate the current projections for generation across GB, the tables use data from the Seven Year Statement, which does not take into account the effects that ZTLs may have on such investment decisions;

- Further to the above point, the analysis does not take into account the investment already committed to the planning and building of new renewable generation in the North, particularly Scotland, and how the introduction of P203 may affect this investment;

- The introduction of P203 will elevate regulatory risk (that is avoidable) and dismiss other proposals that potentially offer similar benefits but mitigate the regulatory risk. The significance of the decision and the apparent lack of regard for the consequential impact on existing investments, together with the ongoing uncertainty associated with the potential changes caused by the implementation of P203, will be a serious concern for consumers and investors alike;

- It appears that no further analysis of P200 was undertaken, as it was deemed too complex a modification. This is not a justification for not doing the work to understand a proposal.

Question 2: Do respondents consider that there are any remaining aspects of the modification proposals that require to be addressed analytically?

- Further analysis into the effect of the signals from modification P200 over the 15 year transitional period, regarding:

    a) improved efficiency of the network due to:

        i. how signals affect the decisions of new investors working under the new arrangements; and
        ii. how signals affect the strategy of current investors in preparation for the new arrangements or further investment; and

    b) the provision of assurance to investors that the GB regulatory approach takes into account the long term nature of investments and its need for certainty / long-term flags for change;

- The impact of ZTLs on generators that reside in a location where there is the potential that the demand in the associated zone could be balanced by the generation in that same zone, i.e. where a generator (or more than one generator) is charged for generation travelling a much longer distance than it actually did to reach its final destination.

Question 3: Do respondents have any additional analysis in relation to the impact of the modification proposals that they wish to bring to the attention of the Authority?

- Regulatory Risk and the Cost of Capital for Teesside Power Ltd, NERA Economic Consulting, 28 June 2006. This does not appear to have been considered by the Authority.

4. Stage one - Assessment against applicable BSC objectives

Question 1: Do respondents consider that the modification proposals have been appropriately assessed against the applicable BSC objectives?

- Objective (a): Paragraph 4.7 suggests that none of the proposals are discriminatory, which is incorrect. The proposals (including P203) work on a reward and penalty basis, rather than attempting to create a cost reflective charging methodology. The nature of the ZTLs methodology ensures that some generators are given a competitive advantage through the provision of an unforeseen reduction in their marginal cost base;

- Objective (a): P203 is discriminatory in that existing investors, who have already committed investment to long-term power projects, have not been given a reasonable opportunity to accommodate the change, due to the modification's short-term implementation. A generator will have to live with the effects of the modification from a cost perspective, whilst a supplier will be able to recoup the costs from its customers (all suppliers in the same GSP Group will receive the same ZTL);

- Objective (b): Paragraph 4.13 suggests that applying a constraint where no party receives a negative allocation of losses would reduce signal strength. Whilst it may be a reasonable argument that P204 would reduce the transmission losses differential between Northern and Southern generators, it does address the issue that no generating parties should be allocated a negative loss which is a more equitable situation given all generators cause transmission losses;

- Objective (b): Paragraph 4.30 suggests that P198 would better facilitate objective (b) than P204, although Table 5 on page 28 of the 'minded to' would suggest otherwise, in terms of reductions in losses leading to a more efficient system. In addition, paragraph 4.30 suggests that P200 would also be less efficient than P198, this is not the case over the longer term. It is our view that P200 has been submitted as an alternative way to introduce the concept of P198, although the Authority appears to have dismissed the concept.

- Objective (c): Paragraph 4.36 suggests that the ZTLs are not a new subject and that parties have had time to consider the consequences of such a proposal. However, we believe that there is a distinct difference between discussing possible future arrangements and the raising and implementation of a modification. We note that Teesside Power Limited in its submissions to the Authority on the Impact Assessment has referenced the government's views at the time of privatisation, which we view as a very strong steer that ZTLs would not be implemented. It is of concern that there appears to be no reference to this in the 'minded to';

- Objective (c): Paragraph 4.48 suggests that the most effective way to promote competition is to provide a level playing field for all generators and suppliers and that a locationally based charging mechanism would be expected to provide this by removing cross-subsidies. This runs counter to the highly competitive market which currently operates under a regime of uniform charging. P203 would not provide a level playing field as the modification does not seek to make transmission charges cost reflective (where all generating parties would receive a TLM below 1). The modification instead has the affect of penalising Northern generators who will pay for their transmission losses, pay for the transmission losses of Southern generators and then further reward Southern generators based on their location (as Southern generators could potentially have a TLM higher than 1);

- Objective (c): Paragraph 4.50 suggests that with the existing arrangements, users of the transmission system are not paying charges that fully reflect their impact on losses. Under P203, users of the transmission system would not be paying charges that fully reflect their impact on losses, as it suggests that Southern generators do not cause variable losses and should be rewarded. This would have an adverse effect on competition in the wholesale market, therefore it would not better facilitate objective (c) than the status quo, which has worked well for consumers and the industry since privatisation in 1990;

- Objective (c): This section largely neglects proposals P200 and P204, which were produced to mitigate issues of competition between parties that had invested prior to ZTLs. We feel that the Authority has failed to provide adequate analysis into the benefits and dis-benefits of these proposed modifications.

Question 2: Do respondents consider that there are any aspects of the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives?

- There are a number of issues still to be addressed, highlighted throughout this letter, and no doubt, by other respondents. One we highlight here is P200. This has not been adequately assessed in terms of how this may help the issues associated with competition in the short to medium term, between generators that have invested prior to the introduction of ZTLs.

5. Stage two - Assessment against applicable BSC objectives when those are considered collectively

Question 1: Do respondents consider that the Authority has appropriately assessed the modification proposals against the applicable BSC objectives when considered collectively?

- Paragraph 5.6 states that P200 would better facilitate BSC objectives (b) and (c), but goes on to say "However, it [the Authority] also considers that these benefits are reduced by the inclusion of the hedging scheme, the design of which undermines the accuracy of the signals over time and could ultimately lead to less efficient decision making on the part of industry participants." To say that the proposal undermines the accuracy of signals is incorrect, as P200 aims to give a clear signal to new investors, who will be required to comply with the effects of the modification immediately. Further to this, P200 would also give a clear signal that current investments need to address the effects of the modification during the hedging period, prior to full implementation;

- Paragraph 5.7 associates BSC objective (a) with an aim of non-discrimination. Later, in the same section, paragraph 5.12 claims that P203 is neutral on objective (a), despite the fact Southern generators will gain generation under P203 (due to their TLM being above 1) and that all generators contribute to variable losses. We view this to be discriminatory, please also see the points we have made on this above.

Question 2: Do respondents consider that there are any aspects of the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives when considered collectively?

- Transmission losses is only one of many items which determine the costs of generation and when it is dispatched, the availability of fuel, its cost and its transport cost, process and cooling water requirements and environmental emission limitations, amongst others, are more significant issues. No evidence has been presented which confirms changing to ZTLs is sufficient in itself to cause significant change. The authority has not considered the impact upon power prices and subsequent cost to consumers if there is no geographical change in the short to medium term.

- Please also see section 4.

6. Stage three - Assessment against Authority's legal duties

Question 1: Do respondents consider that the Authority has appropriately assessed the modification proposals against its duties?

- The Authority has had no analysis done on its behalf by OFGEM to develop the limited OXERA analysis to allow it to appropriately assess the modifications against its duties;

- Whilst paragraph 6.14 rightly points out that the North is not the only area of the country where renewable generation can be built, the Authority must realise that there has already been substantial investment in renewable generation in the North that will be affected by the introduction of ZTLs, this has apparently been ignored;

- Paragraph 6.15 suggests that the use of low carbon technologies being moved to the South would be seen as an advantage of adopting a ZTL modification such as P203. Encouraging the likes of CHP plants to the South may also encourage the industries that require heat input to the South, i.e. encourage demand to move to the South. This would work against the objectives of the proposal as the ratio of demand and supply would remain out of balance.

- Section 6.16 does not appear to be relevant to the decision process, as we do not believe that visual amenity is a relevant justification for such a modification. Plus, we believe that the case stated would not necessarily be true as the proposals would effectively move generation equipment closer to demand, i.e. the homes and workplaces of the consumers. Another aspect of this argument is that as more generation moves to the South and older equipment becomes redundant in the North, infrastructure is still required to provide electricity to the whole of Great Britain and to ensure security of supply to both the North and South.

Question 2: Do respondents consider that there are any aspects on the modification proposals that have not been adequately assessed in relation to the Authority's duties?

- Paragraph 6.10 suggests that the reduction in signals in P198 Alternative, P200 and P200 Alternative would result in reduced emissions savings. We do not accept the reduction in emissions argument. A number of submissions to the impact assessment pointed out that renewables in the North will be displaced by fossil fuel in the South on the basis of the proposals.

- The introduction of the proposal puts additional costs on one geographical area of the generation market, while reducing costs on another. We do not see this as conducive to competition and therefore it is not in the interests of consumers. In addition you will have noted our views on the impact on suppliers, i.e. none, with all the cost being past on to the consumer and, at best, the benefit being delayed;

- OFGEM's support for P203 would introduce unnecessary extra costs for current and new investors, which in turn would deter new investment and jeopardise GB's future security of supply.

7. Stage four - Assessment against the principal objective

Question 1: Do respondents have any comments on any of the issues set out in this chapter?

- Paragraph 7.2 states that applying cost-reflective charging arrangements will facilitate lower prices to the consumer by removing the scope for cross-subsidisation between network users, facilitating effective competition between parties that use the network. P203 is not a "cost reflective" charging arrangement as highlighted throughout this response. In addition some generators and suppliers are vertically integrated with Southern generation and Northern customers, these companies will be benefited in both the South and the North of Britain by the Authority’s decision with no apparent advantage to consumers if ZTLs are adopted, only a cost advantage to them.

8. Conclusions and way forward

Question 1: Do respondents wish to raise any specific issues regarding the Authority's minded to position?

- The Authority does not appear to have had the opportunity to consider the costs associated with regulatory risk;

- The ‘minded to’ should address the issue of the strong steer from the government at privatisation of the industry;

- The consideration of P200 is currently not adequate and should be addressed;

- Please also refer to the text above.

Question 2: Do respondents have any views on both the process and timetable that are proposed for the Authority making its final decisions on the modification proposals and for publishing those decisions?

- Please see the response to Question 1 above.