



Stuart Cook
Director, Transmission
Ofgem
9 Millbank
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16 April 2009

Dear Stuart,

**Derogations to facilitate earlier connection of generation
proposed interim approach**

I am writing in response to your open letter of 19 March setting out the interim approach Ofgem is minded to adopt for derogations from the minimum standards in the GB Security and Quality of Supply Standards ('GB SQSS') to advance the connection dates of 450MW of Scottish renewable generation seeking connection to the transmission system and the distribution system. These comments are submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

In this response we have used the same headings as in your open letter for ease of reference.

Background

You note in your open letter that in your February 2009 open letter you explained your concerns about rising constraint costs. We think it is also appropriate to recall in this context that in the version of that earlier open letter dated 16 February 2009 you also expressed the view that National Grid had failed (to date) in managing those costs and questioned whether this was consistent with its statutory and licence obligations.

In considering the question of how (and to whom) responsibility for such rising costs (including any additional constraint costs resulting from implementation of your 'minded to' proposal) should be allocated, we believe that it is important to bear this failure firmly in mind. Whilst National Grid has avoided doing so in bringing forward its two urgent proposals in response to your February open letter, we trust that Ofgem will not when it considers them on their merits.

Proposed approach to interim GB SQSS derogations

We note the assertion contained in your open letter to the effect that generators connected to the system prior to 1 January 2005 "did not [...] have any defined long term rights [...] because they retain the option to surrender their access rights and stop paying access charges at short notice". We unequivocally reject this assertion. As we and others have pointed out to National Grid, for instance, in relation to the consultations on CAP165 and CAP166, it is not accepted that existing "evergreen" transmission access rights are unclear. We have also reserved our right to raise this very important issue in the future.

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Clearly, it is a matter for Ofgem as to how to frame the access rights to be granted as part of any interim 'overselling' arrangements and whether, in order to comply with its non-discrimination duties, these rights need to reflect those granted to existing generators or not. However, it is not open to Ofgem retrospectively and unilaterally to alter the fundamental nature of those pre-existing rights so as to align them with its desired interim regime of uniformly short term/non-firm rights.

We do agree with Ofgem's view that the issue of how best to manage and recover the costs of constraints equitably from customers, suppliers and generators is separate and distinct from the question of whether the derogation should be extended to allow generators seeking connection, including the 450MW of generation, to connect to the system. However, we do not agree with the assumption in your open letter that the proposals brought forward by National Grid in response to your February open letter (which would target all these costs back to generators only behind the relevant constraint) will provide an equitable and non-discriminatory means of managing the incremental costs of implementing Ofgem's 'minded to' proposal.

We believe it is essential that any increase in constraint costs as a result of the early connection of generation is spread evenly across all generation and supply in GB as under the present arrangements. The carbon benefits from the 450MW of renewable generation in Scotland, that it is anticipated will benefit from these derogations, will accrue to GB as a whole and thus any additional costs associated with these benefits should also be spread across GB as a whole.

We agree with Ofgem's view that the impact of the 450MW on constraint costs is likely to be low in the first year and will take some time to build up to the forecast level of up to £40 million per annum. However if, as is currently being proposed by National Grid, these costs are charged back to the generators behind the constraints, including the renewable generators who are seeking early connection, then this could discourage some projects from coming forward. The beneficial environmental impact of the approach will be greatest if it is combined with full socialisation across GB of any increase in constraints costs.

Renewable and thermal generators in Scotland are already penalised by high locational transmission use of system charges and the advancement of connection dates for generation in Scotland will further increase these locational charges discouraging investment. A move to uniform transmission charging across GB would remove this disincentive and encourage environmentally beneficial generation.

Way forward

We fully support Ofgem's proposed interim approach to grant derogations from the GB SQSS enabling National Grid to offer to advance the connection dates where it has identified generation as potentially being able to connect in advance of the reinforcements required to ensure compliance with the GB SQSS.

However, as explained above, we believe that it is important that, in implementing this interim approach, Ofgem takes proper account of the context for rising constraint costs and the need for an equitable and non-discriminatory approach in recovering such costs from system users.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

Alex MacKinnon
Regulation and Trading Arrangements Manager