SP ENERGY NETWORKS

Transmission Access Review

Enhanced Transmission Investment Incentives: Final Proposals

Response by SP Transmission Limited

This response is from SP Transmission Limited, which as the regulated Transmission Owner, owns and maintains the electricity transmission network in south Scotland.

Regulatory Funding Framework

We are pleased that the funding proposals are based on a pragmatic regulatory framework along existing lines. But it is unfortunate that the proposals only address funding for 2010/11. It is very difficult for any business to fund its investment when regulatory funding is given only one year at a time.

We are also disappointed that the need case and timing of some projects are not recognised as 'strong certainty'. This is due to the conservative assessment undertaken of the impact of the 'Gone Green' generation scenarios, and an unwillingness to take into account more recent changes such as the very significant escalation in offshore renewables from Scotland. In the course of the work over the forthcoming year to agree funding for 2011/12, which must start at a much earlier stage than last year, it is important that Ofgem review both the generation scenarios and the need case assessment criteria.

An objective assessment against an updated generation background, or even against the high 11.4GW ENSG Gone Green scenario, would justify all of the ENSG reinforcements. Then a TIRG style framework could have been designed which would have allowed all projects to be included in the licence with construction funding released upon receipt of consents. This approach would avoid both unnecessary business uncertainty over what is essential grid investment, and also the time and resource consuming process we will face each year in agreeing year-ahead investment.

Assessment Process

The assessment process undertaken by Ofgem's consultants started far too late. The consultants started their work last October and were required to produce their final reports in December - this two-month period was far too short to undertake a thorough analysis.

Over this two-month period we had no discussions with KEMA on the project need case. Given that we were fully involved in the ENSG work to agree the Gone Green scenarios, and that we have responsibility for investment planning under the SO-TO Code, we believe that we could have provided a valuable input to the need case assessment.

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Following an initial meeting with PB in October, all further contact was by email and phone. It would have helped to have had further face-to-face meetings with PB. One consequence of the lack of direct contact is the outstanding issue we have over PB's views of efficient costs and our own.

Assessment of Project Need

Both the onshore SPTL-NGET series compensation project and the West Coast HVDC project should have been categorised as 'strong certainty'. Had a more up-to-date view been taken on the level of renewable generation connecting in Scotland through to 2020, we believe that all of the reinforcements detailed the ENSG report would be clearly justified. In the forthcoming work to review funding for 2011/12, we suggest that Ofgem review and agree up-to-date generation scenario/s with the transmission licensees.

Although we are disappointed that the need case for the series compensation project has been categorised as "reasonable certainty" rather than "strong certainty", we are pleased that construction funding for the Eccles reconfiguration works has been provided. We do however question the cost analysis undertaken for this project, which overstates the cost per kW of additional capacity. This project is the obvious, low risk and low cost, next step in reinforcing the NGET-SPT boundary.

Assessment of Cost, Design, Scope and Timescales

A consequence of the compressed assessment process was that PB's view of the efficient costs of the East-West and East-Coast upgrades, in particular relating to switchgear and cable costs, is much lower than our cost forecast. This is a major concern given that our costs have been informed by supplier information and recent contracts. If this cost gap remains we could not agree to any incentive funding arrangements for these projects.

In addition, PB's views on the deliverability and design of our projects, as set out in Tables A5, A6 and A8, are too pessimistic. We have considerable experience in delivering major reinforcement works and, as we explained at the Stakeholder Workshop last December, we are confident that we can obtain consents in time to deliver to programme. Obtaining consents is part of our job and we struggle to understand why PB has taken such a negative view on our consenting programme.

We have also been given a "low/weak" rating for the level of engineering detail provided to the consultants. This decision appears to be judged on the basis that detailed site layout drawings were marked "feasibility" or "for discussion purposes only". To assess the firmness of a scheme design on the description of detailed site layout drawings is unusual.

It is notable that PB considers the design of the Hunterston-Kintyre project to be "firm" while for the SPT-NGET series compensation project the design decisions are to be "addressed over a period of time". We consider the design of both schemes to be at a similar stage.

Licence Drafting

We would make the following comments on the Licence drafting:

- Frequent reference is made in the text to Annex A of Special Condition J12. As the tables appear in this annex appear without introduction or explanation, we suggest that there should be an introductory sentence to this Annex.

- Given that Annex A contains financial information and output measures, we question whether an annual construction technical report is required.

- It is not clear in the licence drafting how the change procedures set out in Annex A relate to the Asset Value Adjusting Event mechanism.

- The incentive is designed to be "trued up" at the next price control. What is not clear is how projects that are underway but not completed will be dealt with.

- We are assuming that all values for the new incentive are in 2004/05 prices and are then indexed.

SP Transmission Limited
16 February 2010