



**SP Transmission & Distribution**

**Response to Ofgem Consultation Paper:**

**Review of Transmission Price Controls From 2005:  
SP Transmission Ltd, Scottish Hydro-Electric Transmission Ltd:  
Initial Thoughts.**

**6<sup>th</sup> April 2004**

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## **1. INTRODUCTION**

1.1 This is the response of SP Transmission & Distribution to the Ofgem consultation paper of March 2004 entitled “Review of Transmission Price Controls From 2005: SP Transmission Ltd, Scottish Hydro-Electric Transmission Ltd: Initial Thoughts.” The response focuses on the framework and programme for developing proposals for extending the current transmission price controls.

1.2 While we are committed to working with Ofgem to develop proposals that we can accept for an extension to the current price control for SP Transmission, this should not be taken as an agreement that a two-year extension is the most appropriate option. We remain concerned that a short extension to the price control for SP Transmission could undermine incentives and significantly increase regulatory risk and uncertainty. Unless this can be satisfactorily addressed in Ofgem’s proposals then a five-year price control may be most appropriate.

## **2. FRAMEWORK**

### *Form of Control*

2.1 We agree that the RPI-X form of price control should be retained as this form of control is clearly understood and has worked well since privatisation. X should remain at zero for the period of any extension to the current price control.

2.2 We note that consideration is being given to an adjustment to the form of the price control to incentivise new renewable generation related schemes. Proper account must be taken of the following issues when considering how best to provide incentives to accommodate renewable generation:

- the vast majority of renewable generation will connect to a distribution system with only a very small number of schemes directly connecting to the transmission system;
- transmission investment is required to transport energy from the point of generation to the point of use (which could be anywhere in Great Britain); and
- SP Transmission will have no influence over the location and volume of renewable generation.

#### *Part-Year Adjustments to Allowed Revenue*

2.3 We agree that unnecessarily complicated arrangements should be avoided in the event of BETTA go-live occurring during a charging year. Ofgem's proposal that allowed revenues should be recovered for the period to which they apply based on a constant daily charging rate appears to be a pragmatic approach. Regardless of whether or not BETTA go-live occurs during a charging year, suitable allowance must be made for a ramp-up or ramp-down of activity in those areas where the roles of the licensees will change.

### **3. DEVELOPING THE PRICE CONTROLS**

#### *Performance Under Current Price Controls*

3.1 Paragraph 3.8 of the consultation paper states that SP Transmission has incurred lower than allowed capital expenditure for the first three years of the current price control. This is not the case. As set out in Table 2 on page 25 of the Ofgem document, the total capital expenditure over this period is in excess of the total allowance.

*Ofgem's Proposed Work Programme*

- 3.2 We note Ofgem's proposed work programme and timetable and would comment that the timetable is extremely onerous. It is important that Ofgem and the companies continue to work together to ensure that robust proposals can be produced in the time available.
- 3.3 We fully support a proportional approach to the development of proposals for the extension to the current price controls. Such an approach should take account of the relative benefits to customers of the various transmission-related issues that must be satisfactorily resolved before 1 April 2005. In our view the key issues are:
- ensuring the successful introduction of BETTA on 1 April 2005; and
  - agreeing arrangements for funding the transmission infrastructure required to facilitate renewable generation.
- 3.4 It is neither appropriate, nor an effective use of resources, to carry out a full price review for a two-year extension to the current price control. If a full-review is to be carried out then the revised price control should apply for at least a five-year period. However, we believe that a full-review could jeopardise the satisfactory resolution of the key issues identified in 3.3 above.
- 3.5 Clearly, Ofgem must have regard to the efficiencies delivered during the current price control period when developing proposals for an extension to the price control. However, it is also important to consider the impact on regulatory risk and the potential for undermining incentives. Furthermore there is considerable uncertainty around the impact of BETTA on operating costs. Given these issues, our position is that the current level of allowed operating expenditure should continue for the period of the proposed extension to the price control.