

Ms Ayesha Uvais
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N Aitken
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Dear Ayesha

Electricity transmission network reliability incentive scheme: initial proposals.

I am writing on behalf of *SP Transmission Limited (SPTL)* in response to the Electricity transmission network reliability incentive scheme initial proposals (October 2004). We are pleased to have the opportunity to comment on these proposals and this letter sets out our response.

We understand that the interim scheme is being proposed as a result of two large loss of supply incidents on the England and Wales transmission system during 2003. However, as is evident from NGC's historical performance, these appear to be isolated incidents and we are not convinced that the occurrence of these two incidents is justification for the introduction of an incentive scheme. Indeed, *NGC's* historical performance, and that of the two Scottish transmission systems, is very high when compared to any other transmission system in the world. Furthermore, given that no such major event has been experienced in Scotland, we are even less convinced of the need for a scheme here.

The introductory section of the proposals states that the purpose of the incentive scheme is '*to maintain and improve the reliability of supplies from [NGC's] transmission network*'. However, the proposed incentive scheme could penalise maintenance of average performance and offers little incentive to improve performance. To illustrate the first point, if *NGC* maintain their average performance over the coming years, but oscillate above and below the target in successive years, then the presence of the dead-band will result in a net penalty. Regarding the second point, the dead-band will prevent *NGC* from receiving any financial reward for improving their performance by up to 10 per cent and thus removes any incentive for them to do so.

We are also concerned at Ofgem's inference that a similar scheme could be quickly implemented in Scotland. We believe that there are a number of substantial issues that would need to be resolved before a comparable scheme could be applied to the Scottish transmission system. Our initial analysis has highlighted the following issues:

- The introduction of the *Transmission Owner (TO) / System Operator (SO)* split from April 2005 presents difficulties with respect to unsupplied energy. Loss of supply incidents can be caused by the assets of a *TO* or the actions of an *SO*, but supply restoration and hence unsupplied energy lies solely within the control of the *SO*. Any scheme proposed for Scotland would need to recognise this and have the ability to apportion unsupplied energy contributions equitably.
- The scheme proposed for *NGC* would subject +1.0 to -1.5 per cent of its transmission network revenue to incentives. It follows from the last point that a different approach would be required in Scotland. Any scheme proposed would need to recognise the separate responsibilities of the *TO* and *SO*, and subject their respective regulated revenues to the incentives accordingly.
- In response to the anticipated growth in renewable energy in Scotland, the Scottish transmission network is about to enter a period of accelerated development. During this development phase the transmission network will be subject to an increased volume of equipment outages than has occurred historically. The increased risk of unsupplied energy that will result from these outages in futures years will need to be reflected in any targets that may be considered for the Scottish Transmission network.

As our historical performance demonstrates we take transmission network reliability very seriously. We would therefore welcome the opportunity to discuss how this high level of reliability can be maintained into the future.

We hope that you find our comments helpful. If you have any questions regarding our response then I can be contacted at the above number.

Yours sincerely

Neil Aitken