



SP Transmission & Distribution

Joe Sutherland
Ofgem
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Your ref

Our ref

Date

24 December 2004

Contact/Extension

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Dear Joe

Electricity transmission network reliability incentive scheme: final proposals.

I am writing on behalf of *SP Transmission Limited (SPTL)* in response to the above paper. We are pleased to have the opportunity to comment on these proposals and this letter sets out our response.

We are pleased that our comments made in response to the initial proposals have been considered in drafting the final proposals. In particular, regarding the revenue neutral dead-band, we are pleased that Ofgem recognise the problems associated with the placement of the dead-band below the baseline level of MWh unsupplied, and are now proposing to place it around the baseline level of MWh. We believe that this will improve the incentive scheme being proposed for NGC.

We remain concerned at Ofgem's view that a similar scheme could be quickly developed, consulted upon and implemented in Scotland, and in particular with the proposal to have all the necessary work completed to coincide with BETTA 'go-live'. Given the substantial work still required for BETTA and with less than 12 working weeks to complete this work, we believe that the requirement to introduce an incentive scheme by 1st April 2005, would divert resources from, and introduce additional risk to BETTA's implementation.

We are pleased Ofgem have recognised that there are additional complexities that will need to be considered before an incentive scheme can be introduced in Scotland. As set out in our response to the initial proposals, and again below, we believe that these issues include:

- The introduction of the *Transmission Owner (TO) / System Operator (SO)* split from April 2005 presents difficulties with respect to the use of unsupplied energy as the basis of an incentive scheme. Loss of supply incidents, and therefore unsupplied energy, can be caused by failure of the assets of a *TO* or the actions of

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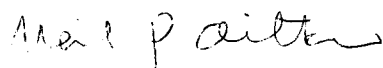
an *SO*. We cannot see an easy way of apportioning unsupplied energy contributions equitably between the *TO* and the *SO*. Our initial thoughts are that it may be more appropriate to base a measure for a *TO* on the number of faults or the number of supply interruptions, or a combination of both. A suitable incentive for the *SO* might be interruption duration. However, this split only partially reflects the respective roles of the *TO* and *SO* and further refinement may therefore be necessary.

- The scheme proposed for *NGC* would subject +1.0 to -1.5 per cent of its transmission network revenue to incentives. This level of revenue relates to the combined actions of the *TO* and *SO* in England and Wales. Clearly, in Scotland a different approach would be required as any scheme proposed would need to identify the separate responsibilities of the *TO* and *SO*, and be incorporated in their respective licences.
- 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 to network reliability that will result from these outages in future years will need to be reflected in any targets that may be considered for the Scottish Transmission networks.

We look forward to dialogue with Ofgem regarding the work required to develop an incentive mechanism for Scotland, which addresses the above concerns.

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