



SP Transmission & Distribution

Patrick Smart
Electricity Transmission Policy
Ofgem
9 Millbank
London
SW1P 3GE

Your ref

Our ref

Date

09 May 2005

Contact/Extension

Dear Patrick,

Recovering the costs of compensation for temporary physical disconnection (CAP048)

This response is submitted by SP Transmission & Distribution, which owns and operates ScottishPower's three network businesses in GB - SP Transmission Ltd, SP Distribution Ltd and SP Manweb plc. We welcome the opportunity to respond to the above noted consultation paper.

We broadly support Ofgem's initial view that compensation costs arising in Scotland should be subject to pass-through arrangements that will be reviewed after one year, as part of the Transmission Price Control Review. We have concerns however regarding a number of the assertions made regarding the impact of the characteristics of the Scottish transmission network on the number and scale of incidents that would qualify for CAP048 payments, the forecast costs for planned and unplanned outages in Scotland for 2005/6, and the general principle of which party will be responsible for the payment of compensation. These points are detailed further in the following paragraphs.

Options for cost recovery.

Section 2.4.5 of Schedule 3 of the STC, Information and Data specifications, prohibits SP Transmission from receiving from the GBSO regular updates on the generator outage programme. Visibility of such information would enable the co-ordination of planned maintenance outages with outages contained within the programme so as to minimise or eradicate the requirement to cause additional disturbance to generators and consequently pay compensation payments.

SP Transmission agrees that more information is required on the volume of events that would qualify for CAP048 payments. Until such information is available, SP Transmission supports an interim measure in which cost recovery is through a cost pass-through mechanism. The simplest approach would be for NGC to recover compensation costs through either BSUoS or TNUoS charges spread across the entire GB market. This approach would ensure that NGC is treated fairly whilst avoiding changes to the Scottish revenue restrictions.

Members of the ScottishPower group

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In the longer term should a GB-wide TO incentive mechanism be introduced it should encompass the same compensation payment exceptions that currently apply within England and Wales, as outlined within the CUSC. We believe, however, that the forthcoming Transmission Price Control Review is the most appropriate place within which to review this area.

Forecast costs

We note the view that the implementation of BETTA and the redefinition of NGC's role as GBSO could make compensation costs large, unpredictable and difficult to forecast.

We also note the view that NGC's control over the outages for Scottish generators is limited. Under the BETTA arrangements NGC is responsible for sanctioning all outages, including those to connect new generators to the transmission system which SP Transmission has no discretion over, and in many cases, NGC can have a major influence over restoration times. We believe therefore that NGC does have considerable control in minimizing the number and size of compensation payments in Scotland.

With respect of the points made regarding the radial nature of the Scottish network and differing asset ownership boundaries between England and Wales and Scotland, we have difficulty in accepting NGC's explanation for compensation costs being due to the different characteristics of the Scottish network. We would welcome an explanation - on a circuit-by-circuit basis - as to why the "radial nature" of our circuits leads to increased costs.

We note NGC's forecast costs of £870k for planned, and up to £1m for unplanned maintenance costs in Scotland and, subject to any confidentiality restrictions, would like further information on their derivation. Although there are some ownership boundary differences, SP Transmission would not have expected these differences to lead to a risk of higher compensation costs.

We are puzzled by Ofgem's statement in Appendix 1, that there is no data available on the historical cost levels for planned or unplanned outages. Following a statutory request from Ofgem to assess the impact of CAP048 in terms of compensation payments had it applied in Scotland in 2002/03, we reported that during the referenced period there had been no qualifying incidents. With this in mind we are unclear as to how the forecast costs have been derived.

Attributing responsibility for costs.

We believe that a party should only be penalised for those events that are under its own control. Otherwise, a party will merely face higher risk. The imposition of unproductive risk just increases the cost of capital without serving any useful purpose. Furthermore, third parties should contribute to any compensation payment that arises from a necessary

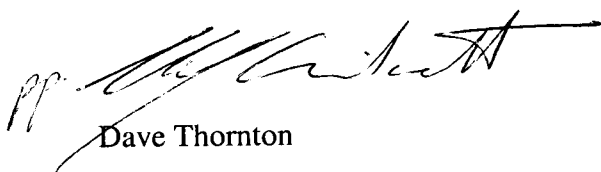
action by an operator to meet their requirements. For example, where the connection of a new party requires an outage which interrupts an existing generator with firm access rights, then the relevant operator should be able to recover, from the connecting party, the costs of any compensation for temporary physical disconnection of that generator. In general, it should be the same party that causes the inconvenience that bears the costs of any compensation.

Duration of Incentive mechanism and development of longer term arrangements.

We do not believe that there is currently sufficient evidence available from which a robust incentive scheme could be developed for TOs in Scotland. As stated earlier, we would be pleased to work with Ofgem to explore this area as part of the imminent Transmission Price Control Review

I trust that you find these comments helpful. Should you wish to discuss these further please do not hesitate to contact me directly on the above number.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Dave Thornton', with a stylized flourish at the end.

Dave Thornton

Regulation Director