

1 INTRODUCTION

No questions.

2 FORM AND STRUCTURE OF THE PRICE CONTROL

Q2.1 *Do you think the standard RPI-X framework needs to be refined or augmented in its application to the transmission licensees?*

Both, due to the higher value and longer duration, compared with distribution, of capex projects. Over-complication should be avoided, however, maintaining a focus on the overarching objective in 2.11.

Q2.2 *Do you think that rolling incentive mechanisms are the most appropriate way to deliver a consistent strength of incentives over time, and do you think they are applicable to transmission licensees?*

As described in 2.12 to 2.15, they should have the desired effect. They may not be as necessary as in distribution due to the longer duration of transmission capex projects.

Q2.3 *Given the large bids made by some licensees for asset replacement expenditure, how do you think the regulatory regime should look? Do you think that an "information quality incentive mechanism" is the best way to improve our information on efficient costs, by rewarding licensees more if they accept more challenging cost targets?*

It should encourage well-managed and efficient asset replacement programmes over the next two decades, taking into account the constraints of network access for replacement of primary equipment and the capacity of the industry to deliver the programme. We perceive a risk of over-complexity of the "information quality incentive mechanism", and we will review the details when they are released by Ofgem. A rolling incentive mechanism may be sufficient to manage over/under revenue-allowances.

Q2.4 *Are additional measures needed to promote innovation? What is the scope for innovation by transmission licensees to benefit consumers?*

We are entering two decades of electricity transmission network renewal in parallel with probable significant changes in power flows due to location of expected new generation in relation to consumption. Judicious use of innovation should be encouraged and rewarded. The benefit to consumers is the assurance of a continuing reliable network, cost-efficient in operation.

Q2.5 *Should the current form and scope of System Operator (SO) incentive schemes be adopted in the next price control period?*

Not addressed.

Q2.6 *To what extent should incentives applying to Transmission Owner (TO) costs and SO internal costs be equalised? Should these costs (e.g. staff costs and IT spend) form part of the TO price control?*

Not addressed.

3 ELECTRICITY INCENTIVES

Q3.1 *Do you agree with our conclusion that the use of locational revenue drivers is the most appropriate way to set allowances for the electricity transmission licensees in the context of significant uncertainty over the future demand (and location of that demand) for network capacity?*

This seems to be the fairest approach for new connections and recognises issues associated with the geographical location of new generation in relation to consumption.

Q3.2 *What factors should we bear in mind in drawing the boundary between fixed baseline revenue allowances and variable revenue allowances to be set through the revenue drivers?*

Distinction should be made between the relative certainties of baseline revenue required for stewardship of the existing asset base, and the relative uncertainties of revenue allowances associated with new generation. There could be a third category for "deep" investment in one or more networks, which cannot be attributed satisfactorily to specific new connections.

Q3.3 *Should we seek to true-up the allowances generated by revenue drivers at the end of a 5-year control period? What factors should we take into account?*

This is hard to assess without knowing the detail of the proposed revenue drivers. Provision will need to be made to review their operation to ensure there are no unintended or undesirable consequences.

Q3.4 *When should we supplement the revenue drivers with other mechanisms to top-up revenue allowances in exceptional circumstances where major investment is needed? How might these other mechanisms work?*

When, for example, committed connection of new generation mandates deep network investment remote from the location of that new generation. It may be appropriate to treat such investment in a manner similar to asset replacement.

Q3.5 *Do you agree that, in the current market context, it is important to explore options to change transmission access arrangements? Do you agree with the process we have set out to progress this work?*

Yes, because the current system is open to cavalier use and can result in nugatory work by NGET and the other licensees. Ofgem's process to progress the work is valid, but only time will tell if it can produce a satisfactory result. Accordingly, it may have to be decoupled timewise from TPCR.

4 GAS ENTRY INCENTIVES

Not addressed.

5 GAS OFFTAKE INCENTIVES

Not addressed.

6 EXPENDITURE ANALYSIS: CAPITAL EXPENDITURE

Q6.1 *Do you have any comments on our approach to assessing historic and forecast capex? Are there any other factors we should take into account?*

No comments or proposed other factors.

Q6.2 *Should some degree of alignment be adopted for capitalisation of forecast costs across the transmission licensees, or should, especially in the case of the Scottish licensees, the approach be consistent with DPCR?*

Alignment would appear to be the optimum approach, provided that an acceptable common basis can be agreed for the separation of TO and SO costs.

Q6.3 *Should some adjustment be made to network flexibility margins, particularly for the NTS 5% planning flow margin?*

For electricity a reasonable margin should be proposed, consistent with an assessment of changes in the pattern of network usage. For the reasons given in 6.24 a continuation of the NTS 5% planning flow margin appears to be reasonable – however, we have not fully considered the issues.

Q6.4 *In carrying out cost-benefit analysis to assess the efficient use of transmission capacity to accommodate wind generation, what new factors need to be taken into account?*

It is questionable if a five-year horizon allows adequate analysis to be conducted and conclusions drawn. For wind, at least one year-round weather analysis is required. A key issue is striking the right balance between potential over-investment in a network and confidence of compliance with the current (or future modified) SQSS. As noted in 6.30, a pragmatic compromise may be derogations from SQSS in recognition of the uncertainties of wind generation.

Q6.5 *What would be the most appropriate approach to restoring the incentives for relevant parties to reach the most cost-effective connection design? How should the TPCR allowance take into account the various solutions?*

According to 6.33, charging through TNUoS for the use of “common” transmission assets has encouraged generators to go for more expensive connections with less risk of loss of transmission access. Would a reduction in the TNUoS charges for such assets redress the balance and provide an incentive for cost-effective connection design? The TPCR allowance for such assets could be related to the currently perceived probability of actual construction of the generation which would depend upon these assets: however, given the fickleness of consents and other matters associated with new generation, such an approach may prove impracticable.

7 EXPENDITURE ANALYSIS : OPERATING EXPENDITURE

Q7.1 *Do you have any comments on our approach to assessing historic and forecast opex? Are there any other factors we should take into account?*

No comments or additional factors.

Q7.2 *How should non-operational capex be treated with regard to 1) the assessment of efficiency of associated activities such as IT; 2) the treatment of historically incurred overspends; and 3) the approach to future remuneration?*

- 1) Having identified the element of associated activities such as IT that relates purely to the transmission business, a benchmarking approach may be appropriate.
- 2) Subject to appropriate asset lifetime considerations, it appears reasonable to treat historically incurred non-operational capex overspends similarly to operational capex.
- 3) Both the second (capitalisation over the true lifetime of such assets) and third (expensing by inclusion in the opex allowance) options in 7.14 have merit, and could be applied to appropriate categories of non-operational capex.

Q7.3 *Do you have any comments on our comparison of unit cost trends? Are there reasons why transmission licensees should have performed differently to DNOs?*

It is unclear from 7.15 if the RUOE comparative measure is per GWh transmitted; neither is its true usefulness clear. Is it possible that wide geographical dispersal is one factor which accounts for the difference between RUOE for SHETL and SPTL, and RUOE for NGET? Except, possibly, for the 132kV networks of the non-Scottish DNOs, comparisons with the transmission licensees may be inappropriate since the nature of the operational work is different.

Q7.4 *How should we treat non-controllable costs? Should we take the same approach to network rates as in DPCR?*

It may be appropriate to retain both treatments mentioned in 7.29, thus allowing straightforward pass-through of costs which are indisputably outwith licensees' control. We have not addressed the issue of network rates, and the suitability for TPCR of the DPCR approach.

8 FINANCIAL ISSUES

Not addressed.

9 WAY FORWARD

No questions.