

1 INTRODUCTION

No questions.

2 OVERVIEW OF THE INITIAL PROPOSALS

No questions.

3 NATIONAL GRID ELECTRICITY TRANSMISSION (NGET)

No questions.

4 SCOTTISH HYDRO-ELECTRIC TRANSMISSION (SHETL)

No questions.

5 SCOTTISH POWER TRANSMISSION (SPTL)

No questions.

6 NATIONAL GRID GAS NTD (NGG NTS)

Q6.1 Do you think our proposed approach to the costs incurred in the current price control period in respect of increasing capacity at St Fergus is appropriate?

Siemens has not had time to consider the issues referred to in paragraph 6.5, nor can it judge the efficiency of load-related expenditure on the NTS. However, in the light of NGG-NTS's obligations to provide capacity against the uncertainty of market signals, and bearing in mind the lead times for procuring and delivering compression station and terminal construction work, it seems inappropriate to dis-allow £75M of capex already incurred.

7 PRICE CONTROL COST ASSESSMENT AND GENERAL POLICY ISSUES

Q7.1 Do you agree with our proposed treatment of non-operational capex and "quasi-capex"?

The following comments on non-operational capex relate to paragraphs 7.19 to 7.24 only. Based upon the very short lifetime of these assets, (compared with network assets), it seems appropriate to treat them within opex allowances, thereby also providing consistency with DPCR4. Regarding quasi-capex, presumably Ofgem would treat all plant or system life-extending expenditure as capex?

Q7.2 Do you agree with our proposed approach to future input price changes and indexation? Is our assumption of a 1.5% annual efficiency saving for opex realistic and appropriate?

Ofgem's assumption of "no growth in real employment costs", (paragraphs 3.23, 4.18), seems inappropriate in a market where there is currently not an over-supply of the required skills resident in the UK. Existing employment arrangements and agreements may limit the extent of any one-off or ongoing opex efficiency savings.

Q7.3 Is our assumption on efficient connection design for wind generation, and the associated reduction to some of the company cost forecasts, appropriate?

It is appropriate, provided that Ofgem's cost analyses are consistent with those of the Licensees, and that allowances are provided for deeper system reinforcement as and when this is required to support growing numbers of wind generation connections.

Q7.4 Do you think that we need to allow explicitly for the possibility of re-opening the price controls for specified single events where the timing and level of costs is uncertain and driven by third party decisions? If so, what might such events be and why?

Yes. The example of BT's 21st Century Network is noted in paragraph 7.14: if sufficient information has been provided by Licensees on consequent costs then it may be possible within the TPCR timescale to provide separately identified allowances for these. Other events could result from the

2006 Energy Review, and it will not be possible to account for these within the TPCR timescale. The mechanism proposed by Ofgem should provide for clear identification of events and associated allowances.

Q7.5 *What do you think of our proposed options for setting incentives for efficient capital expenditure?*

Whilst there is no "Question" in the Initial Proposals document relating specifically to asset replacement capex, it seems most relevant to include it in the response to this question. Siemens views with concern Ofgem's proposals to remove a substantial amount of planned asset replacement expenditure by all Licensees (particularly NGET), and would consider as inappropriate any incentive regime which encouraged deferment of necessary expenditure in this area. In our view, the issue of 1960s/1970s asset replacement should be tackled in its entirety, which means consideration well beyond the 2007/2012 Regulatory Period. Deferment of necessary asset replacement work at transmission level risks an adverse impact on consumers throughout the entire public electricity network. Siemens supports the introduction of a scheme to incentivise efficient capital expenditure: however, if such a scheme is too complex it will cost too much to operate, and the complexities could be inappropriately exploited.

8 FINANCIAL ISSUES

Q8.1 *Should the licensees' revenue allowances for tax payments be set to avoid any need for ex post adjustments?*

Not addressed.

Q8.2 *Are there any other measures which could be taken to reduce perceptions of Regulatory risk and what level of risk do these regulated utilities carry relative to other plcs?*

Not addressed.

9 SYSTEM OPERATOR COSTS

No questions.

10 ADJUSTMENT MECHANISMS AND INCENTIVES: ELECTRICITY

Q10.1 *Is our proposed two-part revenue driver design appropriate and proportionate to the issue it is seeking to address?*

In principle "yes", because it recognises how an aggregation of works local to the locations of generation connection can trigger deeper system reinforcement works. A review of Appendix 10 indicates that a large number of options remain under consideration by Ofgem and the Licensees, prior to clear proposals being presented in Sep 06.

Q10.2 *What are the costs and benefits of seeking to facilitate greater competition between providers of transmission services, in respect of the prospective transmission links to the Scottish Islands?*

It is not clear to Siemens that there is, at this time, sufficient maturity in the market for investment in renewable generation on the Scottish Islands for consideration to be given to provision of these transmission links by anyone other than a mainland Transmission Owner. For given capacities of link, it should be possible to determine the probable required investments by reference to completed projects of similar capacities around the world.

Q10.3 *Is our proposed approach to funding for innovation appropriate and necessary?*

The introduction of innovation to an electricity transmission network must clearly be underpinned by a very comprehensive risk identification, mitigation and management exercise. That said, it should be encouraged. However Ofgem's proposed (annual) pot of funding per Licensee of 0.5% of allowed revenue would significantly limit what can be achieved in the area of innovation trials. Siemens awaits the publication of the detailed IFI proposals in Sep 06.

Q10.4 Is our proposal to extend the existing performance incentive scheme appropriate?

In principle, the development of explicit and objective measures of system performance is to be encouraged. To be cost-effective, however, such measures would need to have credibility with the Licensees', and not require an inordinate amount of data collection by the Licensees or subsequent data analysis by Ofgem.

11 ADJUSTMENT MECHANISMS AND INCENTIVES: GAS

Q11.1 What do you think of our revised proposals for setting entry capacity release obligation baselines, and for the proposed mechanisms for enabl(ing) such baselines to be re-allocated in some circumstances?
Not addressed.

Q11.2 Are our proposals for revenue drivers for entry and offtake appropriate and proportionate, given the issues they are seeking to address?
Not addressed.

Q11.4 Is there a case for an innovation incentive for NGG NTS?

Not addressed. However, Siemens would note the very significant changes and extensions currently being carried out to the NTS, driven by the changing pattern of gas importation. Perhaps it will be appropriate to revisit the encouragement of innovation in a few years' time.

12 ENVIRONMENTAL CONSIDERATIONS

Q12.1 Do you agree with our assessment of the main impacts of the transmission system? What are the most important impacts from the perspective of consumers?
Yes – emissions, losses, visual amenity and noise are the main impacts. The first two are generally "invisible" to consumers; of the other two, visual amenity is the most significant to most consumers.

Q12.2 Should emissions of SF6 be subject to a separate incentive scheme, given that they are currently outside the scope of the European Emission Trading Scheme (EU-ETS)?
Yes. Note that this could interact with asset replacement expenditure, given that it is likely that proportionately more SF6 leaks from old gas-insulated equipment.

Q12.3 Should there be additional measures to promote innovation in support of environmental benefits, either as part of the proposed incentive scheme for innovation for NGET, SPT and SHET or as a separate measure?
The innovation incentives outlined in paragraphs 10.27 to 10.29 should, in Siemens' view, remain focused on network engineering. The need to obtain planning consents already drives substation and overhead line design to comply with requirements resulting from many of the environmental considerations discussed in Chapter 12. It is not clear to Siemens that any benefits would flow from an additional environmental innovation incentive.