



SP Transmission & Distribution

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Your ref

Our ref

Date

Friday December 1 2006

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Dear Robert

Transmission Price Control Review Licence Modifications

I am writing on behalf of SP Transmission in response to the paper and draft licence modifications issued on November 15.

In the limited time made available, we have put together our initial comments on the current draft in relation to SP Transmission which are provided in the attachment and in strike through form for the standard conditions. A number of changes are referred to in the paper but not set out in the draft licence conditions. We will comment in detail on these when they are made available.

In particular, I would like to highlight here four particular points.

First, a number of new requirements in the financial licence conditions have been included over and above those that might be implied by the corresponding distribution licence conditions with little or no justification. As an example, significant changes have been made to the statements required to accompany the annual Certificate of Availability of Resources but only passing mention of this is made in the consultation paper. We would expect a satisfactory case to be made for such changes, especially as some these (as in this example) have significant resource implications.

Second, there a number of apparent errors in the consultation paper, such as an incorrect reference to pass through of network rates (special condition J).

Third, there are some governance issues to do with reporting that have not been recognised in the paper. An example is the proposal to cover the TIRG reporting requirements through the proposed revenue reporting RIGs. However, there is an important distinction between reporting requirements set out in the licence (as with TIRG) where any changes require a formal licence modification process, and those set in RIGs, where changes can be introduced by Ofgem with limited consultation and no formal consent process. We would expect more discussion on the case for making such a change. Members of the ScottishPower group

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Finally, in relation to standard condition B15, we note that paragraph 12 limits the scope of the price control reporting rules. However, our initial view of the partial draft reporting pack which we have seen, so far, is that it is seeking an unnecessary level of detail and includes financial years earlier than that for which this condition would apply.

In view of the points made above a meeting would be useful, in our view, and I will be in touch shortly to arrange this.

Yours sincerely

Allan Hendry
Regulatory Economics Manager

SP Transmission – Comments on Transmission Price Control Review – draft licence modifications – November 2006

1. Special Licence Conditions (section 4)

Special Condition J (transmission charge restriction)

Rates (paragraph 4.6)

There is an error in paragraph 4.6 that suggests that reconciliation between an ex ante rates allowance and outturns currently takes place only at the end of the price control period. The current price control allows full pass through on an annual basis of the difference between actual rates and the indexed preset figure written into the licence.

Licence Fees

These are not payable by SP Transmission or SHETL.

Capex incentives and revenue drivers

We look forward to seeing further details.

SF6 Incentive

We look forward to seeing details of the proposed parameters together with measurement arrangements. The current drafting, which appears to calculate adjustments to allowed revenue from variances between two percentages, does not make it clear that there will be no penalty.

Innovation Funding Initiative

We note that the algebra is similar to that in the corresponding distribution licence condition. There is an incorrect reference to the NGET price control condition in the PRt definition.

We look forward to seeing the parameters proposed for this condition, and we hope that the proposed internal funding limits will be set in the light of the current consultation on IFI/RPZs. In addition, the percentage allowance should be set in the light of the relative sizes of the Scottish TOs compared with DNOs.

Special Condition K – Revenue Recovery Accuracy

We note that no changes are proposed to this condition. However, the greater volatility of revenue, arising from incentive arrangements and the proposed revenue driver mechanism, needs to be taken into account here.

Special Condition P – TIRG reporting

We do not support including this condition within the scope of the new regulatory reporting standard licence condition. This condition was subject to our formal consent, whereas new revenue reporting RIGs can be changed by Ofgem from one year to another, subject to notice being given.

Special Condition P also includes arrangements for amendments to output targets, which should in any case be retained within the licence.

Special Condition Q – Reliability Incentive

We look forward to seeing details of the targets, values and the basis for these, and the draft reporting RIGs to include this incentive mechanism.

2. Standard Licence Conditions

Revised Reporting Arrangements (standard conditions B15 and B16)

For the reasons set out above under Special Condition P, we do support the inclusion of TIRG reporting arrangements, which are currently set out in the licence, within the scope of the revenue reporting RIGs to be introduced under condition B16.

We also note that the ‘purposes’ clause of Condition B16 is extremely broad (compared with the equivalent condition in Distribution licences). This is not satisfactory due to the impact on change control and governance. It should be narrowed to focus on the minimum information needed to monitor compliance with charge restrictions.

Standard Condition B1 (Regulatory Accounts)

A number of changes are proposed without explanation in the paper. In particular there is a new requirement for details of all charges, apportionments or allocations between the licensee and “any ultimate controller” or a subsidiary of the latter. It is not clear to us what is the reason for this given that it applies only to goods and services supplied, and why the current requirements in relation to inter-group transactions are deemed insufficient.

Timetable for submission: given that a large number of other submissions take place on 31 July, we think that the current date of 30 September should be retained in order to spread the workload of submissions over time.

Standard Condition B7 (Availability of Resources)

We note the new proposed requirement for a cashflow forecast, movement in net debt and analysis of net debt to accompany the Certificate of Availability of Resources. The auditors would be required to comment on these in their statement to accompany the Certificate. We are concerned that little justification for this proposal has been given in the paper, particularly given that distribution

licence requirements in this area were reviewed less than two years ago. We do not agree that these changes are “required as a consequence of changes to other conditions” (paragraph 5.12)

Although our auditors are given some forecast information to assist them in their audit, this is certainly not with a view to them validating the forecast or satisfying themselves that it is appropriate for submission to the Authority. Also, we do not currently provide our auditors with a cashflow forecast as such. We have not been made aware of deficiencies in current arrangements, nor of any comments by Ofgem to suggest that there problems. It also will add significantly to our auditing costs.