

Patrick Smart
Electricity Transmission Policy
Office of Gas and Electricity Markets
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London
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9 May 2005

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Dear Patrick,

**Recovering the costs of compensation for temporary physical disconnection (CAP048)
7 April 2005**

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower UK Division, which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

I hope that you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

Mike Harrison

Commercial Manager, Trading Arrangements
ScottishPower Energy Management Limited

RECOVERING THE COSTS OF COMPENSATION FOR TEMPORARY PHYSICAL DISCONNECTION (CAP048)

SCOTTISHPOWER UK DIVISION RESPONSE

1 General comments

- 1.1 ScottishPower UK Division welcomes the opportunity to respond to this consultation as it is concerned by some of the arguments being put forward by Ofgem and NGC.
- 1.2 The compensation arrangements introduced by CAP048 specifically excluded any consideration of the economic loss caused to a generator by a temporary physical disconnection. It is disturbing therefore to see references to “the efficient level of compensation costs” (bottom of third page) and “economic trade-offs to minimise compensation” (top of fourth page). These references suggest that NGC is entitled to determine, on the basis solely of consideration of its own costs, when and for how long to withdraw transmission service from a generator. To make such decisions without consideration of the impact on system users seems to contradict everything which has been done since 1990 by way of the Uplift Management, Transmission Services and SO Incentive Schemes.
- 1.3 We believe that NGC should have an obligation to act in such a way as to minimise the impact on generators of temporary physical disconnection and should not be encouraged to make optimisation decisions based on an incomplete set of cost data.
- 1.4 Our comments on the details of Ofgem’s paper are as follows.

2 Calculation of compensation payments

- 2.1 We do not believe that NGC’s role as GBSO should make compensation costs “large, unpredictable and difficult to forecast.” Of the three points raised by NGC on the third page of the paper, our understanding is that:
 - i) The GBSO has the final decision regarding the placement of transmission outages and can therefore control the impact of planned outages on generators,
 - ii) The radial nature of the Scottish network has been addressed by NGC in the connection agreements of those generators whose connections are allegedly not compliant with the GB SQSS,
 - iii) The ownership boundaries have been addressed by NGC in the connection agreements of those generators whose connection boundaries differ from those in England and Wales.

We find it difficult to understand how the level of compensation costs forecast by NGC can arise in these circumstances.

3 Historical and forecast levels of compensation costs

- 3.1 We note NGC's achievement of minimal impact of temporary physical disconnection on generators in England and Wales in 2003/4 and 2004/5. Their good record for planned outages is stated to continue in 2005/6. No evidence has been offered as to why their historic performance on unplanned outages should not also continue in 2005/6.
- 3.2 Whilst no data has been offered on historic cost levels for planned and unplanned outages in Scotland and any planned outage data should probably be disregarded given the historic arrangements in Scotland, we are surprised that no evidence has been brought forward regarding the incidence of unplanned outages. Such evidence would, at least, give an indication of whether the postulated level of costs is plausible.
- 3.3 We are concerned at the forecast costs of compensation for planned outages in Scotland in 2005/6. Given that NGC estimates that it will pay compensation of £50,000 in England and Wales (with 51 stations totalling approximately 60GW of capacity), it is difficult to understand why NGC expects to pay £870,000 in compensation to Scottish stations (29 stations totalling 9GW, of which seven stations contribute nearly 8GW), particularly as most, if not all of these stations have clauses in their connection agreements specifically excluding them from compensation for the consequences of those aspects of the connection which NGC deem to be non-standard or non-compliant.
- 3.4 Regarding the postulated cost of compensation for unplanned outages in Scotland (we trust that the heading should read "Unplanned outages" rather than "Unplanned maintenance") we would again suggest that the Scottish TOs be asked to provide historic data regarding the effect on generators of unplanned outages. We would also point out that the protective clauses inserted by NGC in the connection agreements cover unplanned as well as planned outages, and that 132kV faults, even if more prevalent, tend to affect smaller generation capacities than do supergrid faults.

4 Options for cost recovery

- 4.1 For the reasons noted in our general comments above we do not believe that an incentive mechanism should be introduced around the recovery of these costs until the magnitude of the costs is more apparent and the possible interaction with other incentives on NGC has been given further consideration.
- 4.2 Our preference at present would be for the compensation costs to be carried forward and recovered fully through an adjustment to TNUoS in the following year.

5 Summary and views

- 5.1 ScottishPower UK Division believes that the costs of compensation for temporary physical disconnection should be recovered in full by an adjustment to TNUoS charges in the following year. We also believe that no arrangements should be introduced which encourage NGC to optimise its own costs without reference to

the economic losses faced by generators affected by temporary physical disconnection.

- 5.2 With full cost recovery would not be necessary to set a target cost level, nor to attribute costs between SO and TO (which would be difficult to do for NGC due to the lack of formal ring-fencing between the separate functions within the company).
- 5.3 The issue can be given further consideration during the next price review when the overall incentive arrangements are being considered and by which time more data should be available.