



SP Transmission & Distribution

Mr Colin Green
Ofgem
9 Millbank
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Your ref

Our ref

Date

20 July 2007

Contact/Extension

Colin Taylor
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Dear Colin

Long Term Electricity Network Scenarios

Electricity networks are key to delivery of all aspects of Government energy policy. Price controls and the associated regulatory regimes must provide a consistent framework in the long-term to support delivery of the networks required to meet policy objectives. We therefore fully support Ofgem in this very important piece of work and are committed to working with all stakeholders to ensure a successful outcome.

We believe that Government energy policy, including European energy policy and the policies of the Scottish and Welsh administrations, must be the main drivers. In particular, there should be a focus on the networks required to meet the two long-term challenges identified in the recent UK Government White Paper, of tackling climate change and ensuring secure, clean and affordable energy supplies. We remain of the view that there is scope for the focus of network regulation to align more closely with energy policy. In particular, we consider that there should be more focus on the consequences of non-delivery of key infrastructure (or delivery delays) as a result of regulatory hurdles.

We support Ofgem's main objective of ensuring that price controls and revenue allowances are compatible with plausible long-term outlooks. However, there will be a wide range of plausible outlooks and a key issue for future price controls will be how to deal with this uncertainty. The regulatory regime should incentivise network companies to manage issues within their control. However, it should also recognise that much of the uncertainty will be outside the control of network companies and must not expose companies to unacceptable levels of risk.

In our view a wide range of policy issues should be taken into account in developing long term scenarios. The mainly quantitative drivers mentioned in the paper, while useful, need to be augmented with 'qualitative' drivers. We think that the additional factors to be taken into account should include the following.

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Facilitating renewables, on both the distribution and transmission systems, recognising those areas rich in renewable resource, such as Scotland and North Wales that are sparse in terms of infrastructure.

Utilising smart metering in customers premises and at strategic points on distribution networks to enable a more active approach to be taken to network management.

Securing the long-term safety and security of electricity networks against a background of an ageing asset base.

Improving the resilience of networks to increasingly severe and more frequently occurring weather events.

Accommodating changes in the patterns of electricity consumption and demand taking particular account of the potential impact of the drive for energy efficiency.

Assessing potential changes in the location and mix of transmission connected generation and what this means for the transmission system.

Considering whether new transmission overhead lines are likely to be acceptable from an environmental perspective and assessing the impact on delivery timetables of planning delays. This will require alternatives such as onshore and offshore cables to be assessed.

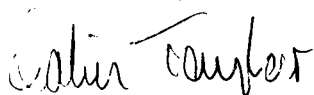
We believe that the work should differentiate between transmission and distribution network drivers. Although there will be common drivers, , in general these drivers will have a different impact on the transmission system than on the distribution system.

We agree that the development of four or five scenarios is a sensible approach. However, we would comment that it is more important to focus on the range of credible scenarios rather than precise details of individual scenarios. In addition to defining specific scenarios we believe that there is merit in identifying the major sensitivities and variables around each scenario.

We support the approach outlined by Ofgem in relation to utilising the Supergen scenarios and integrating the work being carried out under the Electricity Networks Strategy Group. Both the Ofgem work and the ENSG work will draw on the same industry resources so it is entirely appropriate to coordinate and integrate the work.

I hope that this response is of assistance to you in the formulation of the detailed approach. Please be assured of our support for this important piece of work and of our commitment to the provision of expertise and resources to assist in its delivery.

Yours sincerely,



PP

Scott Mathieson
Regulation Director