



ScottishPower

José Luis del Valle
Chief Executive

Alistair Buchanan Esq
Chief Executive
The Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

Your ref

Our ref

Date

24 July 2007

Contact/Extension

Tel: 0141 636 4510

Fax: 0141 636 4581

Dear Alistair,

Connecting the Islands of Scotland

I am writing in response Ofgem's open letter of 5 June 2007 on transmission connections to the Islands of Scotland, to support wind and marine renewables there.

We strongly believe that a diversity of views and approaches to transmission is in the consumer's interest, both in the connection of the Scottish Islands and more widely. To this end, we are supporting the competitive approach and have the appetite to be involved. I attach a short paper prepared by SP Transmission, setting out that business's views on the matter.

From a wider ScottishPower perspective, we believe that a competitive approach is likely to give better value, and possibly a more flexible approach, for our renewables business. Although we do not yet have any windfarm projects on the islands, we may develop them in future. We also have interests in the development of marine technology which will depend critically on connections to the islands.

It will be important that when the connections are built, they take appropriate account of the emerging and future scope of marine generation projects. Although marine technologies are still maturing, the resource available around the islands of Scotland is very large; it would be a huge disappointment if the deployment of marine technologies was held back by the same kind of transmission constraint issues as have affected wind in much of Scotland.

The renewables resource of the Scottish Islands could make a major contribution to achieving UK renewables and climate change goals. We are committed to playing our part, with Ofgem, Government and all stakeholders, in achieving a regulatory framework that would allow this to happen efficiently and effectively.

If you have any questions on our response, please do not hesitate to contact me or Rupert Steele, our Director of Regulation.

Yours sincerely

José Luis del Valle
Chief Executive

ScottishPower Corporate Office, 1 Atlantic Quay, Glasgow G2 8SP
Telephone 0141 248 8200 Fax 0141 636 4581

Scottish Power Limited Registered Office 1 Atlantic Quay, Glasgow G2 8SP
Registered in Scotland No. 193794 Vat No. GB 659 3720 08



Connecting the Islands of Scotland

Response of SP Transmission to Ofgem Open Letter of 5th June 2007

Introduction

The islands of Scotland are rich in renewable resource and have the potential to make a very significant contribution towards renewable energy targets and tackling climate change. A key challenge for government, the regulator and the electricity industry will be to make effective and economic use of this resource. This will require a pragmatic and forward looking approach to network regulation, balancing a number of aspects including cost, MWs connected, delivery timetable and minimising the environmental impact of new transmission assets.

We have the ambition and capability to be a leader in the provision, ownership and operation of the transmission infrastructure required to harness the UK's rich renewable resources. As such, we welcome this opportunity to set out our high level views on the issue of connecting the Scottish islands.

Competitive approach

We concur with the emphasis that Ofgem's duties place on protecting the interests of customers, wherever appropriate by the promotion of competition. In line with this, and as set out in our various responses to the recent Transmission Price Control Review, we believe that a competitive approach to the provision of connections to the Scottish islands will produce tangible benefits in terms of cost, innovation and delivery timetable. Opening up the proposed connections to a diversity of approaches, especially with new infrastructure of this type where the interaction with existing systems is discrete and well defined, will inevitably provide the possibility of a better solution than going to one provider alone. We would therefore fully support Ofgem in the promotion of such an approach.

We can confirm that we would be very interested in the opportunity to participate in a competitive process around the provision, ownership and operation of such assets.

Merchant or regulated approach

In general terms we see merit in both the licensed merchant approach and the tendered/regulated revenue approach. While we appreciate the potential complexity around the tendered/regulated revenue approach, we agree with Ofgem that this could potentially deliver a solution that facilitates a wider range of developments than a merchant approach. However, it is our view that a merchant approach could deliver a more innovative solution, from both a technical and financial perspective, assuming that there were parties willing to participate in a merchant venture.

The merchant approach could offer maximum flexibility on the charging regime which could allow the developer to time consenting and design works to suit the overall programme without incurring large liabilities. By allowing commercial risk and reward decisions to be taken between contracting parties, the merchant approach

might also allow a more forward approach to be taken to sizing, allowing for future growth of generation without any deadweight costs impacting on customers. From our perspective as a potential transmission owner, we would not rule out participation on a merchant basis.

We therefore support the development of a framework for the tendered/regulated revenue approach. However, we believe that the merchant approach should be left open in the event that parties are willing to participate on that basis.

Other issues

The framework needs to be taken forward as quickly as possible given that the time involved in developing and providing connections to the islands will still be lengthy. Advance works such as potential sea bed and route surveys should be sanctioned in the short term with as wide industry and stakeholder involvement as possible while also ensuring that the output from these surveys is made available to parties registering a genuine interest in carrying out a competitive or a merchant connection.

In assessing the relative merits of potential connection solutions it will be important to consider both the sub-sea and onshore transmission works required to deliver a potential solution. Such an assessment should consider the potential delivery implications of prolonged planning inquiries and the cost implications of a planning driven requirement for onshore undergrounding.

The consultation refers to the need for connections that are 'fit for purpose'. We agree that there may well be a good case for relaxation of security and design standards to allow reduced security connections where this is deemed acceptable by the generator. It is possible that a more cost effective overall solution could be achieved by use of innovative access products to enable more generation to connect more quickly; although the development of such products would be a matter for the System Operator in the tendered/regulated approach, we would encourage such innovation.

July 2007