



SP Transmission & Distribution

Ms Karron Baker
Ofgem
9, Millbank
London
SW1P 3GE

Your ref

Our ref

Date

20 April 2007

Contact/Extension

Jeremy Blackford

0151 609 2346

Dear Ms Baker

Recovering cost of compensation for temporary physical disconnection (CAP048) –open letter consultation and minded to statement

I am writing on behalf of SP Transmission in response to the open letter issued on 22 March 2007.

We agree that clearly attributing responsibility for compensation costs between the GBSO and TOs for temporary physical disconnection is problematic. It needs to be remembered that SP Transmission has no direct control over within-year alignment of planned outages between TOs and generators, as it is for the GBSO to manage this. To take another example, an unplanned outage on part of SP Transmission's network may be as a result of delays at the GBSO's request to a previously agreed planned outage.

We also agree that it would be desirable not to overly complicate any funding mechanism, and in principle, that costs should be recovered via TNUOS charges.

We do not agree, however, with the proposal that only "*efficiently incurred*" compensation costs should be passed through. The paper does not indicate what would be the criteria used to apply this test. Any such judgement would be after the event, and given the absence of any detailed criteria at this stage, SP Transmission would therefore be exposed to the risk of significant losses due to factors outside its direct control.

Consequently, we cannot agree with the statement that the proposed approach "... *should allow licensees to finance compensation payments.*"

SP Transmission's statutory duty to develop and maintain an efficient, co-ordinated and economical, system of electricity transmission needs to be taken into account here. In

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addition, SP Transmission has a licence obligation to make available its network to the GBSO. Given these requirements and the lack of any clear means of attributing responsibility for compensation payments, we believe that, compensation costs should be fully passed through. Given the potential financial impact on SP Transmission, we would be strongly concerned by any departure from such an approach.

As regards the proposals under CAP 144, we believe, for the reasons set out above, that full pass-through of compensation costs is appropriate.

I hope that this is helpful, but please let me know if you have any queries. We would be happy to provide examples of potential situations to illustrate the points made above if that would be of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Blackford', written over a horizontal line.

Jeremy Blackford
Regulation
ScottishPower EnergyNetworks