

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Karron Baker
Ofgem
9 Millbank
London
SW1P 3GE

Telephone: 01738 456400
Facsimile: 01738 456415
Email: Rob.McDonald@
scottish-southern.co.uk

Our Reference:

Your Reference:

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Dear Karron,

Recovering the costs of compensation for temporary physical disconnection (CAP048) – Open letter consultation and minded to statement

Thank you for the opportunity to comment on the above consultation, following on from Ofgem's earlier consultation in 2005.

We agree that it is appropriate to introduce a mechanism for funding the costs of compensation for temporary physical disconnection and that it should provide for the costs to be passed through to all market participants. However, such a mechanism should not be overly complex or costly to administer.

We welcome the revised forecast of compensation costs set out in Appendix 2 of Ofgem's letter. It is clear that a number of factors have changed since 2005 and NGET have had two years of experience of operating the GB system. However, we note that there is limited information provided on the actual costs of compensation for 2004/05, 2005/06 and 2006/07. There is mention of only one payment of approximately £7,600 and we are not clear if this is the only payment that has been made over the past three years. We are also unclear whether the estimated cost of unplanned outages takes account of the number of historical unplanned outages. Given the lack of clear and accurate historical data, we believe that it would be both impractical and unnecessarily complicated to set a target level of efficiently incurred compensation costs or to develop incentive arrangements as part of a funding mechanism.

In addition, as Ofgem recognise, clearly attributing responsibility for compensation costs between the GBSO and TOs would be problematic. As a consequence, any mechanism which attempts to 'share' the costs between the GBSO and TOs would be complex. Given that the GBSO has the final decision regarding the scheduling of outages and can therefore control the impact of planned outages on generators and that the materiality of costs appears likely to be relatively small, we believe that it would be reasonable for the GBSO to retain responsibility for compensation costs, subject to an appropriate funding mechanism being introduced.

The letter explains that Ofgem's preferred option for funding compensation costs is for them to be recovered via TNUoS charges. We strongly object to this proposal as a matter of principle and we would urge Ofgem to reconsider their position. In particular, we do not agree with Ofgem's statement *"Given that TNUoS charges are a payment which allows a user to export power to the transmission system, we consider that payments associated with the unavailability of that system are best funded from the same revenue"*. Transmission Network Use of System charges are intended to reflect the cost of installing, operating and maintaining the transmission system. The TNUoS charging methodology results in locational charges, the intention of which is to reflect the costs imposed on the system of locating generating plant and demand. However, temporary physical disconnections and their costs are clearly non-locational and as such we do not believe that there is a valid justification for charging the compensation costs for such outages to the market on a locational basis via TNUoS.

Indeed, with the prevalence of restricted access BCAs in the North of Scotland it is recognised in the paper that there will be an associated lower level of cost of compensation. However, if recovered through TNUoS as proposed, the largest share of the cost of compensation would be recovered from generators in the North of Scotland (because of the locational element of the TNUoS charging methodology). This approach would impose a locational cost for a non-locational event, thus imposing disproportionate costs and a competitive disadvantage on Scottish generation and Southern demand. This cannot be considered cost reflective or equitable. We firmly believe therefore that it would be wholly inappropriate to recover the compensation costs by adding the costs into the allowed revenues of the three TOs for recovery via TNUoS charges. Rather, the costs of compensation should be added to NGET's balancing costs and passed through to market participants on a non-locational basis through BSUoS.

Finally, the paper refers to CAP144 Emergency Instruction to Emergency Deenergise and issues in relation to offshore transmission and asks whether the use of TNUoS charges would remain appropriate for recovering such additional compensation costs. As stated above, we are strongly opposed to the proposal to recover the (non-locational) costs of compensation through (locational) TNUoS charges and we do not believe that similar additional costs should be loaded onto TNUoS in this way. However, the arrangements introduced should be consistent to allow for the recovery of such additional costs from CAP144 and offshore transmission, as appropriate, with minimum change.

If you have any questions on the above, please do not hesitate to call.

Yours sincerely

Rob McDonald
Director of Regulation