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Your ref
78/10

Our Ref

Date
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Contact / Extension
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Dear David,

Transmission Price Control 4 – Roll-Over (2012-13) Scope Decision & Consultation

This response is submitted by SP Transmission Limited as the regulated transmission business that owns and maintains the electricity transmission network in the south of Scotland.

In the following appendix to this letter we have structured our response to address the questions raised in the consultation document.

In general, we fully support Ofgem's intent that the TPCR4 roll forward review be proportionate for the one-year extension, and we will continue to work closely with Ofgem to ensure that this review progresses as smoothly as possible. We also recognize that the development towards TPCR5 is starting to ramp up and we would suggest that the considerably larger scale of this (possible) eight-year review will require significantly greater focus from both Ofgem and the TOs as it develops.

Yours sincerely,



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SP Transmission Response to Specific Questions Raised by Ofgem

Chapter 2 – Scope of the Rollover

Question 1: Do you think it is appropriate that the revenue drivers should be used in the rollover year to determine allowed capex for the electricity TOs?

We see no compelling reason for a radical departure from the existing transmission price control design, which provides investors with as much certainty as can be expected that timely, cost-efficient investment will be fully funded but rather we would expect Ofgem to revisit how the existing governance and authorisation processes could be improved, with particular focus on the timescales for investment decisions.

Certainty around the nature of the price control mechanisms and remuneration associated with these major investments for all network electricity companies (of over £30bn between now and 2020) is more important than ever given current market conditions and the scale of infrastructure investment opportunities on the current horizon that investors can choose from. We remain of the opinion that in the current environment, investment certainty is a fundamental building block.

Question 2: Do you believe the SF6 incentive scheme should continue into the rollover year and, if so, is the current structure appropriate or should it be modified?

We would support the development of comprehensive “carbon footprint” reporting for TPCR5, similar to that established for electricity distribution in DPCR5. We see that as replacing the specific SF6 incentive for TPCR5. Our preference would be to trial “carbon footprint” reporting for the TPCR rollover year. Emissions of SF6 could continue to be separately identified as part of the “carbon footprint” reporting.

Question 3: NGG have incentives to deliver capacity in a timely manner and we hope to continue this type of incentive for the rollover year. How do you feel this can best be achieved during the rollover year?

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Question 4: Do you believe that the current structure of the SO internal incentive scheme should roll over (accounting for updates to external SO incentive parameters as is currently the case)?

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Chapter 3 – Scope of the rollover: Financial Issues

Financial model and return on regulatory equity (RORE)

We note Ofgem's position on both these matters. We would welcome, in the interest of open and informed debate, to be given full visibility of models and any associated methodologies as soon as these become available.

During DPCR5 a fairly straightforward RORE model was developed with an associated methodology. We do not have sufficient spare resource to take the lead in developing and testing the financial model however, we would be willing to provide input upon request. Such an approach worked well at DPCR5.

Allowed Return

We understand Ofgem's position regarding their position to review this element of the Price Control package as part of the roll-over and we will engage fully on this matter. In the interests of minimising regulatory risk, it will be important to manage this process carefully in particular given the potential inferences, intended or otherwise, upon the main and partially overlapping, TPCR5 Price Control Review. It will be in the interests of all stakeholders that repeat effort is minimised where possible.

Capitalisation & Depreciation

We are supportive of Ofgem's approach on capitalisation and depreciation with regard to the roll-over. In respect of TPCR5 however, the approach to calculating depreciation allowances and any resultant impact upon financeability is one of ScottishPower EnergyNetwork's key concerns. As such we would urge Ofgem to provide as much transparency and flexibility in any financial modeling, including the model that is used for the purposes of the roll-over, to ensure open and informed consideration of alternative scenarios and their impacts.

Tax

We are comfortable that the approach to Tax will follow the approach used at DPCR5. We understand Ofgem's position regarding the potential implementation of a tax trigger.

Pensions

We are comfortable with Ofgem's position to, as far as possible, adhere to the recently developed pensions principles. Whilst we remain uncomfortable with specific aspects, most notably the deemed deficit recovery period, we would not challenge this in the context of a roll-over review.

We are supportive of including a TPCR4 'true-up' as part of the roll-over. We are confident that we can provide sufficient detail to achieve this and would be unlikely to argue for any change to the approach to deriving the 'regulatory fraction' consistent with that agreed at DPCR5

Chapter 4

Question 1: We are in the process of finalising our approach to stakeholder engagement for the rollover period, do you agree with the proposed approach detailed in this section?

We support the view that stakeholder engagement is proportionate to the one-year control.

We would prefer that our resources were focused upon TPCR5 and the RIIO model as opposed to the one-year roll forward review. With this in mind we would suggest that as Ofgem ramps up TPCR5, a re-alignment of effort is established for the roll forward to ensure a proportionate lighter touch is applied. For the TPCR4 roll forward, extensive and detailed data returns and associated modeling has been proposed by the Cost Team at Ofgem to enable a comprehensive review of TO submissions to be carried out.

We recognise that this detailed analysis is desirable, however we would suggest that the level of detail proposed along with the future proposed discussions and analysis of historical spend, modeling, consultants analysis and questions, Ofgem and consultants visits, may be overly onerous and dis-proportionate as we move towards the more important focus of TPCR5.