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Smarter Grids and Governance
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Dear Hannah,

Consultation on the issue of timely connection to the electricity transmission network

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

ScottishPower supports the aims of the new Connect & Manage regime to deliver 'timely connection' to the electricity transmission system and shares the concern that the existing connection process does not provide a firm connection date or compensation to the generator if the connection is delayed.

While new generation projects seek the earliest connection date consistent with their own project timelines, the key factor is that connection dates remain firm once agreed in the Construction Agreement. This avoids costly changes to construction projects or 'stranded' assets unable to generate on completion. Facilitating dialogue during the connection offer and acceptance process is key to ensuring that the optimal achievable connection date is agreed.

We are concerned that an inappropriate mechanism could put a perverse incentive on TOs to set a late connection date so that they can avoid penalties or receive an incentive payment. Alternatively, an inappropriate incentive may reward TOs for 'business as usual'.

Factors which affect desired connection dates

We believe that Ofgem has identified the key factors affecting connection dates but the level of demand for connection in a particular location, the availability of planning, project management and construction resource available to the associated Transmission Owner (TO) and the ability to schedule transmission outages to enable connection works (SO) are also key factors.

In general, the time required for securing planning consent should not vary widely between projects other than for difference in planning regimes e.g. Scotland vs. England & Wales. Similarly equipment procurement should follow similar timescales regardless of location although procurement of underground cables may have longer lead times than overhead equipment.

In terms of establishing a target connection date, it is important to ensure that any 'backstop' date for connection does not become the 'baseline' connection date provided by TO's in order to avoid any potential penalties. Similarly we are concerned that having a trigger date set on the occurrence of a particular project stage (e.g. securing planning consent) could lead to delays in completing that stage (consent) in order to protect the overall programme. The content of, and responsibility for, carrying out the individual elements of the works that would form the trigger date would need to be clearly set out and agreed before the fixed date or period could be set.

Factors affecting the delivery of a desired connection date

ScottishPower does not believe that the first-come first-served principle of completing enabling works is necessarily a problem. Developers who are able to bring forward projects and make the appropriate firm commitments should be entitled to secure an earlier connection date than less certain projects.

It is important that the definition of 'enabling works' should be transparent, applied consistently across GB and should always be treated as the maximum amount of work required to obtain connection rather than the baseline. To this end, the Secretary of State's direction included measures to monitor National Grid's interpretation and application of the 'enabling works' principles which were incorporated in Section 13.4 of the CUSC.

The lack of commercial certainty surrounding generator connection dates is a major concern to project developers with potentially large economic impacts should connection be delayed. Delay in the payment of TNUoS charges does not compensate generators adequately for the potential additional construction costs and loss of earnings.

Factors which affect incentive arrangements

TOs should be incentivised to deliver new connections on time. Early delivery is of little additional value to the generator unless the developer is able to accelerate his programme to match the TO's new date. However, late connection has significant economic impact on generation projects and incentives should be structured to minimise any delay. Steepening penalties for longer delays would achieve this.

The compensation for late delivery should be related to the scale of the generator's loss and could possibly be determined (and capped) as part of the negotiation of the Construction Agreement. Compensation could be determined by reference to market price spreads, industry load factors and ROC prices (where appropriate).

Compensation for generators should be funded by the TO and SO and not by consumers / generators through TNUoS.

Options

We do not believe that the options presented would efficiently deliver connection dates aligned with the needs of developers. The use of fixed delivery dates, whether or not set by reference to trigger events, 'clock start' options or average timescales could always lead to windfall gains and losses to the TO due to the individual nature of each project and connection application.

The inclusion of completed transmission works in a TO's regulated asset value and the associated allowed revenues should act as an incentive for timely completion. Compensation for late delivery should be based upon the resultant financial loss to the developer and not upon a mechanistic calculation based upon the capacity provided or TNUoS charges.

Delivery dates should be based upon bilateral negotiation between the developer and TO, facilitated by the SO, and should represent the optimal delivery dates for both parties based upon cost and risk. Once agreed, the delivery date should be fixed with penalties for late delivery payable by the TO to the developer based upon the financial loss to the developer.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

James Anderson
Commercial and Regulation Manager