

Lesley Nugent,
Ofgem
and
Project.Transmit@ofem.gov.uk
(via e-mail)

Your ref

Our Ref

Date

23 September 2011

Contact / Extension

Jim McOmish

0141 614 1953

Dear Lesley

Project TransmiT: update on connections issues and consultation on timely connections reporting obligation (open letter 12 August 2011) - Response by SP Transmission

SP Transmission welcomes the opportunity to respond to this letter. We would particularly like to comment on the proposed licence modification prior to the commencement of a formal licence change process.

We do not believe that a change to Transmission Owner (TO) licences is necessary to satisfy the goal of these proposals.

Comprehensive information regarding all factors affecting connection dates is available to the System Operator (SO), whilst the Transmission Owner (TO) is responsible for a subset of this. For example, the limiting factor for a connection date may be deeper reinforcement in another TO area (and so outwith the 'host' TO's control). However, this proposal seeks to apply essentially the same licence change to both the SO and TOs. Unlike the TOs, NGET as the SO is in possession of complete information to satisfy the proposed reporting requirements (TOs have existing obligations under the STC to provide information to NGET that would allow the SO to provide a complete report).

Whilst we do not believe that a change to Transmission Owner (TO) licences is necessary to satisfy the goal of these proposals, we have provided detailed comments upon the proposed licence changes, which seek to address the following concerns:

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- a) The proposed licence change drafting requires refinement to ensure that it delivers consistent expectations by Ofgem, Licensees and other parties;
- b) Licensees and Ofgem must be cognisant of their obligations under the Energy Act not to compromise confidentiality of customers information;
- c) The proposed reporting timetable needs to include a lag for collation of information prior to reporting.

Our detailed comments are set out in the attachment. I hope that this is helpful but please contact me if you have any queries.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Jim McOmish', written over a light grey horizontal line.

Jim McOmish
Distribution Policy Manager
Regulation and Commercial
SP Energy Networks

Attachments:

1. SP Transmission's detailed comments
2. SPT's non-confidential letter response to Ofgem's 14th December 2010 open letter on "Consultation on the Issue of Timely Connection to the Electricity Network"

Attachment (1) – SP Transmission’s detailed comments

1. We recognise that measures to incentivise timely connections are an important aspect of the RIIO T1 review, as set out in the March 2011 Strategy decision paper. We will comment on detailed proposals when these are available.
2. SP Transmission are broadly supportive of a mechanism to provide meaningful information that will help to support the timely connection of transmission customers.
3. As a Transmission Owner, SP Transmission must respond to requests from the UK NETSO for an offer of works to facilitate a request for connection from a customer. In doing so we must abide by the requirements of the Connect and Manage regime as set out in our licence and the STC. Any construction programme set out in a Transmission Owner Construction Offer (‘TOCO’) will typically be subject to a number of dependencies such as planning consent for both the development and the grid connection or the completion of User works to allow individual elements of site works to commence.
4. The consents process represents one of the major constraints on timescales for a transmission project, but this is not mentioned in the open letter. In our confidential response to Ofgem’s information request in their open letter of 14th December 2010 on the “Consultation on the issue of timely connection to the electricity transmission network”, case studies were used to clearly demonstrate the impact of consents on the timing of connections. Additionally, it was emphasised that the timing of this process is outwith the control of the TO. SPT would encourage Ofgem to refer to this information and also to the attached non-confidential response to the open letter of the 14th December 2010.
5. We note the reference in the letter to CUSC CMP192 (Enduring Generation User Commitment), which we regard as a major issue affecting the connection offer process. SP Transmission are concerned that Ofgem are proposing to have a new reporting obligation in place, possibly as early as November, which would not allow sufficient time to take into account the conclusion to CMP 192, let alone the industry’s report to the Authority.
6. Our detailed comments on the licence drafting issued with the letter are as follows. We focus here on the proposed changes to Special Condition D4A of the Transmission licence which applies to Transmission Owners.

Licence drafting

7. SP Transmission are concerned that the drafting proposed by Ofgem is unclear and would therefore be open to interpretation. To avoid any ambiguity, licence drafting should consist of clearly defined requirements.
8. Also, it is not clear to us the reason why, with the exception of the words “...unless the Authority directs otherwise...”, there is identical wording in the proposed licence drafting as between the UK NETSO and TOs’ licence conditions (C8 and D4A respectively). A TOCO will indicate expected dates for the completion of works, not necessarily “the timescale for the connection”, so that it would be more correct to refer to the “date of connection” or the “commissioning date” in the proposed paragraph 5 of Condition D4A. From a TO perspective the offer relates to works within its remit rather than connection as such, and this should be reflected in any reporting requirement.

9. The drafting does not make it clear whether the report is intended to individually cover each offer made within the previous 6 months or to relate generally to “all offers”. At this stage we think that a statistical report on offers made and the factors influencing variations in connection/commissioning date is likely to be of more value while raising fewer confidentiality concerns if published.
10. Additionally, the “factors which have influenced the date identified in each offer”, will generally consist of blocks of time dependencies, typically i) consents, ii) tendering, iii) contract placement and iv) build. We think that more discussion is needed on the likely value of such a report.
11. The proposed requirement to set out how timescales may vary by location, type and size of the connection could be very general at one extreme and highly detailed (and resource intensive) on the other, without necessarily yielding significant benefits to users in either case. We think that more discussion is needed on what the proposed reports are actually likely to deliver.
12. In accordance with the STC and associated STCP 19-2 each TO already provides the UK NETSO with detailed reports on a quarterly basis for every project. These include specific information relating to any changes or issues relating to Transmission Connection Asset Works, Transmission Reinforcement Works (Sole and Shared), Programme, Consents, Bilateral Connection Agreement/TO Construction Agreement, Costs and Scope of Works. We think that a requirement for these reports to be also provided to Ofgem would provide it with detailed information on each project while taking into account the limitations on the TO’s role as mentioned above.
13. Furthermore, it is evident that the UK NETSO are the only party in position to have full visibility of an entire project (notwithstanding, the contract with the customer is with NGET as UK NETSO). Therefore consideration must be given to which party is best placed to provide the information that Ofgem are seeking. Clearly, under the UK model, the UK NETSO is the most appropriate party here. **Accordingly, the draft reporting requirements in licence condition D4A should be reconsidered in the light of these comments.**
14. As regards publication of a non-confidential version of the report, more discussion is needed on how this would yield benefits to users while avoiding disclosure of commercially confidential information. It would be difficult to redact/ anonymise a report without giving enough information to enable identification of the developer and project. Similarly, until an offer is signed the timescale, location, type and size would be confidential anyway. More discussion is needed on this, including how the requirements of section 105 of the Utilities Act will be met in this context. For example, we understand that this issue has not yet been fully addressed in the context of publication of EDCM distribution use of system charging models.

Attachment (2) – SPT’s non-confidential letter response to Ofgem’s 14th December 2010 open letter on “Consultation on the Issue of Timely Connection to the Electricity Network”

Hannah Nixon
Partner, Transmission
OFGEM
9 Millbank
London
SW1P 3GE

Your ref

Our Ref

Date

1 February 2011

Contact / Extension

Alan Michie
0141 614 1958

Dear Hannah,

Consultation on the Issue of Timely Connection to the Electricity Network

This response is submitted on behalf of SP Transmission Limited, which as the regulated transmission owner, owns and maintains the electricity transmission network in central and south Scotland. SP Transmission Limited is part of the Iberdrola Group which is one of the largest energy utilities in the world operating across four continents. Our response to Ofgem's information request is provided in a separate letter and a more general response to the questions raised within the consultation is provided below.

SP Transmission have an excellent track record in delivering timely grid connections and our experience is that any changes from the originally contracted dates are due to factors out with our control. We are concerned that this open letter appears not to recognise the environment faced by transmission companies. Although we welcome Ofgem's approach to review the current commercial framework and incentive arrangements to deliver timely connections, we must impress upon Ofgem the nature of the wider impacts that are affecting connection timescales in the way of consenting issues experienced particularly in Scotland. The concern is that these wider impacts fall distinctively out with the transmission licensee's control and we believe that there is a requirement for a more extensive and holistic approach in reviewing wider industry and government processes.

Obtaining all necessary consents is dependent on outside agencies, such as local authorities providing consent approval to competent planning applications in realistic timescales. Fundamentally, the main reason for any connection delays is planning consents, and these delays are not within the control of the transmission licensees. In addition, the advent of considerable onshore wind in Scotland has led to Scottish landowners becoming much more aware of the value of land necessary to connect wind. Consequently, our experience in obtaining landowner consents is that it can take some time, particularly if we are to ensure that sole-use infrastructure is delivered cost-efficiently.

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We should add that we work closely with both National Grid and developers during the connection application process to agree connection dates that take a realistic view of the consent, construction and commissioning processes. At this stage of the process, we will advise the developer of connection options that will improve their chances of obtaining timely consent such as, for example, consideration of wood pole single circuit overhead lines or undergrounding.

As part of the introduction of outputs and incentives for RIIO-T1, it will be important to ensure that the overall package of incentives does not lead to disproportionate penalties on transmission companies for factors that may be out with their direct control. The proposed reliability incentive, and potentially also this connections incentive, are examples where the transmission company could be penalised in such a manner.

- **What is 'efficient' behaviour in the context of the C&M regime and how can it be assessed (e.g. against average connection timeframes, new connections etc)?**

Connect and Manage provides for generation projects to connect to the transmission system in advance of the completion of the wider transmission reinforcement works. There is no longer a "GB Queue" for connections, and transmission companies no longer issue "Post-2018" offers. In addition, there is no longer a requirement to complete wider system works before allowing a generator to connect with firm access rights. "Efficient behaviour" should therefore mean that the transmission licensee should assess every transmission connection to: (i) identify the earliest possible connection date when preparing a connection offer, and (ii) connect in line with contracted timescales.

- **Where should the compensation for the generator come from if the required connection timeframe is not met?**

As noted above, "efficient behaviour" should mean that the transmission licensee identifies the earliest possible connection date when preparing an offer and, once contracted, to connect in line with contracted timescales. However, it is important that account must be taken of changes that are out with the control of the transmission licensee, such as planning consents decisions, and changes to user requirements.

A generator should only be compensated when: (i) it can clearly demonstrate its own readiness to connect or progress depending on the position of the contracted programme, and (ii) it is clearly demonstrated that the transmission licensee has not used reasonable endeavours to connect or progress connection works in accordance with contracted timescales. Delays due to consents or modifications to the initial contract made by the generator must be taken into account if considering compensation to a generator.

- **What is the slope of the penalty beyond a target connection date (i.e. does it get steeper after a set period of time, and if so what is the period)?**
- **Should we set symmetric rewards / penalties for performance against connection timescales?**
- **Should there be a dead band around rewards / penalties and should they be?**
- **Other possible models that respondents consider may deliver timely connections**

SP Transmission is keen to provide a considered and sensible response to the above questions. However, in the absence of sufficient time to develop a suitable response, it is

excluded from this letter. We will aim to provide response to these questions before the end of February in order to inform Ofgem's March paper.

Certainly, one important point to make clear is that each windfarm connection must be treated independently and that an average period to connect is not appropriate. Our detailed submission in response to this information request demonstrates this point.

We have discussed with Renewables UK a potential connections incentive to support the UK's 2020 Renewable Targets by incentivising companies to connect renewable wind generation as early as possible to their respective transmission systems. We suggested that the incentive would be based on performance against an agreed programme of connections and the reward/ penalty would be based on the carbon benefit/ penalty for a MWh saved/ incurred. The incentive proposal therefore would be linear, symmetric, and have a cap and collar to minimise risk associated with consenting difficulties outwith the control of the transmission company.

Should you have any queries please do not hesitate to give me a call on 0141 614 1958.

Yours sincerely,

A handwritten signature in black ink that reads "Alan Michie". The signature is written in a cursive, slightly slanted style.

Alan Michie
Transmission Policy Manager
SP Transmission Limited