

By e-mail

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Contact / Extension

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Dear Grant

RIIO-T1 and RIIO-GD1: Draft licence conditions – First informal licence drafting consultation

I am writing in response to the drafting consultation issued on 27 July 2012, with particular reference to the RIIO T1 licence conditions applicable to SP Transmission.

A lot of work has been carried out over the last year by Ofgem and licensees, and we acknowledge that this has borne fruit in terms of significant progress in the development of the licence framework. We also appreciate the helpful dialogue and interaction in seeking to establish the initial base values and corresponding base revenue in the model.

However, we continue to have concerns over completing the overall suite of licence conditions, financial model and handbook given the constraints set by the statutory timetable. Given the reliance of the licence conditions on the supporting documents, particularly the Financial Handbook, it is important that these are available for the next licence consultation in October, and accordingly that sufficient and appropriately coordinated resources are devoted to this task by Ofgem.

Our detailed comments on individual licence conditions and on the current draft financial handbook are set out in the attachment. We have focused on the draft issued on 27 July, rather than the version circulated to working group members on the 21 August. We note that a number of conditions, including TIRG (ETC15), price control definitions (ETC19), and Asset Owner Incentives (ETC52) are not yet available. We will work with your team to ensure that the outstanding drafting work delivers as clear and robust licence provisions as possible.

In this letter there are some general points that we would like to make and we would be grateful for an opportunity to discuss these in order that the RIIO T1 licences and accompanying model iteration and reporting framework are clear and consistent.

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1. Incompleteness of Financial Handbook

Due to the dependence of a number of conditions on the detail in the Financial Handbook, we are not able to fully assess these given that the Handbook is incomplete. As an example, the chapter relating to legacy licence conditions has not yet been drafted, and the corresponding licence condition (ETC64) gives little or no indication of the mechanisms for determining the adjustments involved (other than the formal legal process).

The handbook is the main reference document for licensees and others to understand how the model works in detail. There is a high degree of dependence on the model and the handbook for the detailed derivation of a number of components of allowed revenue, and it is important that a full draft of the handbook is available as soon as possible.

2. Legacy licence variables

We are not aware of any formal documentation at present setting out how the true-up/close-out process for TPCR4 /rollover mechanisms (capex incentive, TII incentive, generation volume drivers) will work in detail. Although the TPCR4 Rollover Final Proposals contained some information on the approach to be taken, there is at present no significant detail in either the draft licence or the handbook covering these areas.

We would be grateful for a separate discussion on the process and documentation for deriving the adjustments involved.

3. Double-counting of model and non-model adjustments

There are some cases, including in relation to legacy licence variables, where there appears to be potential for double counting of adjustments, both under the totex mechanism and under 'licence' revenue adjustment mechanisms. We think that in the 'legacy' adjustment licence condition there should be an explicit statement that the values concerned will be excluded from the totex mechanism.

4. Terminology

We note that the current draft conditions use a number of different terms which should have the same meaning (e.g. regulatory year, relevant year and formula year), and sometimes two or more in the same condition (e.g. ETC25).

5. Other supporting documents (e.g. RIGs, DAG)

In the absence of draft RIGs, we are not able to assess the extent to which these are structured to capture the variables required by the model. We would like to see as complete a draft as possible of the supporting documents, particularly the RIGs, by the next consultation in October.

I hope that this is helpful, but please contact me if there are any queries.

Yours sincerely



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Att.