

David O'Neill
Markets
Ofgem
9 Millbank, London
SW1P 3GE

Your ref
106/12
Our Ref

Date
20 September 2012
Contact / Extension
Alan Michie
0141 614 1958

Dear David,

System Operator incentive schemes from 2013 - Initial Proposals

This response is from SP Transmission Limited ("SPTL"). SPTL is a Transmission Owner ("TO") located in the South of Scotland which has an obligation under its transmission licence to comply with the SO-TO Code to make available its transmission assets to National Grid Electricity Transmission as the System Operator ("SO"). Given the scope of this consultation, we believe that it is appropriate for SPTL to comment on these Proposals.

Our RIIO T1 business plan sets out outputs which will deliver value to the GB customer of around £1.7B cumulative by 2021 in reduced constraint costs through various transmission system reinforcements. These reinforcements are an absolutely essential building block to meeting government renewable targets. However, in the short to medium term, constraints from Scotland will remain high until a series of coordinated transmission system reinforcements, currently underway, are completed and commissioned.

Our RIIO T1 plan also includes a high level of asset replacement and network refurbishment. Where we can, we will optimise and coordinate transmission system access, nevertheless system access will be at a premium and aligning all access requirements will be extremely challenging.

In our March response we commented that following the implementation of a Connect and Manage approach to system operation, one impact of the increasing levels of wind generation connecting in Scotland is that the system operator is now starting to see higher constraint costs during normal system operation. Indeed, on several occasions this year we have had some difficult discussions with the SO on specific access issues due to the SO trying to minimise short term network constraints.

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We therefore believe that Ofgem's proposal to remove short-term financial incentives in favour of a broader incentive approach will help ensure that short term financial motives do not take precedence over the longer term benefit of maintaining and reinforcing the network.

In monitoring this situation, we suggest that due account is taken of the impact of system access necessary to undertake essential system refurbishment, often required for safety reasons, and to commission wider system reinforcements. With the ever increasing levels of wind generation from Scotland we would expect a high level of constraints to continue for some time. Indeed, there is now a very strong case for a further reinforcement from Scotland to England involving an HVDC link on the east coast and the onshore transmission licensees are collectively working to identify the most suitable engineering solution.

Finally, we should comment that the development of an agreed Network Access Policy is a very positive step which will help optimise system access. So far, good progress has been made this Policy and we understand that Ofgem will include a draft in their forthcoming RIIO T1 licence consultation in October.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alan Michie', written in a cursive style.

Alan Michie
Head of Policy and Commercial
SP Energy Networks