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Your Ref: 29/13

Our Ref:

Date: 5th April 2013
Contact: Alan Kelly
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Dear Lewis,

Electricity System Operator Incentives: consultation on a scheme for 2013

This response is from SP Transmission Ltd (“SPT”) the onshore Transmission Owner (“TO”) for the South of Scotland. As a TO we are required under our transmission licence to comply with the System Operation – Transmission Owner Code (“STC”) and to make available our transmission assets to National Grid Electricity Transmission (“NGET”), the System Operator (SO). We also must ensure that we develop an economic, efficient and coordinated onshore transmission system. We welcome the opportunity to respond to this consultation and would like to make the following points.

We broadly support this proposal and the move towards a target based incentive scheme, recognising the challenges for the SO to develop accurate models. However, the proposal for a two year incentive window may result in a short term constraint mitigation focus and an overall negative impact on the consumer. For example, we have estimated our RIIO-T1 infrastructure investment projects will deliver a constraint cost saving of up to £1.7 billion by 2021 and £11 billion by 2030. The outages required to deliver these projects may lead to constraint costs in the short term. Delaying these outages to mitigate the short term constraint costs could lead to delays in the completion of the projects and therefore delays to realisation of the benefits. Decision making in the management of constraint costs within the two year period must consider these longer term benefits. Although this is in part addressed by the procedures set out in the draft Network Access Policy (NAP), it is important that the incentives in the short term scheme and enduring arrangements in the longer term complement the NAP framework. We are not clear that the proposed discretionary reward scheme is sufficient on its own to offset the short term focus of the proposed scheme.

The proposed incentive requires the SO to input *Transmission limits* to the model on an annual basis. As a TO, under the STC (STCP11-1) we provide information to the SO to inform this year ahead plan. We understand the need to ensure effective management of the plan in real-time but that multiple dynamic factors influence the timing and duration of outages on the Transmission system that cannot necessarily be foreseen, eliminated or mitigated by good planning and communication alone. It is therefore essential that there is sufficient flexibility for the SO to manage the year-ahead outage plan to accommodate the inevitable changes that will be required.

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It is not clear if the proposed incentive provides a mechanism to fund capital expenditure schemes that could provide significant constraint cost mitigation in the longer term proving considerable benefit the consumer. For example, constructing a new Transmission substation using an offline build would reduce the number and duration of outages required to complete the project, significantly reducing constraint costs. The capital costs of delivering an offline build would be more than reconfiguring and rebuilding on the same site, but could be much less than the constraints associated with that approach. The offline build would be the right solution for the end consumer and we would recommend an appropriate funding mechanism is established.

The consultation document refers to the Network Access Policy (NAP). We have played a leading role, along with SHE Transmission and NGET, in the development of a joint NAP which we intend to submit to Ofgem for approval by the end of April 2013. Indeed, the working practices documented in the NAP are already being implemented and providing benefits. We are committed under our licence to fulfil the obligations of the final, approved Network Access Policy and believe it will help improve short term outage management, year-ahead outage performance, and longer term outage planning. As required under the NAP we will work with the SO to build robust eight year-ahead outage plans, provide accurate two and one year ahead plans and fulfil the change management procedures required to document all real-time changes to outages.

SPT are fully committed to supporting the SO to deliver effective system management under this incentive mechanism and consider the Network Access Policy will ensure the right processes are in place to fulfil this commitment.

I hope that this is helpful, but please contact me if you would like to discuss any of the points made.

Yours sincerely,



Alan Kelly
Transmission Policy Manager