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Dear Charlotte,

Integrated Transmission Planning and Regulation: emerging thinking

SSE welcomes the opportunity to comment on Ofgem's emerging thinking on its Integrated Transmission Planning and Regulation (ITPR) project. We continue to be supportive of a review that enables a more integrated and efficient approach to the development of the transmission system in Great Britain (GB).

As noted in our previous consultation responses, any review of the network planning delivery arrangements should be proportionate and needs based. We agree change is necessary, in particular to address uncertainties with respect to planning and delivery of multi purpose projects but also to ensure stability for continuity of investment. We therefore welcome Ofgem's emerging thinking that an evolutionary approach is appropriate. Nevertheless, we believe that a move to a single category of transmission owner licence could and should be achieved as part of the current project timeline; and that introduction of a fully independent system operator for GB should be a longer term goal.

Our responses to the specific questions raised in the emerging thinking consultation are attached as an appendix to this letter with a summary of our key points provided below.

Current arrangements and future developments

Our greatest concern with the existing arrangements is that the regulatory interfaces across onshore, offshore and interconnection are complex and arbitrary. We agree that the scale of development in network investment, timings, technical complexity and overall build specification is uncertain. Nevertheless, it is clear that more complex, interactive projects are being brought forward by the three different categories of transmission owner (onshore, offshore and interconnector) and these are likely to increase in the future. The delivery of such strategic multi purpose projects is a critical element in helping GB to meet its 2020 sustainable energy targets. However, we are convinced that maintaining three different arrangements for system planning and asset delivery will result in inefficient outcomes for such multi-purpose projects.

Our view is that the ITPR project should be primarily focused on solving this issue as a first step to facilitating a fully integrated GB transmission network.

Options for system planning

We believe Ofgem's emerging thinking of developing further the enhanced system operator role in system planning is a proportionate, first step to a fully independent system operator. Such an enhanced role should include identifying strategic system need and working with transmission owners to ensure a co-ordinated approach to multi-purpose projects. Investment decisions must remain between the transmission operators and regulator, notwithstanding any advice the system operator may provide to Ofgem as part of its enhanced role. This is in accordance with Ofgem's emerging thinking (Chapter3, Figure 2).

Because transmission access terms are a key signal for investment planning the ITPR project should also be considering a uniform access regime administered by the system operator, i.e. where all users of the system see common terms for access. Currently, users may see different terms that depend on the category of transmission asset to which they are connected, either offshore or onshore. A uniform access regime would be consistent with a single category of transmission owner licence.

If the incumbent system operator, National Grid Electricity Transmission (NGET), is to undertake the enhanced role it will be essential to ensure that conflicts of interest do not arise with its other regulated and competitive businesses. Given that NGET is taking on additional responsibilities with respect to electricity market reform (EMR), adequate separation across regulated businesses as well as between regulated and commercial businesses will be necessary. We recommend that formal managerial, information and physical separation is implemented similar to the 'business separation' requirements of regulated electricity and gas distribution businesses. This becomes even more important if NGET is to undertake an advisory role to Ofgem to help support it in its decision making. Additional costs incurred by NGET in moving to an enhanced system operator role must be demonstrably efficient and show clear cost benefit.

The move to a fully independent system operator would necessitate a thorough review of the GB energy sector. Whilst we believe an independent system operator would provide further efficiencies and benefits in the development of a fully integrated transmission network, it must by its nature be a longer term goal. Any development of the current system operator's role must not close off this longer term goal.

Options for delivery of transmission assets

Competition in large complex projects will be difficult to achieve without introducing delay and uncertainty. We have previously highlighted the barriers and practical difficulties in achieving this and it is unclear from the emerging thinking document that the argument for change is compelling.

There is already well developed competition in the delivery of transmission assets. With regards to competition in the design solution, the presumption should be that the incumbent continues to provide this unless there are demonstrable benefits from the use of third parties. This is in line with Ofgem's emerging thinking that the development of criteria to generate the greatest value for customers would not change the delivery route for most assets.

With regard to interconnectors, we note that Ofgem is continuing to look at all options for planning and delivery of these assets. Given our view that a single regulatory regime is essential for the efficient development and delivery of an integrated transmission network, full regulation of interconnector assets is a necessary part of this and in line with EU developments.

As the ITPR project progresses, it should be mindful of not introducing further uncertainty into a sector already uncertain due to EMR. In particular, it must not act as a barrier to much needed transmission investment that has been facilitated through the RIIO-T1 settlements.

In summary:

- SSE is supportive of the ITPR project, which should be proportionate and needs based;
- The move to a single category of transmission owner is a necessary pre-requisite to the efficient delivery of multi-purpose projects;
- Introduction of a uniform access regime should be considered as part of this project;
- Enhancing NGET's system operator role must come with commensurate business separation;
- Any enhancement of the incumbent system operator's role must not preclude the longer term goal of a fully independent system operator;
- Any further introduction of competition must have demonstrable benefits; and
- A single category of transmission owner means full regulation of interconnectors.

The outcome of the ITPR project must not change the RIIO-T1 regulatory settlement, nor should there be any reallocation of existing assets or committed projects.

Please feel free to contact me if you have any queries on this response.

Yours sincerely,

Malcolm J. Burns
Senior Regulation Manager



Appendix: SSE's response to consultation questions

Chapter Two

Question 1: *Do you think we have appropriately characterised the future challenges to network development? Where do you see the main challenges? What are the long-term strategic and sustainability implications of these challenges?*

We agree that the dimensions of future investment are significant and that there is a need to better co-ordinate transmission investment planning in the case of potential Multi Purpose Projects (MPPs). The investment proposition for external capital is "GB transmission" but different categories of transmission owner licence with different terms introduces different categories of risk when there is actually no inherent differences in asset delivery and function. A single licence category for transmission ownership would better reflect the common nature of transmission and better facilitate the scale of anticipated investment.

Question 2: *Are any of the review areas under ITPR more relevant than others?*

The investment planning and delivery are indeed fundamental, but the third element is transmission access. The access terms seen by users of the system are the basis of signalling transmission investment requirements and the form and timing of user commitment is important for timely investment decisions and to inform anticipatory investment options to manage the potential risk of asset stranding.

Chapter Three

Question 3: *What are your views on the options for system planning discussed in this chapter? Are there other approaches to system planning that you think we should be considering within the ITPR project?*

The range of options described and discussed is reasonable.

Question 4: *Do you think that it would be beneficial to strengthen the role of a coordinating body working with relevant parties to facilitate efficient decision-making? In what areas could this coordinating body add most value to the process?*

Co-ordination can and does happen effectively as is evidenced by the positive experience on the Eastern HVDC project where SHE Transmission, Scottish Power Transmission and NGET are working effectively to identify and assess and develop reinforcement options. Our experience of potential MPPs with the Connection and Infrastructure Options Note (CION) process has not been as positive. Deliverable options for MPPs that provide boundary transfer capacity as well as offshore windfarm connections have been frustrated by undefined responsibilities with only first stage options deliverable under current arrangements being taken forward.

We therefore support enhancement of the system operator role and a single category of transmission owner licence to better facilitate the efficient delivery of MPPs.

The iterative identification and assessment of options by transmission owners and a system operator with enhanced co-ordination role may result in a preferred approach recommendation endorsed by the SO i.e. the Need Case submission, but agreement of funding based on a Cost and Outputs submission by the transmission owner must be between the delivery party and Ofgem. This is in accordance with Ofgem's emerging thinking (Chapter3, Figure 2).

Question 5: *What are your views on the (real or perceived) conflicts of interest that could occur from parties holding dual responsibility in system planning and asset delivery and ownership? What are your views on potential options for institutional arrangements, separation and transparency measures to mitigate this?*

The potential for flexibility in delivery of assets inevitably drives commensurate separation of NGET's system operator and asset owning interest to avoid potential conflict of interest in the support for

alternative reinforcement options. Enhanced system operator co-ordination responsibilities do not obviate the potential requirement for a fully independent GB System Operator in the longer term.

Question 6: *What are your views on potential future approaches to planning interconnection? Should there be increased central identification of potential interconnection that could benefit GB consumers?*

The planning of interconnection should be consistent with the emerging pan-European processes administered by ENTSO-E. A regulated approach to interconnector development and ownership would be consistent with the European model for interconnection. A GB system operator with an enhanced co-ordination role would be in a position to identify and assess the opportunities for GB consumers to benefit from a single European energy market.

Chapter Four

Question 7: *What are your views on the options for delivery of transmission assets discussed in this chapter? Are there other options that you think we should be considering within the ITPR project to address the delivery drivers and challenges identified?*

Transmission assets, their delivery, maintenance and technology challenges are broadly common in nature across the transportation of bulk energy and the connection of generation or load. There need therefore be no differentiation on the basis of geographic location (similar to electricity distribution), wet or dry (onshore/offshore), or on function (generation connection/MITS/Interconnection). A single category of transmission owner licence is therefore appropriate to avoid incompatibilities that can frustrate an integrated evolution of the transmission system.

Current arrangements have OFTO assets funded under twenty year arrangements. Should optimal development of the system in future indicate that such assets should be re-configured, re-financing implications could prove to be a barrier to organic growth of the transmission system. A single category of transmission owner licence would be more consistent with a single category of investment risk in GB transmission and therefore be better understood by investors.

At present, assets and their investment risks are categorised according to function, but function can change depending on assumptions and, over the years, as a consequence of system development. A single category of transmission owner licence and investment risk would greatly facilitate appropriate development of the system and avoid potential solutions being driven by financing incompatibilities.

However, we recognise the importance of continuity and stability in investment and so do not advocate a revocation or re-drafting of existing licences. In particular there ought not to be any change to the existing RII0-T1 settlement or any re-allocation of existing assets or committed projects.

Question 8: *Do you think that it would be beneficial to introduce some flexibility in the existing regimes to provide for alternative delivery routes, where this is in the interests of consumers? If so, what criteria could be used to determine the delivery route for an investment?*

Holders of a transmission owner licence should enjoy full flexibility to bid for the delivery and ownership of any new transmission assets that are determined as suitable for competitive treatment. To ensure best use of expertise, individual licensees should be free to deploy their specialist technical and project resources across any new projects that are subject to competitive treatment.

We already see competition in the supply chain for delivery of projects and note the view of Ofgem that it expects most projects to remain the responsibility of the incumbent. We support a presumption of incumbency and believe that criteria for competitive treatment should include the requirement for a quantified justification.

Application of the criteria should lead to early certainty in respect of new developments since professional project resource is a constraint and we wish to manage the opportunity cost of such resource. Clarity and early certainty in respect of whether a project will be subject to competitive treatment is also important for consent applications and supply chain engagement. Only the final delivery party is able to meaningfully agree material conditions attaching to consents, e.g. any bidder for a consented development may take a different view on the acceptability and affordability of consent

planning conditions agreed to by an earlier party that knew it would not be responsible for ultimate delivery. Also the supply chain equipment providers are keen to understand who their customer is before engaging in even the early stages of a procurement process.

Where competitive treatment of a project is confirmed, all licensed TOs would be eligible but not obliged, to bid for delivery and ownership of reinforcement solutions. There should be flexibility to propose different technology, sizing, siting and routing solutions to meet a minimum functional requirement. We would expect deliverability and future proofing to be factors in the selection of a successful bid. We note and agree with Ofgem that the development of criteria for alternative delivery routes would, in most cases, lead to assets being developed under the same delivery route as they are currently.

Question 9: *If we pursued additional flexibility in application of the regimes, what role should discretion play in identifying the delivery route for a particular investment?*

Our preference is for clearly defined criteria for delivery of transmission assets. The scope for discretion should be limited to specific judgement issues where quantitative analysis is not practicable.

Chapter Five

Question 10: *Do you think that the case for change to current arrangements to enable more integration and coordination is material now, or may become so in the future? If the latter, when?*

The Eastern HVDC project demonstrates effective co-ordination between incumbents under current arrangements. Similarly, radial offshore windfarm connections and new interconnection with Europe have been achieved under prevailing provisions. However, in the case of potential MPPs, uncertainty in respect of different parties' obligations and responsibilities have restricted the options for development to those that can be delivered under current arrangements. There is therefore a case for change now, but stability is necessary for continuity of investment and so we agree that an evolutionary approach to change is appropriate.

Question 11: *What are your views on our emerging thinking to consider further an enhancement of NGET's role as the SO in system planning to provide for a more coordinated and holistic approach across the GB system?*

As noted in our response to Q10 above, there is justification for enhancing the co-ordination role of the system operator especially in the case of potential MPPs. Commensurate business separation between the system operator and transmission owner functions to address potential conflicts of interest should not preclude a longer term fully independent system operator.

Question 12: *What are your views on the emerging thinking that introducing further flexibility and applying criteria to designate whether an investment should be delivered by incumbent delivery or competitive selection could address many of the challenges and drivers identified?*

See above for our responses to Chapter Four questions 7 – 9.

Question 13: *What other options should we take forward for consideration in the next stage of our work on ITPR?*

Uniform access arrangements

We believe that because transmission access terms are a key signal for investment planning that ITPR should also be considering a uniform access regime administered by the system operator, i.e. where all users of the system see common terms for access. Currently, users may see different terms that depend on the category of transmission asset to which they are connected, either offshore or onshore. A uniform access regime would be consistent with a single category of transmission owner licence.

Impact assessment

An impact assessment of ITPR options is essential. This should provide quantification of costs and benefits of potential changes. We note the earlier quantification of potential capital cost savings for

integrated offshore transmission that was part of the earlier work by TNEI under the Offshore Transmission Co-ordination Project.

Question 14: *Do you have any views on our approach and timetable for our work on ITPR, or on interactions with related areas?*

We note that any timetable is dependent on the outcome of Stage 3 of the ITPR project.

Question 15: *Do you have any other views on the ITPR project not covered by these questions?*

As the ITPR project progresses, it should be mindful of not introducing further uncertainty into a sector already uncertain due to EMR. In particular, it must not act as a barrier to much needed transmission investment that has been facilitated through the RIIO-T1 settlements.