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Dear Leonardo,

Funding arrangements for new balancing services: Initial Proposals

Thank you for the opportunity to respond to this consultation. ScottishPower agrees with the approaches proposed to be adopted for both internal and external costs associated with NGET's procurement and utilisation of SBR and DSBR services.

We agree that it is appropriate that National Grid's internal costs are logged up with a view to being met through the RIIO-T1 price control at the mid-period review and, given this, consider that it would be good practice for Ofgem to make a clearer "minded to" statement on the matter.

We agree that it would not be appropriate to set a financial incentive for the external costs as there is no historical data against which to measure the performance of these new services. In addition, as these services will not be procured beyond March 2016 any arrangements would be short-lived. The targeted efficiency approach proposed by Ofgem would appear to be appropriate in this case.

We believe that Ofgem and NGET need to address the question of the timing of cost recovery for the SBR and DSBR services. NGET have estimated that annual external costs of up to £75m and internal costs of around £4m may be incurred in procurement of these services. An appropriate methodology for recovering these costs through individual settlement periods will need to be developed for the BSUoS charging methodology. In addition, as the costs of these services were not identified at an earlier stage, generators were unable to take account of them when contracting to sell power for winter 2014/15. Therefore, it may be appropriate to consider deferring some or all of the cost recovery into a future period, with suitable interim funding (and interest).

Our responses to the detailed questions contained in the consultation are in the attached Annex. Please contact me if you have any queries on any of the matters raised in our response.

Yours sincerely,



Rupert Steele
Director of Regulation

FUNDING ARRANGEMENTS FOR NEW BALANCING SERVICES: INITIAL PROPOSALS
SCOTTISHPOWER RESPONSE

Chapter 1

Question 1: Do the draft licence conditions published alongside this document appropriately reflect our initial proposals?

The draft licence conditions appear to reflect the initial proposals.

Question 2: Do you agree with our assessment that a financial incentive would not be fit-for-purpose at this time?

SBR and DSBR are new services for which there is no historical performance data from which to draw comparisons. On this basis we agree that a financial incentive would not be fit-for-purpose at this time. Moreover, as the first delivery year of the Capacity Mechanism is 2018, we do not envisage a requirement for the SBR and DSBR services beyond winter 2017/18, thereby removing any need for future development of the financial incentive. Indeed, we would reiterate that it is important that these new services are clearly time limited so as to avoid the risk of undermining the Capacity Mechanism and distorting incentives generally.

Chapter 2

Question 1: Do you agree with our approach towards funding for the internal costs associated with the services?

We agree that it would be appropriate that the funding of the internal SO costs of SBR and DSBR is treated as a part of a mid-period review under the RIIO-T1 regulatory framework. It would be good practice for the costs to be logged up and Ofgem to give a clear statement that it was minded to allow them to be met in that way.

Question 2: Do you agree with our view that the targeted efficiency check protects consumers and increases transparency to industry?

We agree that use of a targeted efficiency check on the procurement, testing and utilisation of the SBR and DSBR services should promote transparency of costs to industry and protection of consumers.

Question 3: Do you agree with how we have proposed to fund each of the cost components of SBR and DSBR?

We agree that NGET should seek prior approval from Ofgem of the volume of SBR and DSBR services to be efficiently procured under an overall volume cap.

We agree that Ofgem should ensure that NGET has carried out an economic and efficient procurement process, which maximises the potential for competition, in considering whether to disallow any of the costs incurred for availability/set-up payments for the new services.

We agree that Ofgem should ensure that all costs incurred by NGET in carrying out testing associated with the new services have been incurred efficiently, when considering cost disallowance.

SBR and DSBR services should only be despatched as a last resort therefore we consider that it would be appropriate for NGET to apply to Ofgem for permission to recover the associated costs for warming and utilisation of these services.

Question 4: Do you have any views on NGET's proposed approach towards identifying a volume cap and volume requirement?

We believe that NGET should develop a robust methodology for identifying a volume cap and volume requirement. A volume cap will provide an upper limit to the amount of SBR and DSBR services to be procured and the maximum volume which may be funded through BSUoS charges.

We agree that the information which NGET has identified are appropriate inputs to the process of determining a volume requirement to be procured to meet the reliability standard in each year.

Question 5: Do you agree with the principles behind each of the ex ante methodologies and any proposed details that we or NGET have suggested should be included within the methodologies?

The consultation (paragraph 2.32) suggests that NGET would assess the scale of any administration fee payable to a DSBR aggregator, with this fee being passed through BSUoS charges. We question whether this is the right approach. It is likely to be more efficient to allow competition between DSBR aggregators to drive down the administration costs and reveal the overall costs of DSBR. This approach would allow DSBR to compete on a level playing field and also allow the costs of DSBR to be more accurately compared to SBR.

Question 6: Are there any other principles or details that should be included within our targeted efficiency check approach?

No, we have not identified any other principles at this stage.

ScottishPower
22 January 2014