

Martin Rodgers  
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20 May 2014

Dear Martin,

**Strategy Consultation: Revenue, Incentives and Outputs for National Grid's Role in Electricity Market Reform process**

Thank you for the opportunity to respond to the above consultation.

Given the crucial role that National Grid Electricity Transmission plc (NGET) will play in the delivery of EMR, we agree that it should be able to access the funds necessary to carry out this role effectively, subject to appropriate incentives and controls. Until such time that NGET's business plan is available and can be properly scrutinised to ensure that its EMR operational costs are fully justified, we support Ofgem's approach of using £5m as a provisional figure for the period between August 2014 and March 2016.

We also consider that adopting the same approach for assessing NGET's business plan for the EMR Delivery Body as was used in the RIIO-T1 price control is sensible, as it offers a robust, consistent and transparent approach. In the same context, it also appears reasonable to use the same capitalisation rate methodology as was used for RIIO-T1, particularly given that the costs of the EMR Delivery Body are only 3% of the total System Operator expenditure allowance.

Our responses to the questions in the Consultation are set out in the attached Annex. If you have any questions regarding our response, please do not hesitate to get in touch.

Yours sincerely,



**Rupert Steele**  
Director of Regulation

**STRATEGY CONSULTATION: REVENUE, INCENTIVES AND OUTPUTS FOR NATIONAL GRID'S ROLE IN ELECTRICITY MARKET REFORM**

**SCOTTISHPOWER RESPONSE**

**Question 1**

**Do you agree that we should allow NGET provisional funding subject to the receipt of a well justified business plan?**

Yes, it is now critical that NGET can access the funds necessary for them to carry out their EMR role effectively. Until such time that NGET's business plan is available and can be properly scrutinised to ensure that its EMR operational costs are fully justified, we support Ofgem's approach of using a provisional figure of £5m for the period between August 2014 and March 2016.

**Question 2**

**Do you agree that we should not allow an adjustment to reflect the time value of money if NGET do not meet the September 2014 submission date?**

We agree with this approach as it will provide a financial incentive for timely delivery of the business plan.

**Question 3**

**Do you agree that the £5m proposed cost allowance is reasonable?**

As a provisional figure, £5m seems reasonable and we welcome the commitment to taking any corrective action as appropriate, once the business plan has been submitted and received the proper level of scrutiny.

**Question 4**

**Do you agree with the incentives we are proposing?**

The proposed financial and reputational incentives appear sensible and proportionate.

**Question 5**

Do you agree with our proportionate approach to the assessment of the business plan including provision of different scenarios?

Given that under the RIIO-T1 price control framework the emphasis is on NGET to demonstrate cost efficiency and long-term value for money, it appears sensible to follow the same approach for assessing NGET's business plan for the EMR Delivery Body. This should provide a robust, consistent, and transparent approach.

**Question 6**

Do you agree that the capitalisation rate for internal SO costs should also apply to EMR enduring costs?

We agree that it is reasonable to use the same capitalisation rate methodology as was used for RIIO-T1, particularly given that the costs of the EMR Delivery Body are only 3% of the total System Operator expenditure allowance.

**Question 7**

Do you agree with the proposed licence changes?

On the basis of a limited review, the proposed modifications appear to be broadly sensible and appropriate and there is no apparent need for additional changes.

**Question 8**

Do you agree with the proposed Financial Handbook and PCFM changes?

On the basis of a limited review, the proposals appear to be broadly sensible and appropriate and there is no apparent need for additional changes.