



SCOTTISHPOWER
Energy Wholesale

Donald Smith
Electricity Transmission
OFGEM
107 West Regent Street
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13 August 2014

Dear Donald,

Consultation on CUSC modification proposal 224 (CMP224)

Thank you for the opportunity to respond to the request for further information contained in your letter of 14 July.

ScottishPower supports the introduction of a limit on the total annual amount of cost recovered from GB generators through TNUoS charges to ensure that the limit within EC Regulation 838/2010 Part B is not breached.

ScottishPower is pleased to note that Ofgem is minded to approve CMP224 but believes that the WACM1 option better meets the applicable CUSC objectives in accordance with the majority vote of the CUSC Panel.

We have provided our detailed responses to the questions in the consultation in the attached appendix.

Please call me if you have any queries on any of the matters raised in our response.

Yours sincerely,

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Appendix – Detailed responses to consultation questions

1. We welcome respondents' views on the legal interpretation of Paragraph 2(1) Annex Part B of the Regulation.

We believe that in assessing compliance with the Regulation, the existing definition of Connection Assets within the GB Codes should be used and that TNUoS charges associated with Local Assets should be included in the calculation.

ScottishPower believes that there is a clear definition of Connection Assets and their associated Connection Charges within the GB Codes and that this existing split should be used in assessing compliance with the EC Regulation.

Based upon the legal opinion from National Grid it would be sensible to include Local Asset charges in the calculation of annual average transmission charges.

There is no clear justification for moving away from the existing definition of Connection Assets in the GB Codes and to do so would potentially be subject to challenge with consequential implications from enforcement action by the EU.

2. We welcome respondents' views on the impact on consumers of transferring costs from generation to demand under the different proposals submitted to us.

ScottishPower believes that the overall impact on consumers of transferring costs from generation to demand would be neutral under these proposals. Although suppliers would face higher demand TNUoS costs, we would expect the reduction in generator TNUoS costs to be passed through to suppliers (and consumers) through a number of mechanisms.

Due to the competitive nature of the generation market, we would expect to see any reduction in TNUoS charges faced by the generator community reflected in a reduction in the wholesale electricity price. The reduction in TNUoS will be reflected in the non-locational, residual element of the generation TNUoS tariff and should therefore have minimal impact on the generator merit order. The reduction in wholesale price will offset the increased TNUoS charges faced by suppliers and should be passed through to consumers.

A reduction in the generator TNUoS tariffs will reduce the fixed costs faced by generators and should lower the overall requirement for capacity payments either to keep existing generators connected or to encourage investment in new generation capacity. The overall reduction in capacity payments to generators will result in lower Capacity Market Supplier Charges which should further offset the increased TNUoS charges faced by suppliers and should be passed through to consumers.

A reduction in generator TNUoS charges faced by developers of new low carbon generation projects should result in lower strike prices for the associated CfDs and lower Supplier Obligation payments which should help offset the increased TNUoS charges faced by suppliers and should be passed through to consumers.

3. We welcome respondents' views on the impact on consumers associated with any additional risk that suppliers and/or generators face for options with a shorter lead time for setting the G:D split as compare to options with a longer lead time.

Providing greater transparency, stability and predictability to the TNUoS charges will enable more efficient economic decisions to be made by both generators and suppliers which should be to the benefit of consumers.

The total TNUoS cost to be recovered from the electricity market and consumers remains constant regardless of the proportion of cost to be recovered from generators and suppliers. However, in the normal course of business, when pricing their products, both suppliers and generators have to forecast the charges which they will face, including TNUoS payments. Uncertainty about the proportion of TNUoS to be paid could lead to the inclusion of risk premia to cover unexpected increases in costs by both generators and suppliers and these are ultimately passed through to consumers.

Generators facing two months' notice of a change in TNUoS due to a change in the G:D split would neither be able to adjust their TEC requirements in response to this change nor would they be able to adjust the prices already struck in any longer term electricity contracts. Similarly, suppliers who had contracted for the sale of electricity through longer term contracts or price guarantees may be unable to recover any unanticipated TNUoS increases through those contracts. These risks would be significantly mitigated through setting the G:D split 12 months' in advance of the TNUoS charging year.