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Dear Jon,

**Integrated Transmission Planning and Regulation (ITPR) project: draft conclusions**

Thank you for the opportunity to respond to this consultation. This response reflects ScottishPower's overall position on the issues raised. ScottishPower Transmission's separate response is from its perspective as transmission owner (TO) for the south of Scotland.

Enhanced System Operator (SO) coordination role

The SO is well placed to provide advice and analysis on the optimal locations where new onshore and offshore generation developments might connect into a constrained onshore GB network, so as to help ensure that potential system operability benefits can be realised. However, any enhancements to the SO role should not detract from the developer's need to establish the best route for connection that maximises its ability to deliver the project.

While we can see the merit in enhancing certain aspects of the SO role, to ensure the future electricity infrastructure is fit for purpose in terms of providing the most cost-efficient solution for consumers, we would have some concerns about whether the system operator (or third parties in the case of Ofgem's increased tendering proposals), as opposed to local TOs, would have the appropriate specific expertise and resource to make well-founded system-wide planning decisions. We firmly believe that there would need to remain a significant role for TOs, particularly due to their specialised local technical knowledge, and we would be concerned that the SO might impose centralised policies that did not take account of local infrastructure or practice. Safeguards would therefore be needed to minimise the potential for inefficiencies and work duplication.

Extending the use of competitive tendering

We would support the use of competitive tendering in circumstances where it can be shown that efficiencies will be gained as a result. Given the integrated nature of the transmission system, it will be important for Ofgem to carefully consider the criteria to be met that would ensure that competitive tendering is used for onshore assets only in situations where the overall efficiency gains outweigh the costs – both of developing and running the tender process, and of working operationally with a competitively appointed transmission operator (CATO). We therefore welcome the statement on

page 7 of the consultation that further consultation on detailed proposals for competitive tendering onshore is expected to take place before any such measures are introduced.

Considering the two models proposed by Ofgem, i.e. early and late CATO appointment, we are doubtful that the proposed late CATO model would achieve sufficient savings compared to what is currently achieved through the incumbent TO tendering the relevant works, given the associated additional costs arising from the CATO separately operating the asset. The early CATO option appears to allow greater scope for innovation and would therefore be worthy of further analysis.

### Risk of delays

One of our main concerns about the possible implications of the proposals stemming from the ITPR project is the potential for delays to project development as a result of an increase in the number of steps in the project development chain, combined with an increase in the number of players involved. Achieving consents within the necessary timescales can be challenging at the best of times. Any additional steps, or additional parties involved in project development, may jeopardise the achievement of timely consent. For example, if additional requirements were made in relation to cable size, or coordination with development of other projects, this could have a significant impact on timescales.

Anything which adds additional process, time, uncertainty or risk would be unwelcome, particularly at a time when the industry is already facing increased uncertainty through, for example, the Contract for Difference (CfD) allocation process being introduced by EMR. With the introduction of CfDs, the ability to deliver in a timely fashion will be increasingly important due to the penalties which would be incurred by the parties in the event of late delivery.

In conclusion, we look forward to seeing further detail in terms of the specifics of the responsibilities, processes and methodologies being proposed. Provision of such detail will be essential in order to establish what the benefit to consumers will be from any changes being proposed by Ofgem.

Our responses to the specific questions posed in the consultation document are in the Annex attached. Please do not hesitate to contact me if you would like to discuss any of the matters raised in this response.

Yours sincerely

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal line.

**Rupert Steele**  
Director of Regulation

**INTEGRATED TRANSMISSION PLANNING AND REGULATION (ITPR) PROJECT -  
SCOTTISHPOWER CONSULTATION RESPONSE**

**Enhancing the System Operator's role in system planning**

**Question 1: What are your views on our proposed enhancements to the SO role in system planning, including the specific roles we have proposed the SO would undertake for onshore, offshore and interconnection planning?**

In principle, it is hard to argue against the existence of an SO that takes a proactive role in system planning, whilst continuing to work closely with relevant TOs. Planning at a local level with coordination at an overall system level would seem to be an optimum approach. In this context it is logical that the role of the SO involves considering overall GB system development including onshore, offshore and interconnector planning.

We understand that there are some gaps in SO processes, particularly in the area of data exchange to developers in relation to offshore. We are also aware that some of the proposed additional work relating to the consenting of CATO assets is not work currently carried out by the SO. We would have concerns about the SO gaining consent for major projects, for which a different third party would be responsible for delivery.

However, we are aware of noteworthy obligations within the STC that would currently facilitate a significant portion of the obligations discussed in the consultation, e.g. Investment Planning (STCP-16-1) and GB System Planning (STCP22-1). The consultation (Ch2 Para 2.1 and footnote 8) does not reflect our understanding of the current SO role. We would therefore seek clarity on how the proposed enhancements would change the framework that is currently in place.

Specific to offshore connections, it would be necessary for generators to retain the option to build their own assets without being constrained by any potential proposal of the SO to change the configuration and/or integration of the assets with other generators, and we would seek clarity in this regard. The design of a connection is an integral part of the design of a wind farm and the connection design may depend on design decisions in relation to the wind farm itself. This is particularly relevant when considering CfD options in relation to the project. It could be difficult for project developers to incorporate changes to a connection design proposed by the SO where these have an impact on either wind farm design or a CfD decision in relation to the project.

Similarly, it would be necessary that existing connections' levels of security, or availability to generators, are not impacted by any proposal by the SO. We would welcome clarity on whether the SO would have the opportunity to reroute new generation through existing connections, which could change/limit the amount an existing generator can access the circuit<sup>1</sup>. We would also like to understand what safeguards will be in place to ensure that existing user operations are not constrained.

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<sup>1</sup> As discussed in the Integrated Offshore Transmission Project (IOTP)

**Question 2: Are there other roles that you think an enhanced SO could or should undertake in order to better support the development of an efficient transmission and interconnector network?**

In our experience, the SO currently has limited ability to provide data to facilitate assessment of overall system stability to developers under the generator self-build model for offshore transmission. We would therefore ask that the SO be required to provide all OFTOs, TOs, CATOs and Offshore Transmission System Development User Works (OTSDUW) with the same level of system detail and models to the same service level, i.e. time and quality.

It is our understanding that the process for interconnection applications is not consistent with the process for onshore connections. We believe that consistency of approach to connection application and assessment is required and that ITPR should consider the principles of this to ensure the associated framework is steered towards this goal.

**Question 3: What are your views on the specific obligations for TOs that might be needed to support our proposed enhanced SO role?**

It is not clear to us at this time what changes to the obligations on TOs would be needed to support the enhanced SO role, as this would depend on the details of what is finally envisaged. It would be helpful for Ofgem to discuss the options with affected parties ahead of consultation on any proposals to alter or introduce new licence conditions for the relevant parties.

We would also like to understand what requirements might be placed on TOs or project developers, when making investment decisions, in terms of analysing the information provided by the SO through its assessment of options. In the event that a TO does not agree with a proposition made by the SO, we understand Ofgem would have a determining role and would therefore flag the need for Ofgem to have the relevant resource to carry out this function in a timely manner.

It could be useful to consider the recent open letter from National Grid on the Connection Infrastructure Options Note (CION) process in this context. The CION guidance note places a requirement on parties to participate in the assessment of coordinated/integrated options but notes that clarity on how this will work will be provided after the publication of the ITPR proposals. Such clarity would be welcome given the potential for such a requirement to have an impact on project development timescales. We are concerned that future schemes and schemes subject to CION modifications could potentially involve several parties, such as TOs, CATOs, and OTSDUW parties which will require consensus in the connection application or modification application period. This may not be a feasible working arrangement.

**Question 4: What are your views on our proposal that, as part of its enhanced role, the SO should lead gateway assessments for offshore projects that include investment to provide wider network benefit?**

With regards to SO-led gateway assessments of offshore projects that include WNBI, we would welcome greater clarity on the methods and process that Ofgem considers would be required.

Our primary concerns relate to the risk of introducing additional delay and uncertainty into decision making, and to the much debated principle of asset cost allocation (socialised

versus project specific) and what is considered to be providing “wider network benefit”. (What is the status of convertor stations, for example?)

Ofgem is suggesting that the move to SO-led assessments would involve greater flexibility in the nature of the process<sup>2</sup>. Under the current developer-led model, a standard process is followed around submissions and timing, whereas under the SO-led model, Ofgem would determine what process is necessary and proportionate relative to investment. Whilst we appreciate the need for flexibility where, in certain cases, gateway assessment may be considered not to be required, we would be reluctant to move to an open ended approach such that Ofgem could, for example, opt for a more than one- or two-stage assessment. This could create uncertainty around i) timing for agreement for the works, ii) the eventual extent of the works, and iii) the overall project development programme. Furthermore, depending on the extent of the integration and who leads (developer vs non-developer led), there could be added complexity at interface points and design iteration, which could again expose a project to unnecessary delays.

Ofgem is also suggesting that use of the gateway process will change from being voluntary (ie the developer chooses whether to request a gateway assessment based on risk) to being mandatory. We assume that the mandatory aspect of SO-led gateway assessment means that where an SO decides wider network benefit investment (WNBI) work is required, there is no option but for the developer to accept this into their connection agreement. The developer cannot do this without considering and assessing the risks of taking on this additional work, which will not have been included in its initial cost assessment. This raises a concern that the SO may impose additional WNBI requirements on an OTSDUW party without being constrained by the party’s ability to deliver the additional scope within its business model.

### **Regulating asset delivery**

#### **Question 5: What are your views on our proposal to extend competitive tendering to new, high value, separable onshore assets?**

Competitive tendering has been shown to reduce the costs associated with the development of offshore transmission infrastructure. However, in the case of onshore transmission infrastructure, we believe that competitive tendering, and dependencies on third parties to deliver assets required to enable connection of generation, could add complexity and risk to an already complicated framework. While the consultation states that only those assets which are completely new, high value and separable, would potentially be subject to a competitive tender, we consider that the “separable” element, while necessary, could be difficult to ascertain. Defining the criteria to be used, on a case by case basis, to determine which projects will be subject to competitive tendering, will be extremely important.

Any new competitive tendering stages would be likely to prolong a process that can already take significant time to conclude. Ongoing interactions could be required between CATO and incumbent TOs, which could introduce inefficiencies in system development. A guiding principle for process development should be to ensure that additional processes and interactions do not adversely impact on project timescales. In this context it would be helpful for Ofgem to outline the typical timescales of a CATO process and the mechanism by which a CATO would be managed in order to deliver projects on a timely basis. We would like to understand how new entrants would be incentivised to deliver efficiencies in line with those delivered by incumbent TOs, and the strength of incentive Ofgem believes is necessary in order for them to do so.

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<sup>2</sup> See table on page 23 of the condoc

In our view the early CATO model for competitive tendering has the potential to introduce the greatest efficiencies by allowing for greater innovation in the approach to be adopted. It is unclear what the late CATO model would add that existing arrangements do not already allow for. Enhancing the TO requirements in relation to competitively tendering for delivery of the works defined in the tender could have a similar impact as the late CATO model, but without the additional expense and operational complexity of having another party engaged in operating the transmission network.

Under the early CATO model, there is however a risk that delivery by a third party rather than the incumbent TO will introduce inefficiencies and inconsistency in the approach to dealing with landowners. The inherent complexity of interaction with landowners and their agents must not be underestimated, noting that this phase of development is key to timely connections.

Under the late CATO model, we note that the SO does not presently undertake surveying and consenting and do not think it would be practicable for it to do so. There is currently significant local and geographical involvement and interaction between TOs, developers and landowners to facilitate this phase of development. Furthermore, we are convinced that under this model, there would be significant duplication of work whereby the tendering party would seek or be required to carry out their own surveys and studies. A typical and common example is where, in order to achieve consents, a corridor is required to be rerouted, requiring surveys and studies to be revisited. This is often by tri-party arrangement requiring continual iteration and usually concerns other interested parties, which adds complexity to the process.

If a CATO is deemed to be required due to a wider needs case basis, the SO would have the option to change the generator's connection design, and therefore the CATO design or actual need. We would like to understand how this would be considered by potential CATOs tendering for the works? Also, once a CATO is appointed, does this warrant a review of all the CION's affected generators?

Importantly, as noted at the outset of this response, we believe it will be essential for Ofgem to demonstrate the efficiencies to be achieved through the introduction of competitive tendering for onshore transmission assets, compared with the cost. We look forward to further consultation on this issue and hope that this will also consider how the costs of running such a tender exercise will be recovered, and from whom. We would also welcome greater clarity on which parties will have the opportunity to participate, and for which kind of assets – would incumbent TOs, for example, be given the opportunity to compete for the right to build transmission assets in their own and other TO areas?

**Question 6: What are your views on our proposals to maintain a developer-led approach to interconnection and to extend the cap and floor regime?**

We have stated elsewhere our concern that the cap and floor approach to interconnectors, combined with the operation of carbon price support and the benefits that interconnectors have in relation to balancing and use of system costs, could lead to imported electricity generation being significantly subsidised compared with UK generation. Such distortions are unlikely to be in the long term consumer interest or the long term interests of the UK economy. Accordingly, we consider that any extension of the cap and floor regime needs to be in the context of avoiding such distortions.

Beyond that, we consider that interconnector developers are likely to have the best view of the connection arrangements that suit them, in much the same way as wind farm developers. So we would be cautious in putting too much responsibility in the hands of the

SO rather than the developer, while recognising that the SO is best placed to undertake options assessment with respect to overall system requirements, including in relation to interconnection.

**Question 7: What are your views on our proposal that non-GB generators pay for their connections, without consumer underwriting?**

We agree with the principle that connections for non-GB generators should not be underwritten by GB consumers as this could potentially put GB generators at a disadvantage to non-GB generators.

**Question 8: What are your views on our proposal to provide regulatory continuity when the purpose of a transmission assets changes?**

We agree that continuity of regulatory approaches for existing assets would help investment certainty which is essential at an early point in feasibility assessment. We would therefore support this proposal.

**Managing conflicts of interest**

**Question 9: What are your views on our assessment of conflicts of interest?**

The intensity of potential conflicts of interest will depend on how far ITPR goes in giving enhanced roles to the SO and whether proposals made by the SO in those roles are mandatory for other parties, or advisory. We have advocated, in our response above, approaches which leave the lead role with the developer or TO, and propose a more developed advisory role for the SO. In these circumstances, the conflict of interest issues would be correspondingly less intense.

Clearly, to the extent the SO has more intrusive roles, the need for anti-conflicts measures (and for the associated costs) will increase. We think that it may be productive to make more progress on defining exactly what the SO is meant to do before finalising our views on the necessary anti-conflicts measures.

One particular issue that will need consideration would be if National Grid is allowed to act as a CATO in Scotland. It is unclear whether information Chinese walls would prevent the SO seeing the obvious commercial advantage in this for National Grid.

**Question 10: What are your views on our proposals for mitigating conflicts of interest?**

See our answer to question 9 above. It could also be useful for the SO to set standards and service level agreements for “contractual” interfaces with TOs, OFTOs and OTSDUW parties. These should be available to all parties and historical performance published.

**Question 11: Do you think independent scrutiny of the SO’s activities (eg through an expert panel or auditors) would provide value for money?**

The need for further independent scrutiny will in large part be determined by the nature of the functions finally allocated to the SO and whether they are judged to be high or low risk as

respects conflicts of interest. The cost of further independent scrutiny would be the other key determining factor in establishing whether it would present value of money for consumers. We would also be interested in understanding who would be involved in providing this independent scrutiny. Until we are clear as to the final shape of the SO functions, and therefore the extent and depth of the conflict risks, it is difficult to be sure whether or not we would agree with Ofgem's view that the additional benefits would be insufficient to justify the costs.

ScottishPower  
26 November 2014