SCOTTISHPOWER

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Director of Regulation

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9 Millbank
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Dear Sujitra,

Electricity Market Reform (EMR): Consultation on initial proposals on setting revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market

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

Given the pivotal role that National Grid Electricity Transmission plc (NGET) played in the implementation of EMR, it was essential that access was granted to the necessary funds so that NGET could carry out the role effectively. Now that NGET's full business plan is available, appropriate additional scrutiny is necessary in ensuring that EMR operational costs are fully justified. Adopting a similar approach for assessing NGET's business plan for the EMR Delivery Body to that used in the RIIO-T1 price control is sensible, as it offers a robust, consistent and transparent approach.

We trust that, during your analysis, you have considered that setting low budgets may not deliver the best overall consumer outcome. Budgets need to be equated with the service provided - in this instance ensuring that both security of supply and low carbon targets are met.

The three factors that Ofgem use in support of the additional 10% efficiency reduction are questionable. We consider that the organisation has been in operation for some time, and that it is difficult draw parallels with NGET's Transmission Owner business, which is of a different scale.

NGET's good stakeholder engagement has been key to the delivery of EMR to date. Accordingly, we support the introduction of a formal customer and stakeholder survey as part of the process; a financial incentive attached to this output should ensure that NGET's high standards are maintained.

We agree that demand forecasting is a critical factor in minimising consumer costs, and support in principle the introduction of a financial incentive in this area. However, we have some doubts as to whether the current proposed incentive makes sense.

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Although we appreciate the value of a simple approach, we believe that consideration should be given to setting incentives at a more granular level – introducing the proposed design creates a risk of rewarding NGET for the wrong reasons. We also believe that the majority of consumer benefits are likely to arise from dealing with the greater uncertainty at T- 4; we believe the bias of the incentive towards T-1 should be given further consideration.

We agree that it is difficult to attribute, and thus accurately measure, the value added of NGET's stakeholder management efforts in securing additional volumes in T- 4 auctions. We believe this extends to Demand Side Response (DSR) capacity that pre-qualifies for the T-1 auctions, as the overall volume of this specific technology could be heavily dependent on other organisations within the market. We believe it is inappropriate to incentivise NGET to target specific technology participation, in a technology neutral process.

We believe the overall performance incentives are too high relative to NGET's EMR revenues. Whilst the Contract for Difference and Capacity Mechanism schemes which NGET deliver could process £2-£4bn of transactions each year, the already allowable budget should lead to a large amount of the processes becoming automated.

Should you have any questions in relation to our response, please do not hesitate to contact me.

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