

Johannes Pelkonen
System Balancing
Ofgem
Milbank
London SW1P 3GE

Date: 6th July 2016
Contact: Craig McTaggart
Tel: 0141 614 1862

Dear Johannes

Consultation on a Proposed Income Adjusting Event submitted by National Grid Electricity Transmission plc in relation to the 2015-17 Electricity System Operator Incentives Scheme

This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As an electricity TO we must ensure that we develop an economic, efficient and coordinated onshore transmission system for the benefit of GB consumers. We therefore welcome the opportunity to comment on Ofgem's consultation on a proposed Income Adjusting Event submitted by National Grid Electricity Transmission plc (NGET).

SP Transmission has a direct responsibility to restore its network should a Black Start event occur but has an obligation to its stakeholders to minimise the impact of such an event.

I have responded to each of your consultation questions in the attached appendix to explain our position in more detail. In summary, our responses highlight our agreement that the generators awarded contracts are pivotal to not only their associated Local Joint Restoration Plans (LJRP) but also to the effective restoration of the SPT area. However, we do not believe that the current situation with regard to the availability of suitable generators was unforeseeable. Further, when considering the magnitude of the costs, it is clear that the market mechanisms available are inadequate to deliver the required services. That the existing frameworks, such as TNUoS and the Capacity Mechanism, do not incentivise generation with specific technical characteristics on a regional basis could be considered to contribute to the current position.

It should be borne in mind that Black Start services from generators are the initiation of the restoration of the transmission network and are not the complete solution. The significant reduction in the availability of coal generation impacts the restoration of the network, as alternatives to primary restoration plans are becoming less available and other forms of generation cannot be expected to undertake this role. For example, nuclear generators require the network to be stable and secure prior to their reconnection and renewables may not be available. Evidence of this is clear from the closure of Cockenzie and Longannet where the SPT area's restoration time has been significantly degraded (and skeleton network restoration is likely to be significantly beyond the 12 hour period stated in NGET's submission) and there is now a lack of credible alternatives to restoration from the NGET network.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Scott Mathieson', enclosed within a thin black rectangular border.

Scott Mathieson

Director of Network Planning and Regulation

Appendix 1 Responses to the Consultation Questions

Question 1: Do you believe that the event submitted by NGET as an Income Adjusting Event constitutes an Income Adjusting Event?

- Do you consider the proposed IAE to constitute force majeure as defined in the BSC or in the CUSC?
- Do you believe that the event submitted by NGET was unforeseen? Please provide evidence to support your view where possible.
- Do you believe that the proposed IAE costs were beyond the reasonable control of NGET?

The difficulties being experienced by operators of coal fired stations in operating profitably have been apparent in the industry for some time. The combination of emissions legislation and ageing plants has resulted in an environment where all coal plant could be considered to be at risk of closure. NGET have access to very detailed information on the operation of the affected plants and should have been in a position to understand the risks being introduced to the economic viability of older coal burning stations and to anticipate that, in responding to commercial pressure, stations could be closed at relatively short notice. Their submission considers that contracting with other types of generators, predominantly gas, is a medium term strategy. Given the high level of uncertainty that has surrounded coal generation for some time, it might be considered prudent that this strategy should have been revised to ensure that suitable alternatives were put in place in anticipation of the unavailability of coal generation. NGET assert that the closures were unforeseen as they were not indicated in the FES scenarios, however these are long-term planning scenarios and not forecasts. A greater focus on managing the risk using the market operational and economic data may well have led to a different conclusion. SPT acknowledge that the capability of generators to self-start off the grid might not have been specified as a requirement for new power stations commissioned after privatisation. The retro-fit of facilities would perhaps require significant investment and to make such investment a business case would require a long term revenue stream to be available. Clearly in a competitive market without either regulatory enforcement or other business incentive, generation investors would be unlikely to fund facilities incurring additional capital and operational costs. As the providers in a position to deliver the self-start capability inevitably will dwindle over time, the ability of NGET to secure these commercially in the market at an economic cost and in a timely fashion is likely to be seriously compromised.

Question 2: Assuming the event is an IAE, do you consider that any or all of the costs set out in NGET's notice were caused by the relevant IAE?

- Are there any additional interactions between costs incurred that need to be taken into account?
- Do you consider that NGET acted economically and efficiently in procuring Black Start in this event?

We support NGET's decision to secure access to generators to enable Black Start plans to be effective. Noting that there has been a material degradation in the restoration time for the SPT network since

the closure of Longannet, any failure to contract with sufficient suitable generation in the north of England would likely have led to extreme difficulty in enacting a restoration of the Scottish transmission system. While the timing of coal closures should have been more readily anticipated, the removal of further significant Black Start capable capacity from the system will inevitably lead to risk of increased consequences. Until a robust review of the technical options and an effective and demonstrably economic and coordinated means of procuring services meeting the need can be secured, there is essentially no alternative but to contract for the services at the best terms that can be agreed with the available providers. Given there may be a requirement for increased maintenance and some enhancements to ensure reliable performance from ageing facilities not necessarily operating as originally intended in an efficient scheme, it should be acknowledged that historic levels of expenditure on Black Start services are unlikely to be representative of future costs. However it may be appropriate to consider means of demonstrating that where there is no effective market operating in the supply of these essential services that both the providers and the procurers are not taking commercial advantage of the situation at the expense of the GB consumers.