



**SP ENERGY
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Network Planning & Regulation

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Date
17th May 2017
Contact / Extension
Allan Hendry
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Dear Matthew

Consultation on Mid-Period Review NGET PCFM changes

This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland.

We agree in principle with the proposal to maintain the original final proposals profile of IQI rewards and penalties and that this is correctly achieved by the proposed PCFM changes.

In relation to the reduction in the specific fault level allowances of £38.1M, we believe that the method of implementing the associated reduction in revenue allowances by a MOD adjustment in 2018/19 may be incorrect and should be reconsidered.

We suggest that this adjustment should be applied by restating NGET's ex ante allowed revenues with the correction factor flowing through to rectify the financial benefits of receiving revenues early. This would reflect the presumption that any financial benefits that accrued to NGET in respect of fault level allowances arose through complying with the principle of pricing to cap against licence values in place at that time – rather than deliberately recovering additional revenue.

We suggest amending NGET's revenues associated with the specific fault level ex ante allowances by amending the Opening Base Revenue Allowances (PU term), related MOD terms and ultimately restating allowed revenues that with hindsight were higher than necessary. The correction term should then be applied to recompense the financial benefits which have arisen from complying with the licence values in force at that time.



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We believe that the MOD adjustment approach via the Annual Iteration Process is the correct approach in most other circumstances where, for example, there is no specific phased revenue allowance linked directly and explicitly to a specific output.

Should you have any queries in relation to this response, please contact Alasdair Gaw or Chris Elderfield in the first instance.

Yours sincerely

Allan Hendry

Head of Revenue and Licence
Network Planning and Regulation
SP Energy Networks