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Date:
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Dear Geoff

Consultation on the mid-period review (MPR) of RIIO-T1

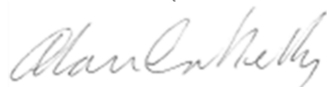
SP Distribution plc, SP Manweb plc and SP Transmission plc. (“the network companies”) are the “asset-owner companies” holding Scottish Power’s regulated assets and distribution and transmission licences. Scottish Power operates along divisional lines, and together, the activities of these companies fall within the Energy Networks division “SP Energy Networks” (SPEN). This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As a TO we are subject to the RIIO-T1 price control framework and must ensure that we develop an economic, efficient and coordinated onshore transmission system and therefore welcome the opportunity to comment on this consultation on the mid-period review (MPR) of RIIO-T1.

In general, these proposals for changes to RIIO-T1 outputs and allowances for NGET appear reasonable but it would have been helpful if more clarity could have been provided on why these outputs were identified as suitable for treatment and others were not. This could have informed the parallel work proposed for output accountability.

In particular we are not convinced that, based on the evidence presented, in relation to shunt reactors, that the decision reached necessarily represents the best way forward or is in the long term interests of consumers.

We have commented on the specific questions raised in the consultation in the attached appendix

Yours sincerely



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Appendix 1: Answers to Specific Questions

CHAPTER: Two - This chapter sets out our minded-to position on the Avonmouth pipelines output for National Grid Gas Transmission.

Question1: Do you have any views on our proposals to remove the pipelines output and allowances?

Question1:

We agree with the decision not to progress works if the output is no longer required. Over an eight year price control it is to be expected that the needs case for certain outputs change. It is expected that licencees should review outputs and adjust their plans accordingly. Ofgem, in creating the RIIO framework, have established a key principle that revenues follow outputs, which may be exemplified by the decision in this particular case. However, the decision to single out this investment and not others is not clear. In order to provide consistency of approach across various incentive and uncertainty mechanisms we would welcome further clarity on whether the decision in this case can be determined as an example of “justified under-delivery”. The alternative option described in 2.12 to hold NGET accountable at the end of the RIIO-T1 period may have provided more consistency for stakeholders and may have encouraged delivery of alternative outputs of more benefit to consumers.

CHAPTER: Three - This chapter sets out our minded-to positions on two areas for National Grid Electricity Transmission – the enhanced SO role and non-variant allowance outputs.

Question 1: Do you have any views on our proposals to allow funding for NGET’s enhanced SO activities?

Question 2: Do you have any views on our proposals to reduce the fault level output and funding for NGET?

Question 3: Do you have any views on our proposals to declassify the shunt reactor output and make no adjustments to allowances for NGET?

Question1:

We consider it is reasonable to allow funding for additional work to fund the SO activities. It should be noted however, that additional work and effort has been required, and will continue on an enduring basis, by the onshore TO’s to support the development and delivery of the enhanced SO role and outputs.

Question 2:

It is not clear to us as to the selection process within the MPR that identified these fault levels and shunt reactors as outputs appropriate for review compared to others. Further explanation on this would be welcome to ensure fair, consistent and transparent treatment in output assessment. At the time of setting the price control, there was a degree of uncertainty related to these and other outputs and the expectation should be that licensees manage appropriate changes through output substitution where this can be justified.

The consultation is silent on Ofgem's assessment of the balance of investment (c£1.1bn) within this category. It is not clear whether the MPR concludes (by omission) that this tranche of investment is deemed satisfactory or to be subject to further scrutiny. A statement to outline any plans, or otherwise, in this regard would be beneficial to stakeholders. This, perhaps, might clarify whether such a category of investment would be included within one (or more) of the areas identified under 'Work on other issues.' (Clauses 1.9-1.13).

We would re-iterate our point (previously made in response to Chapter 2, Question 1) that the decision appears to reflect a position of, "justified under-delivery", as used in relation to non-load related activities. We would welcome Ofgem's clarification on whether this is, or is not, the case.

Question 3:

We do have concerns on the assessment that the delivery of shunt reactors should be disallowed at this time. It is not clear where the remit of NGET as TO or SO begins and ends. Further clarity would be welcome in regard to separation of these entities within the discussions related to this chapter, and specifically, this area.

In reviewing clause 3.19, "...NGET is now forecasting a higher need for voltage control..." it appears that this is related to the TO (as the indicative funding is being related to the £1.2Bn assigned to NGET (TO)). However, the management of voltage control on the GB transmission network is the responsibility of NGET (SO) and, in this case, the TO has responded to the need identified with the SO to pursue an agreed course of action that is technically justified and is the most cost-effective long-term solution.

It is not clear, to us, what the implications will be of de-classification of shunt reactors (Clause 3.21) as an output. This could result in removing a perfectly legitimate approach from the 'toolbox' of technical and operation solutions that may be deployed for voltage control purposes? However, if it is intended to convey that the installation of a shunt reactor cannot, necessarily, be deemed as successful achievement of output delivery if it does not address voltage control issues in a particular area? Further clarification on this matter is necessary. As it stands, it could be understood from this decision that NGET would not act as a reasonable and prudent operator in the development of the UK transmission network against the changing backdrop of power generation and reactive capability.

We are not convinced that, based on the evidence presented in this chapter (as it relates to Shunt reactors), the decision reached necessarily represents the best way forward or is in the long term interests of consumers. Whilst there are a couple of alternative outputs cited neither appears to address the core issue of voltage management in a significantly changed environment from that set

at the commencement of the price control. It would seem appropriate, in the circumstances, that the proposed increase in investment on shunt reactors is placed in suspension, pending the wider review being undertaken by NGET (SO).

We agree that the voltage management issue needs to be managed by NGET (SO) in conjunction with other stakeholders. However, the proposal would be better if it concluded that NGET (SO) be permitted to develop the current work and provide a separate report within a reasonable timeframe with proposals for a toolbox of investment and operational solutions likely to be required in the short, medium and longer-term. This approach could have provided the basis for a separate uncertainty mechanism to more appropriately deal with such issues. In so doing it would recognise that the increased need to manage voltage on the network has arisen in a very short period of time and in order to avoid breach of licence obligations (& potential damage to stakeholders and consumers' equipment) urgent action may be required and may require compromise on idealised solutions.