ScottishPower

energy management

David Halldearn
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Dear David,

**The form of transmission owner revenue restrictions and consequential effects on NGC's revenue restrictions**
**March 2004**

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower UK Division, which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

I hope that you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

**Mike Harrison**
Commercial Manager, Trading Arrangements
ScottishPower Energy Management Limited

**THE FORM OF TRANSMISSION OWNER REVENUE RESTRICTIONS AND CONSEQUENTIAL EFFECTS ON NGC'S REVENUE RESTRICTIONS**

**SCOTTISHPOWER UK DIVISION RESPONSE**

## 1 General comments

1.1 ScottishPower UK Division welcomes this opportunity to comment on Ofgem/DTI's proposals for the form of the TO revenue restrictions under BETTA, and consequential effect on NGC's revenue restrictions. Under the proposed split-transmission model for BETTA, we believe that within the incentive arrangements there must be a clear distinction between NGC's activities in acting as SO for GB, and acting as TO for England & Wales, even if these activities are not separately licenced. Further, any TO incentive arrangements introduced for the Scottish TO's should mirror the treatment of equivalent activities by NGC's TO function, and any associated internal cashflows within NGC should be similarly identifed.

1.2 We believe that without such equivalance and transparency the risk of discrimination by NGC in favour of its own TO business, e.g. in outage planning, is increased and almost impossible to monitor. It will also be more difficult to ensure there are no perverse incentives on or double payments to NGC, as a result of interactions between incentive schemes on the TOs and GBSO and charges on users, to the ultimate detriment of non-affiliated TOs, users and the end customer.

## 2 Issues raised by the consultation paper

*Activities to which TO incentive arrangements should apply*

2.1 We agree that it is not necessary to incentivise transmission switching or the provision of transmission services in real time, and that it is more appropriate instead to place reliance on the associated obligations set out in the STC.

2.2 With respect to investment incentives, we agree that the third approach outlined in the consultation document should be adopted, namely for the Authority to make adjustments to the price control on a case-by-case basis, consistent with existing practice.

2.3 In terms of new connections, it may be appropriate to introduce some form of incentive on the TOs and GBSO collectively to seek to make the new connections process on non-affiliated TO networks as efficient as possible, recognising that there is increased risk of delay when multiple transmission licensees are involved. These arrangements should aim to ensure that users connected to non-affiliated TO networks are not in any way disadvantaged by the split-transmission arrangements, e.g. in terms of the time taken to make an offer for connection and subsequently deliver that connection. It is also important that any disputes between the GBSO and Scottish TOs do not impact on the GBSO's obligations to the user.

2.4 We agree that TO incentive arrangements should be introduced with respect to outage planning, and that a simple solution should be sought given that they are intended to apply only until 31 March 2007. Our comments on Ofgem/DTI's proposals in this area are as follows.

*TO incentives in relation to outage planning and the effect on NGC incentives*

2.5 We agree that the TO should not have to make any payments to the GBSO in relation to GBSO decisions, and should receive compensation from the GBSO in relation to outage planning. We agree that such compensation should be determined with reference to variances from the week 49 outage plan, assuming that it represents the optimal plan in forecast timescales as agreed by all transmission licensees. We believe that whichever of the three options given is adopted for determining the value of the compensation, the impact on users' charges should be the same as if the affected outage had been on NGC's own transmission network.

2.6 We note that implicit within the current NGC SO Incentive Scheme is the trade-off between, on the one hand, the costs to NGC's TO business of any actions (e.g. changing outages) taken to reduce balancing costs and, on the other, the profits which accrue to the SO from that reduction. That is, NGC is willing to absorb the additional costs to its TO business in changing the outage if this allows the SO business to reduce balancing costs to the extent that the resulting increase in its return on the SO incentive scheme more than offsets the additional TO costs. Therefore the net effect on users of NGC changing the outage, is to reduce BSUoS charges as a result of the reduction in balancing costs, while TNUoS charges are unaffected.

2.7 We believe that TO compensation payments under BETTA should replicate explicitly this implicit arrangement. Accordingly, the compensation payment to the non-affiliated TO to cover the costs of making the change to the outage programme should be paid by NGC without any associated increase in either of their revenue restrictions. As well as being consistent with the treatment of changing outages on NGC's network, this arrangement will ensure that NGC only request changes to the outage plan when there will be a clear net saving in transmission costs, on whatever network the outage is changed.

2.8 In order to ensure equivalence and transparency in the treatment of all three TO's, we believe that NGC should ideally be required to specify the costs incurred in deviating from the week 49 outage plan over the England & Wales network, such that an equivalent level of transparency is achieved in relation to compensatory cashflows between the SO and all three transmission licensees.

2.9 To the extent that NGC's TO revenue restriction has already been adjusted to reflect the potential for the costs of outage rescheduling to be (implicitly) compensated as a result of the SO incentive scheme, it may be appropriate to make a similar adjustment to the revenue restriction of the Scottish TOs. If no such adjustment has been made to NGC's revenue restriction, none should be made to SPTL or SHETL.

2.10 Given that the SO will have available to it the same right to change outages in Scotland as in England & Wales when it is economic to do so we do not believe that the arrangements detailed above would alter significantly the risks faced by NGC in respect of incentivised balancing costs. Accordingly, we do not see any need to revise the existing sharing factors under the SO Incentive Scheme as a result of this particular issue.