

**Date:** 26 May 2006

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Dear Adam

**GB Charging Condition 6 – Charges for Site Specific Maintenance**

Thank you for your letter of 5 May seeking our views as a Transmission Owner.

As you are aware, we had discussed contestability in maintenance during the development of BETTA, and in ChuG meetings. We continue to believe that there is no business justification nor customer appetite for introducing maintenance charges on a site-specific basis.

However, we see that promoting contestability in Connection Construction is more appropriate as it facilitates competition. Furthermore, this is consistent with the successful arrangement operating in Distribution GB wide for a number of years.

We (and the other TOs) have operated under an “RPI-X” price control regime and are incentivised to reduce our operating costs including maintenance expenditure. We do not believe Users can reasonably undertake the same connection maintenance more efficiently than the TOs.

We do not believe that contestability in maintenance as a whole can be justified and strongly believe there is no cost benefit to the Users, TOs or the GBSO.

The connection assets remain in the ownership of the Transmission Licensee (TL) and it seems to us strange that the User should be given the right to maintain these assets. The TL has the obligation to maintain the transmission system and by allowing the User to maintain part of the transmission network implies a new contractual framework to back off the TL’s obligations and liabilities onto the User. Clearly the TLs can and do employ contractors to carry out maintenance on parts of the network, but the TL has much greater control over the quality of the work when it contracts directly rather than at arms length through the User.

The need to back off these licence obligations may explain why there has been little if any take up of the competitive option. Also, the move to a much shallower connection policy

means that much fewer assets are open to competition. The requirements on the licensee to have systems in place to facilitate competition in maintenance are disproportionate to the needs of users, and therefore result in a disbenefit.

We believe the connection agreement should provide for the ongoing maintenance or replacement if faulty of the connection assets. The transmission running cost is a service available GB-wide and in keeping with the principles of BETTA we believe that this component would be best to capture the full overhead of all the back up services consistent with the obligations under the connection agreement.

We agree that any change to the methodology for recovering actual site-specific maintenance costs should be proportional to the benefit and expected uptake of contestable maintenance arrangements.

Our systems do not capture maintenance costs at a site-specific level. To facilitate contestable maintenance charges will require new IT /accounting systems and frameworks to capture, process, communicate and report individual maintenance costs on each connection asset. Further, it will be necessary to develop commercial and operational arrangements between GBSO and TO (mirroring NGET and Users). These involve significant initial set-up and on-going costs to SHETL which will ultimately be borne by all Users for relatively little benefit.

In SHETL's area there are only a small number sites where Users may potentially wish to carry out their own maintenance (the remaining sites are connections to other businesses of the SSE Group - distribution or generation). Based on our current TO charging methodology the maintenance charge amounts to an annualised charge of around £30,000 in total for all these sites.

It would clearly be uneconomical to invest in major IT changes and increased resources to deliver potentially low benefits particularly given that no Users have elected to contest site-specific maintenance in England & Wales since 1997.

Users site-specific charges only account for a small percentage of GBSO total revenue, and for the reasons outlined above, we support a simple charging arrangement which ensures the process is cost effective and efficient for implementation on GB basis. On this basis, we support the existing site-specific maintenance charging methodology which is sufficiently cost reflective and has the benefit of removing the lumpiness, and associated “cost-shocks”, that would be experienced had charges been based on actual costs.

Of the number of alternative options considered, we would support the inclusion of maintenance costs within the Transmission Running Cost component of connection charges (which is presently fixed for the duration of the price control period). This method provides transparent, predictable and stable charges. We do not support the introduction of site specific maintenance factors that vary by TO area as being inconsistent with a GB-wide charging methodology.

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In conclusion, we urge you to take into serious consideration the significant cost and practical implications of implementing site specific maintenance charges, based on actual cost information for each site, for insignificant benefit.

I hope these comments are helpful.

Yours sincerely

**Mo Sukumaran**  
**Pricing Manager**