

Information National Grid Consultation – September 2009

Potential Enhanced Electricity Transmission Owner (TO) Incentives

Response by SP Transmission Limited

This response is from SP Transmission Limited (“SPT”), which as a regulated Scottish Transmission Owner (STO) owns and maintains the electricity transmission network in south Scotland.

We acknowledge that there needs to be some consideration of limiting constraints in the short term until such time as the necessary transmission reinforcements are completed. However, it is important that any short-term measures do not compromise our ability to deliver essential reinforcements as quickly as possible. Similarly, new connections and system operator led investment should not compromise either capital projects or essential maintenance work necessary to maintain security of supply.

In terms of National Grid’s overall objective of identifying measures to enhance the role of the transmission companies within the existing SO/TO interface arrangements and to consider whether further new or revised approaches to incentivising transmission companies are desirable, ideally the first step should be to review the key interfaces and processes between National Grid and the STOs. By reviewing where we are now, since the implementation of BETTA, it may well be possible to take measures that help limit constraints.

For example, we believe that streamlining the outage planning communication process with major system users would help. In addition, it is rare for National Grid to suggest different dates for an outage at the year ahead and it may be that more work at this stage may help limit constraints and/or avoid outage change costs.

TSORG Initiatives

In order to maximise the capability and availability of the GB transmission system, we believe that there are various initiatives that must be seriously considered by National Grid. Many of these were raised in the 2007 TSORG report. For example, the application of Dynamic Rating may be usefully deployed to wind farm local infrastructure where there is a coincidence of high wind generation output and increased conductor cooling. In the medium to longer term it is important that we continue to work together collaboratively to produce a “hybrid” dynamic weather enhanced rating system.

There is also a very strong case for the deployment of Wide Area Monitoring across the GB transmission system to provide better visibility of dynamic performance, and transient and voltage stability limits. We are currently trialling an installation of Wide Area Monitoring and developing a proposal with the other TOs for the coordinated development across Great Britain.

SO/TO Incentive Alignment

Given the scale and materiality of GB constraints we understand why it is necessary to look at all possible ways of minimising constraints. We therefore broadly support National Grid's initiative to look at potential SO/TO incentives.

We would prefer new incentive arrangements to be introduced at the start of a price control in order that the impact on our overall risk profile can be fully assessed. Hence our support for a new mid price control incentive regime must be qualified such that any regime is subject to (i) the materiality of the incentive, (ii) the STO not being penalised (or rewarded) for factors that are outwith its direct control, and (iii) the timely provision of any necessary information to the STO.

We believe that we already go to considerable lengths, working with National Grid, to limit the impact of circuit outages. However, we would be willing to discuss Approach 1 with National Grid – to incentivise outage change activity. It must be stressed though that the incentive detail would need to be resolved.

Many of the constraints are due to the significant and necessary infrastructure upgrade construction works that are underway. While we appreciate there are constraints in Scotland and across the Interconnector, we have no information on the scale, duration, timing, location and materiality of these constraints. We recognise that providing such information to the STOs may prove problematic but on the other hand such information may allow us to help assist in alleviating constraints.

Early Generator Connection Incentives

Even when faced with the limitations of the planning system and potential delays in obtaining timely commissioning outages, we believe that we still have a successful track record for timely and cost-efficient delivery of connections.

The current Licence, CUSC and STC arrangements ensure that connections are completed as quickly as possible. In preparing an offer of terms for connection we are required to meet, as far as possible, a user's preferred connection date. If a TO Construction Agreement is in place and a user requests an earlier connection date then we will do everything possible to meet the user's aspirations, including the use of innovative approaches such as intertrips or seasonal ratings.

In terms of cost efficient investment, the STOs' load related funding arrangements provided under their price controls, which are based on revenue drivers, incentivise cost-efficient investment on local connection works. These arrangements were introduced at the start of the current price control and we see no need to modified these arrangements at this stage.

The attached appendix provides our answers to the specific questions raised in the consultation.

SP Transmission Limited
21 October 2009

Potential Enhanced Electricity Transmission Owner Incentives

Response by SP Transmission Limited

3/1 - Do you believe there is a role for incentivising accelerated completion of local works and therefore the connection of new generation in England & Wales?

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Do you believe there is a requirement for such a role in Scotland?

We believe that the current Licence, CUSC and STC arrangements ensure that connections are completed as quickly as possible in Scotland. In preparing an offer of terms for connection we are required to meet, as far as possible, a user's preferred connection date.¹ If a user requests an earlier connection date and a solution can be identified then we will do everything possible to meet the user's aspirations.

When all necessary consents have been secured, we will immediately commence construction of the local connection works and in certain circumstances, will commence construction works in advance of consents, subject to any stranded or additional costs being backed off by the user/developer. We have a proven track record of delivering connections as soon as possible, and when necessary we will apply new innovative approaches to facilitate early connection.

The STOs' load related funding arrangements under the current transmission price control incentivise cost-efficient investment. We see no reason why these arrangements should be modified at this stage.

3/2 Do you believe that the potential enhancement outlined which balances National Grid's current price control incentives in respect of timescales is an appropriate model, or are there others that should be considered?

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¹ Condition 4A of the Transmission Licence requires the STO to enter into an agreement with National Grid to carry out works to connect parties to the transmission system. This condition clearly specifies that in providing a connection should be providing as quickly as possible i.e. "time being of the essence".

3/2 (continued) - Given the incentive properties that are provided by the current price control arrangements in Scotland do you believe it would be possible to further align these arrangements with customers' potential desires for timely connections?

During our TPCR4 discussions we explained that the UCA approach did not work in Scotland, as there was such a wide variation in the cost per MW of reinforcements. Given that we are already operating in what we regard to be a very effective incentive regime under our current price control arrangements, we see no reason to introduce UCA incentives in Scotland.

We do not believe that there is a need to "further align" our current price control arrangements. The STOs' load related funding arrangements incentivise cost-efficient investment and we see no reason why these arrangements should be modified at this stage.

We explained in our answer to 3/1 why we believe that the current contractual arrangements are an effective mechanism for facilitating the advancement of user connections. Subject to the limitations of the planning system and the potential for delays in obtaining early commissioning outages, we will do everything possible to connect users in line with their requirements.

3/3 Do you believe the potential incentive correctly balances the risk and reward for National Grid?

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3/4 If you presently have future transmission connection interests, in principle, could you be seeking a grid connection date which is less than 4 years from signing the connection offer?

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4/1 Do you think it is appropriate to extend the current outage change arrangements in the way described? Please outline any relevant issues that have not been highlighted.

We support extending the current duration of the Final Outage Plan from one to two years and allowing any outage change costs to be funded over this extended period.

We are pleased that National Grid is also committed to continuing to work closely with the STOs to identify practical ways within the existing frameworks to improve collaborative and coordinated working. This includes working outside normal hours and/or increasing manpower resources. Our experience is that we are frequently being pressed by National Grid to reduce outage durations by extended day/week-end working. While this helps National Grid to reduce constraints, it does increase our costs for which we are not funded.

Another area to consider is to streamline the process around which the STOs, the GBSO and generators coordinate outages. National Grid provides year-ahead data on generator outages but does not provide current year changes for reasons of market confidentiality. This means that if the generator user changes their outages we have to rearrange often essential reinforcement/asset replacement/maintenance work and we do not receive any compensation for the business impact of these changes. Timely information on generator outages would help to simplify the outage planning process and potentially alleviate constraints or help limit the risk of incurring additional constraints. We suggest that one approach would be for National Grid to coordinate separate tripartite meetings between the STO and all generator users, and also to ensure that we are immediately communicated on any generator outage changes

Finally, it is rare for National Grid to suggest different dates for an outage at the year ahead and it may be that more work at this stage may help limit constraints and/or avoid outage change costs.

4/2 Should the current SO incentive in relation to the outage change allowance be reviewed to remove potential perverse incentives, and are there any relevant issues arising that have not been described above?

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4/3 Should the current incentive distortions between National Grid's SO and TO activities be addressed in the short term (i.e. ahead of TPCR5)?

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4/4 What are your views on the potential solution suggested and what controls would need to be put in place?

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4/5 What are the issues associated with a model where the SO has a capex 'pot' that it could spend on TO schemes to reduce balancing costs and, in principle, is this something that you would support?

System operator led investment – such as system intertrips – would be a useful tool to help limit constraints. However its use may be limited as it would be important to ensure that it does not compromise essential reinforcement projects necessary to minimise constraints, or other capital projects or essential maintenance work necessary to maintain security of supply.

4/6 In principle, would you support the development of incentives that encourage SO driven capital schemes to be prioritised for delivery by TOs?

In principal we are happy to support SO driven capital schemes. For example, we have worked closely with National Grid on the enhancement of the operational intertripping scheme, funded out of our price control, in order to maximise boundary B6 transfers. As per our response to 4/5, it would be important to ensure that any scheme does not compromise essential reinforcement projects necessary to minimise constraints, or other capital projects or essential maintenance work necessary to maintain security of supply.

5/1 In principle, do you believe that there is a role for establishing TO incentives, in the shorter term, in relation to managing SO outage change requests to enhance the operation of the current model?

We would prefer new incentive arrangements to be introduced at the start of a price control in order that the impact on our overall risk profile can be fully assessed. Hence our support for a new mid price control incentive regime must be qualified such that any regime is subject to (i) the materiality of the incentive, (ii) the STO not being penalised (or rewarded) for factors that are outwith its direct control, and (iii) the timely provision of any necessary information to the STO.

We believe that we already go to considerable lengths, working with National Grid, to limit the impact of circuit outages. However, we would be willing to discuss Approach 1 with National Grid – to incentivise outage change activity. This may help to address our issue relating to increased business costs caused by reducing outage durations through extended day/week-end working. It must be stressed though that the detail underlying such an incentive would need to be resolved.

5/2 More broadly, what are your views on the potential longer term development of alternative models for incentivising TOs with regard to their influence on network availability / constraints?

We need to ensure that we are incentivised around parameters that we can control and so we do not support the Approaches covering boundary/circuit capability and direct TO incentivisation of constraints. These Approaches are likely to contain parameters that we cannot control.

For example in terms of Approach 2, the capability of boundary B6 is impacted by many factors such as the operational configuration of the north of England transmission system, and the level and pattern of generation in both the north of England and Scotland. These factors are outwith the control of the STO.

In addition, in order to ensure transparency in the application of such an incentive, the STO would need to be provided with operational information on the state of the north of Scotland and the north of England transmission systems and the generation running regime at any point in time. The provision of such information to the STOs may not be acceptable to market participants.