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13 December 2007

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Dear Tom

Response to the Consultation Document GB ECM-09
For the charging and access arrangements associated with SQSS design variations based on customer requests

Thank you for the opportunity to respond to this Consultation Document. This response is submitted on behalf of ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Renewable Energy Ltd.

The present charging methodology does not incentivise a user to apply for the most economically efficient connection solution. A connection to a standard lower than GB SQSS bears a greater risk of interruption and increased cost that should be reflected in reduced TNUoS charges.

In particular, provision of a design variation discount will be crucial to the achievement of the government's renewable generation targets. Renewable generation has to locate where its resource is greatest and this is often in areas where an SQSS compliant connection is not possible (particularly with respect to consent approval) or is not the most economically efficient option.

We note National Grid's acceptance that any proposal for change should be applicable to the whole GB system and, in particular, applied to existing connections where availability restrictions are applied due to transmission design decisions taken under the previous "deeper" connection charging methodology. We also support the adoption of a methodology that can be readily adopted for Offshore transmission users.

ScottishPower supports the proposal to change the TNUoS methodology as this approach is transparent and embedded within the charging methodology. However, we are concerned that the level of discount in the Consultation Document is insufficient to incentivise users to adopt a more cost effective standard of connection as it does not fully reflect the cost savings associated with the design variation. In particular we are concerned that the proposed level of circuit discount is lower than that proposed in GB ECM-06 and

that there is no proposed substation discount. We note Ofgem's comments in their Decision Letter on GB ECM-06 (15 February 2007) which stated "we are concerned that the proposal does not sufficiently reflect the capital costs saved and …would not provide the intended economic signals to generators" and we fail to see how this proposal addresses the issue of full reflectivity of the cost savings and provision of sufficient incentive to generators. In particular, the Consultation Document fails to consider how the increased connection charges faced by a generator adopting a design variation connection affect the determination of an appropriate level of discount.

Substation project specific discount
ScottishPower supports a project specific discount which fully reflects the cost saving arising from the design variation that is annuitised into an annual charge discount. The potential discount can be determined during the connection offer process as outlined in CAP149 where the user elects for a design variation connection via the connection application form. With a fully cost reflective discount, the user can make an efficient economic decision whether to adopt the lower standard of security with its attendant risks of interruption to generation.

Substation generic discount
ScottishPower does not support the use of a generic substation discount. Due to the averaging process, a generic discount could never be fully cost reflective and may still result in inefficient investment decisions for both the user and the Transmission Licensee. However, we note that the use of a generic substation discount offers simplicity and enables the user to determine the savings ahead of making a connection application. If adopted, we would support the setting of the discounts at the beginning of each price control period followed by RPI indexation.

No discount
ScottishPower believes that a substation discount is necessary to provide sufficient incentive to generators to adopt a design variation connection as argued in Ofgem's response to GB ECM-06. Exclusion of a substation discount results in a mechanism which is neither fully cost reflective of the cost savings nor reflects the additional connection costs faced by the user and therefore will not provide sufficient incentive. Faced with the full consequences of the restricted access associated with a design variation, users will opt for the fully SQSS compliant connection even where this is not economically efficient for the Transmission Licensee.

Project specific circuit discount
ScottishPower supports a project specific circuit discount which fully reflects the cost saving arising from the design variation that is annuitised into an annual charge discount. The potential discount can be determined during the connection offer process as outlined in CAP149 where the user elects for a design variation connection via the connection application form. With a fully cost reflective discount, the user can make an efficient economic decision whether to adopt the lower standard of security with its attendant risks of interruption to generation.

Location of generation plant is determined by many factors but primarily by the availability of fuel source (especially renewable energy sources) and availability of sites with planning permission. The scope for a user to manipulate the charging mechanism and

develop a "perverse incentive" to locate further from the demand centre is therefore extremely limited. Extension of the length of circuit affected by the design variation increases the probability of an outage on that circuit with a consequential loss of revenue and would act as a disincentive to locating further away. Users should have the freedom to analyse and balance the signals provided by the charging mechanism in deciding whether to accept a design variation connection.

Nodal specific circuit discount
The additional complexity of using the seculf model to calculate nodal security factors outweighs the increased accuracy achieved through calculating the discount using this method. Although the seculf model could be made available to users, without extensive training and experience in using the model, users would still be unable to predict reliably the outcome and potential discounts available and thus unable to make informed economic decisions.

Generic circuit discount
ScottishPower does not support the use of a generic circuit discount. Due to the averaging process, a generic circuit discount could never be fully cost reflective and may still result in inefficient investment decisions for both the user and the Transmission Licensee. However, we note that the use of a generic circuit discount offers simplicity and enables the user to determine the savings ahead of making a connection application.

The issue of removal of the discount from a generator where the connection of a second generator results in upgrading to a double circuit is a major risk to the original generator and it is not clear how to manage the issue of the original generator being forced to pay for an upgrade which was not requested. The resultant uncertainty is a major disincentive to electing for a single circuit connection. The original generator should also be protected from potentially inappropriate commercial pressure from subsequently connecting competitors whose choice of whether to seek a fully compliant connection or not would affect the original generator's charges. A process should be developed for informing an affected design variation user of a potential new connection and preventing the affected user from being exposed to this uncertainty.

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

Yours sincerely,

James Anderson
Commercial and Regulation