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27 July 2006

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Dear Patrick,

**Comments on Progress report on GB charging condition 2,
Review of incremental cost of capacity within the GB Charging Methodology.**

Thank you for the opportunity to respond to this progress report. 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.

ScottishPower support the objective of improving transparency and support the updating of the use of system methodology to include the process of calculation of incremental cost of capacity.

ScottishPower still have concerns on the cost reflectivity of the current process but agree with the objectives of achieving transparency, simplicity, stability and predictability. The use of 400kV overhead line new build as a proxy for all techniques of providing additional capacity is predicated on the development of appropriate expansion factors to reflect the use of voltages other than 400kV and cable rather than overhead line.

The use of average historic costs and tender valuations (adjusted by indices) in the calculation of incremental cost of capacity provides a degree of stability and objectivity to the process which would be lost should the period of data be reduced and replaced with forecast data. Use of average data over a longer period also removes the potential distortion attributable to recent large projects. Forecast data may include data for upgrade schemes for projects which do not materialise due to planning or commercial constraints thus introducing a greater element of uncertainty into the calculation.

ScottishPower support the proposal that National Grid include a section reviewing the accuracy of previous reports against current tariffs in future condition 5 reports. Accuracy of forecasts should be demonstrated over a number of years before there is further consideration of the use of forecast costs in the calculation.

The use of an AC based methodology with its attendant lack of simplicity, predictability and transparency is not supported by ScottishPower. Likewise, the use of scaled TEC to represent MVA in the tariff model is rejected as it leads to a discriminatory overstatement of the locational element of cost recovery.

ScottishPower do not believe that it is cost reflective to disregard the issue of reflecting the value of unused spare capacity in the calculation of incremental cost of capacity as this potentially delays the requirement for additional construction work and thus reduces the cost of providing such additional capacity.

As stated above, the use of 400kV line construction as a proxy for all additional capacity requires the development of appropriate expansion constants. In particular, the scope for providing additional capacity via methods other than new build should be reflected in expansion constants. The values in table 4 reflecting relative costs and proportions of alternative methods should be revisited on an annual basis to identify whether re-profiling or re-conductoring require to be reflected in the expansion constants.

ScottishPower support the use of a single weighted average regulatory cost of capital.

The adjustment of expansion constants to include the benefits from the use of other capacity enhancing plant (such as quadrature boosters and voltage compensation devices) is attractive but introduces a level of complexity that outweighs the potential benefits of increased cost reflectivity.

Overall, the methodology must be consistent with the objectives of achieving transparency, simplicity, stability and predictability.

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