



Managing Director of Transmission

Report for the year 2012

Introduction

- (1) Special Condition 2I of SP Transmission's licence requires it to appoint a Managing Director of Transmission (MDT) to be responsible for the conduct of the transmission business.
- (2) SP Transmission Ltd (SPT) is required to arrange for the MDT to be provided with the services of persons, premises, systems and other resources as may be reasonably required by the MDT for the efficient and effective management and operation of the transmission business in accordance with SPT's statutory duties and licence obligations.
- (3) The above licence condition also requires that the MDT provide an annual report to the Directors of the licensee regarding the provision of resources referred to above in respect of the previous calendar year. The report is also to state the opinion of the MDT as to whether adequate arrangements have been made to enable SPT to comply with its obligations in the ensuing year. It should also describe the differences between the provision of resources in that year and in the previous year, and the reason for these differences.

Arrangements for Provision of Resources in 2012

- (4) The Energy Networks division of ScottishPower is responsible for the management and operation of the three GB licensed networks in the group. Two of these licensees - SP Transmission Ltd and SP Distribution Ltd - hold Transmission and Distribution licences respectively for Central and Southern Scotland. SP Manweb plc holds the distribution licence for Merseyside and North Wales. SP Power Systems Ltd ('PowerSystems') is the ScottishPower subsidiary that provides network management and operational services to these licence holders.
- (5) Within the structure described above, PowerSystems provides services to SP Transmission under a Service Agreement. This sets out the network investment and operational services that PowerSystems is required to provide. These include an annually updated investment plan approved by SP Transmission, and service targets that PowerSystems is expected to meet.
- (6) The Service Agreement includes a requirement that PowerSystems carry out its functions in accordance with relevant statutory and licence obligations. SP Transmission has step-in rights in the event of default or material breach by PowerSystems.

- (7) SP Transmission has been given a General Consent by Ofgem under Condition B3 of its Licence in relation to the contracting out of operational control of network assets to an affiliated company. In accordance with the terms of that consent, the Service Agreement with PowerSystems includes a covenant that PowerSystems will refrain from any action that is likely to cause SP Transmission to breach its statutory or licence requirements, and that it will provide information required by SP Transmission to monitor PowerSystems' performance or to meet requirements for information by the Authority.
- (8) As referred to in the previous year's report, SP Transmission has an agreement in place with Iberdrola Engineering and Construction ("IEC") whereby IEC provides technical and management support for delivering the Transmission capital investment programme.
- (9) PowerSystems, on behalf of SP Transmission, SP Distribution and SP Manweb, continues to hold accreditation to ISO 9001: Quality Management, ISO 14001: Environmental Management, BS OHSAS 18001: Occupational Health & Safety & BSI-PAS55: Asset Management. The accreditation provides assurance to stakeholders on the efficient and effective management of transmission and distribution assets.
- (10) The following paragraphs provide a summary of key projects undertaken during 2012 and the significant amount of pre-engineering and other preparatory works that are also being progressed to deliver the customer and strategic reinforcement requirements for 2020.
- (11) In 2012 activity has continued to focus on development and construction works for the connection of numerous wind farm generation projects and associated reinforcement requirements. In moving towards this target, it has connected a further large windfarm called Fallago (144MW) to the Transmission System in January 2013.
- (12) The modernisation of the existing network continued with a range of projects across the main asset groups – switchgear, overhead lines and underground cables. In accordance with a key strategy agreed as part of Transmission Price Control Review 4 (TPCR4), SP Transmission will remove all poor condition/ performance gas compression cables by 2012/13. The final circuit, in Glasgow, is being replaced as part of the Glasgow East Reinforcement project in accordance with the plan agreed with Glasgow City Council in preparation for the Commonwealth games.

Adequacy of Provision for 2013

- (13) In 2013, activity in Transmission continues to focus on the connection of numerous wind farm generation projects and associated reinforcement requirements as well as continuing with underlying asset replacement, mainly substations.
- (14) SP Transmission is working closely with stakeholders to connect windfarms in accordance with proposals set out in its Business Plan for RIIO-T1. This plan will increase the renewable generation portfolio by a further 2500MW by 2020/21 in its licence area. Development and construction works continues on the new wind farm capacity, with Harestanes (163MW) connecting in 2013, and including more than

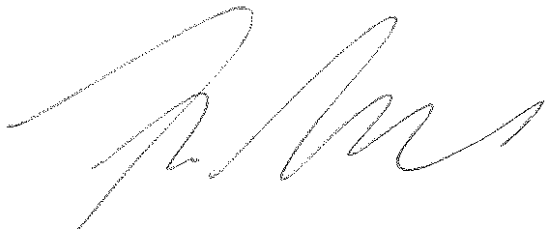
nine in South-West Scotland (eg Afton, Brockloch Rig, Pencloe etc) totalling over 600MW with expected substantive completion in the period leading up to 2016/17.

- (15) SP Transmission, in accordance with its long-term plan agreed with stakeholders, continues to undertake a number of major projects that will enhance the capability and capacity of the transmission network. This includes key projects to facilitate the delivery of the Government's target for renewable generation in Scotland.
- (16) In 2013 we will complete a further upgrade to the boundary B6 capacity from Scotland to England to increase this capacity from 2.8 Gigawatts (GW) to 3.3GW, through the installation of mechanically switched capacitors at key nodes on our transmission network.
- (17) We are also in the construction phase of a further upgrade to boundary B6 to increase the capacity from 3.3GW to 4.4GW by 2015 by installing series capacitors at three sites on the 400kV interconnector circuits from Scotland to England, and by reinforcing our east - west circuits to double circuit 400kV operation across the central belt of Scotland from Strathaven via Wishaw and Kaimes and on to Smeaton south of Edinburgh. The installation of series capacitors will be the first use of series compensation on overhead lines in the UK. A comprehensive tender assessment process is being undertaken, on this technically complex project, to ensure best economic value for stakeholders and the principal contract is expected to be placed by summer 2013. Both projects have commenced construction and are planned to complete in 2015/16.
- (18) In February 2012 National Grid and SP Transmission announced the award of a £1bn contract to build the first ever sub-sea electricity link between Scotland and England/Wales. The link will be the longest high capacity HVDC (High Voltage Direct Current) cable in the world and will increase the capacity of electricity flowing between Scotland and England by more than 2GW. The project remains on course for full commercial operation in 2016, subject to planning approvals. This new link is one of several strategic upgrades to be delivered as part of ScottishPower's approved plans under the new RII0-T1 price control agreement.
- (19) The ambitious investment plan will increase power transfer capacity from Scotland to England from 3.3GW to close to 7GW by 2021. The under-sea link is one of several strategic projects designed to transport more power from Scotland to England and complements existing reinforcement projects like the construction of a new 400kV double-circuit overhead link between Beaulay (near Inverness) and Denny (near Falkirk). This reinforcement is necessary to increase power transfers to central Scotland, arising from new renewable generation in the north of Scotland.
- (20) In December 2009, the Scottish Government granted S37 consent for the Beaulay-Denny 400kV overhead line, subject to appropriate visual mitigation measures. Since then extensive liaison has taken place with the local community to develop visual mitigation measures in an attempt to fully comply with planning conditions attached to the S37 consent. This has taken considerable time and a submission was made to the Scottish Government in August 2011 with a large number of detailed proposals to satisfy the Stirling Visual Impact Mitigation Scheme (SVIMS). In December 2011, formal notice of consent for the Beaulay-Denny project was provided to SPT by Scottish Ministers. A full tender and contract award assessment process was largely completed during 2012 and work is well underway on all of the major contracts. It is

expected that the new circuits to SHETL will be completed by the end of 2015 with all substation works completed in the first half of 2016.

- (21) Whilst there has been significant construction activity associated with new renewable generation activity there has also been significant reinforcement works being undertaken to improve security of supply to existing customers. An increase in underlying electricity demand in and around the west of Glasgow has necessitated the establishment of a new Grid Supply Point near Glasgow city centre. Construction work continues and ScottishPower are on schedule for completion during 2013.
- (22) There is a forecast increase in electricity demand in the east of Glasgow due to the 2014 Commonwealth Games. As a result reinforcement works are taking place around Dalmarnock grid supply site to increase capacity and improve security of supply as this area of Glasgow undergoes extensive redevelopment.
- (23) In addition to the current works in and around Glasgow, there are several other proposals for Grid Supply Point (GSP) reinforcements during the RIIO-T1 period across central (eg. Bonnybridge, Cupar) and southern Scotland (eg Galashiels, Tongland), They are in the design/ development phase during 2013 with construction works beginning in 2014.
- (24) During the year a number of modernisation projects are being undertaken to maintain or improve security of supply for customers. This includes asset replacement activity, driven by condition, at Ayr, Bonnybridge, Cockenzie, Drumchapel, Easterhouse and Paisley with substantive completion expected during 2013. In addition, major engineering works associated with the replacement of end-of-life switchgear and transformers will commence at several sites including Bainsford, Chapelcross, Sighthill and Windyhill substations. These works will contribute to the delivery of key asset health outputs to improve the quality and reliability of electricity supplies to customers.
- (25) In accordance with the company's asset strategy, asset replacement and refurbishment work was undertaken to improve the asset health of a number of 400kV, 275kV and 132kV overhead line routes. On several suburban routes (AC, AF & BZ) overhead lines are being undergrounded, as it is not feasible to modernise them due to proximity to domestic premises and they will complete this year. A major refurbishment of XF route (Neilston to Windyhill) substantively completed during 2012 as planned. Further works on YD Route (Windyhill-Drumchapel) and XV route (Kilmarnock to Strathaven) are scheduled to complete during 2013. In addition, construction works are ongoing to modernise CL/CK 132kV routes (Windyhill to Dalmally) and will commence on XG/XQ routes (Neilston to East Kilbride) and XS route (Kaimes to Cockenzie) in 2013. On completion, they will deliver all of the 132kV (c160cct km) and over 40% of the 400/275kV overhead line reconductoring baseline output for RIIO-T1.
- (26) The aforementioned major refurbishment works are supported by a programme of minor works to maintain the reliability and performance on other overhead lines until they are due for major works in future. This approach ensures that the network assets are modernised in an efficient manner without compromising long-term customer service.

- (27) The annual maintenance programme, which ensures that the network continues to operate efficiently and with a high degree of reliability, continues to be delivered in accordance with policy.
- (28) Capital expenditure is forecast to increase over the next few years as significant investment is undertaken to accommodate new connections. As previously mentioned, forecasts also include the construction of the West Coast HVDC link which will be a significant investment. The company will continue to borrow to finance these activities as forecast investment will be in excess of net cash inflow from operating activities for the year ended December 2013. This will be financed either through loans from the parent company or debt issued directly by the company. As noted in last year's report, Iberdrola S.A. has provided legally enforceable undertakings to SP Transmission as required by the latter's licence, for example that it will refrain from any action that would then be likely to cause the licensee to breach any of its statutory or licence obligations.
- (29) In view of the arrangements described above, and the resources made available, I am satisfied that adequate arrangements have been made in order to as far as possible secure compliance with statutory and licence obligations in the year 2013.



Frank Mitchell
Managing Director, SP Transmission Ltd