



Managing Director of Transmission Report 2016

Introduction

- (1) Special Condition 21 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 plc (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.
- (4) 2016 was the third year of the new RIIO framework (Revenue = Incentives + Innovation + Outputs). Under the RIIO framework, there is a much greater emphasis on network companies playing a full role in developing a sustainable energy sector and delivering services that provide value for money for customers. A key feature is agreement on the set of outputs that companies will be expected to deliver as part of the framework. The RIIO-T1 price control, which became effective from 1 April 2013, will operate until 31 March 2021.
- (5) The RIIO framework introduced enhanced stipulations on licensees to demonstrate that they have suitable and sufficient resources to be able to comply with all relevant standard and special licence conditions. In this respect, SPT consider that these requirements, effectively, supersede the intent of Special Condition 21. SPT has prepared this report, taking account of such information.

Arrangements for Provision of Resources

- (6) The ultimate parent of the company is Iberdrola S.A. ("Iberdrola") which is listed on the Madrid stock exchange and the immediate parent of the company is Scottish Power Energy Networks Holdings Limited ("SPENH"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited group ("ScottishPower") of which the company is a member.
- (7) The company is part of ScottishPower's Energy Networks Division ("SP Energy Networks"). SP Energy Networks is responsible for the management and operation of the three GB licensed networks in the group. Two of these licensees - SP Transmission plc (SPT) and SP Distribution plc (SPD) - hold Transmission and Distribution licences respectively for Central and Southern Scotland. SP Manweb plc (SPM) 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. All assets comprising SPT's transmission system (eg overhead lines, switchgear, protection and control equipment) are owned by SPT.
- (8) Within the structure described above, PowerSystems provides services to SPT 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 SPT and service targets that PowerSystems is expected to meet.

- (9) A comprehensive outage plan is maintained by the Operational Planning team within the Customer Service Directorate. This is an integral part of the masterplan and is reviewed regularly with the investment delivery and operational functions within SPT. It contains detail of outage requirements over a two year horizon.
- (10) System access is increasingly challenging as the System Operator seeks to balance the need for planned outages to undertake the major investments - reinforcement, modernisation – as well as maintenance of the network with retaining its functional capacity as generation and demand patterns change. Experience to date, however, has shown that through comprehensive engagement with the System Operator, supported where necessary by escalation to NGET’s senior management, acceptable amendments can be made to the outage plan to avoid material impacts on SPT’s ability to undertake its business.
- (11) The Service Agreement includes a requirement that PowerSystems carry out its functions in accordance with relevant statutory and licence obligations. SPT has step-in rights in the event of default or material breach by PowerSystems.
- (12) SPT has been provided with 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 SPT to breach its statutory or licence requirements, and that it will provide information required by SPT to monitor PowerSystems’ performance or to meet requirements for information by the Authority.
- (13) SPT relies on Iberdrola Group corporate functions for support activities including, but not limited to, legal services, procurement, financial control, treasury and human resource management. Whilst no specific checks have been carried out into the adequacy of corporate resources at Group level its ability to support its constituent businesses has not been an area of concern historically and this is not expected to become so in the foreseeable future.
- (14) The capital investment activities (eg construction) undertaken by SPT are predominantly implemented through the use of external resources. In the case of inspection and routine maintenance programmes these are generally delivered using internal resources.
- (15) SPT relies on a significant supply chain to deliver its work programmes. The size of this supply chain expanded as a result of the introduction of Iberdrola Engineering and Construction (“IEC”) as SPT’s main contractor. This facilitated a move away from Engineering, Procurement and Construction (“EPC”) or turnkey type contracting. SPT continue to develop this disaggregated model whereby numerous packages are contracted separately for both equipment supply and site activities within each project. IEC provides the associated technical and management support for delivering the Transmission capital investment programme.
- (16) Adequate finance was available to the transmission business during the year ending 31 December 2016.
- (17) In respect of financial year 2015-16, the Regulatory Accounts were approved by directors on 15 June 2016. In accordance with Licence Condition B7, directors approved, on 15 June 2016, a Certificate of Availability of Resources that confirmed their reasonable expectation that SPT would have sufficient financial resources and financial facilities for the subsequent 12 months.
- (18) Regulatory accounts for the financial year 2016-17 were approved on 12 July 2017. On the same date, in accordance with Licence Condition B7, directors approved a Certificate of Availability of Resources confirming their reasonable expectation that SPT would have sufficient financial resources and financial facilities for the subsequent 12 months.
- (19) For the year ending 31 December 2017, adequate staff and resources will be available to the transmission business for the planned programme of works.
- (20) In relation to business continuity and emergency preparedness, well established processes and procedures are in place across the business. A concern exists, however, in relation to the

ongoing availability of a robust Local Joint Restoration Plan (“LJRP”) in the event of a Black Start being required. SPT is currently working alongside National Grid Electricity Transmission to develop this plan.

SP Transmission activities in 2016

- (21) As the company approached its half-way point in its price control, the RIIO T1 plan’s strong start was maintained. SPT is responding efficiently and with agility to new information and new challenges. For example, the network reinforcement plans in Dumfries and Galloway have been refocused when studies showed a more cost effective solution was preferable.
- (22) In 2016, two major and long-term projects to increase capacity between northern and southern Scotland were completed, working jointly with SHETL: the new overhead line between Beaully in the north of Scotland with Denny in the central belt, and the subsea link between Hunterston and Kintyre. Beaully to Denny – which has been over 4 years in construction – increases transfer capability by 1,150MW, and delivers a route to market for many renewable generation projects. Although we did not complete all the works we had planned on two other major schemes (East-West and Series Compensation) construction is largely complete. Full commissioning will now take place in suitable outage windows by mid-2017.
- (23) 2016 demonstrated how well we respond to changing circumstances – specifically the impact of reduced financial support for renewables. This has significant implications on the need for network reinforcement in Dumfries and Galloway. We updated our models and proposed an alternative development that is an innovative approach to the 132kV network – hence removing the cost, inconvenience and visual impacts of constructing 180km of new 275kV network.
- (24) During 2016 one wind farm was commissioned, Blacklaw Wind Farm Extension, bringing our total volume of new renewable connections in the RIIO-T1 price control period to 469MW.
- (25) On 12 May 2016, Ofgem published its decision to launch a mid period review for the RIIO T1 price control looking at some specific issues in relation to National Grid Electricity Transmission. Ofgem did not identify any changes in output requirements for the company, so did not proceed with a mid period review of the company.
- (26) The mix of generation connected to our network is being transformed between now and 2021. A key milestone in this transformation was reached in 2016, with the closure of Longannet power station in March 2016 – the last large thermal plant operating in Central Scotland. Our forecast of maximum demand in our area remains relatively stable; however, large uncertainty remains around the scale, timing and location of new, renewable generation.

SP Transmission activities in 2017

- (27) The company’s strong focus on delivering its RIIO T1 Plans and on responding to customer needs will continue throughout 2017. To date, SPT has reached the half way point on its modernisation projects, with further outputs achieved across the overhead line switchgear replacement programmes. On overhead lines completion of the Smeaton to Portobello line brings the total to approximately 500km and on switchgear works at Currie, Dalmally, Windyhill and Lambhill bring the total number of units replaced to 41. SPT has also connected six new wind farms to the network, mainly in South-West Scotland, delivering some 400MW of new generation capacity. The new connections have been accompanied by a range of reinforcement projects to strengthen the network and facilitate future connections. The reinforcements have added just under 700MVA of additional capacity in the reporting year. Progress has continued on the reduced scope project to build new infrastructure across Dumfries and Galloway (now the Kendoon to Tongland scheme), with the completion of a second round of public consultation and the commencement of environmental surveys.
- (28) The Western HVDC Link Project is a Joint Venture with National Grid to deliver a 2.2GW High Voltage Direct Current link between Hunterston and Deeside, a distance of 420km. This is a flagship project with a value of £471m. The Converter station is now connected to the 400kV Network under safety rules and commissioning is progressing at converter station in

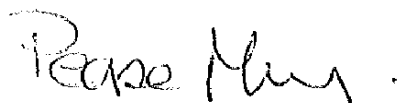
preparation for the first energisation in April 2017. Furthermore, the offshore cable installation has re-started following the resolution of problems at the cable factory during 2016.

- (29) As part of Ofgem's programme to Extend Competition in Electricity Transmission (ECIT), in November 2016 they published their decision on criteria, pre-tender and conflict mitigation arrangements. Delays in the legislative process however appear to limit the potential for the first projects to be tendered until into the next price control period. However in February 2017, Ofgem published a consultation on the Mid Period Review parallel work that was to propose improvement for RIIO-T1 price control arrangements in respect of output accountability, operation and filling gaps in the framework. The company continues to work with Ofgem to ensure this improves the overall regulatory framework.
- (30) SPT is continuing to develop and train staff for a 'smarter' future and replenish its ageing workforce from the communities that SP Energy Networks serve so that the investment made in recruitment and training continues to deliver in the long-term. The challenge of replacing an ageing workforce in SP Energy Networks and across the UK Power Sector in the coming years will be significant. SP Energy Networks will continue to work closely with schools and Further and Higher Education institutions to ensure that it can attract high calibre individuals into exciting development and career opportunities. During the Regulatory year 2016/2017 SP Energy Networks recruited 10 Graduates and 36 Apprentices, in addition, internal recruits have been enrolled on the Trainee Engineer and Technical Craftsperson programmes to increase the engineering and technical capabilities of the front line teams.

Conclusion

- (31) In view of the arrangements and activities 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 2017.

Pearse Murray



Managing Director, SP Transmission plc