



SP Transmission & Distribution

Mr Adam Brown
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Transmission plc
National Grid House
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Your ref

Our ref

Date

29 May 2006

Contact/Extension

Jim McCulloch

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Dear Adam,

GB Charging Methodology and Site Specific Maintenance

As requested in your letter of 5th May, I attach our comments on the request for views on a change in the method for recovering maintenance costs using an average (currently 0.47% of the asset value), to an actual site-specific charge.

In the run up to BETTA, the Authority's intention in suggesting that such an approach to SSM charges should be considered was to facilitate competition in transmission connection asset maintenance, to benefit customers.

Clearly the most worthwhile activities to focus on to facilitate competition are where there are a large number of customers, high potential benefits to customers and low costs of the arrangements. However the costs of setting up and maintaining the arrangements need to be proportionate in relation to the benefits and the expected uptake by customers.

The opposite characteristics seem to exist for the Transmission Connection maintenance market, which suggests that it is not worthwhile for the industry to devote time and effort to create the market conditions.

Such characteristics include the:

- apparent lack of User demand
- small proportion of transmission Users relative to total customers
- limited market within the above population for connection asset maintenance
- small proportion of connection assets with the present shallow connection methodology
- significant work involved in establishing an accounting system to capture the actual costs of maintenance of specific transmission connection assets
- costs to contractors of obtaining and maintaining accreditation for its staff from an approved body and the likely extra costs associated with the TO's Operational staff accompanying contractors staff during the work under the Safety Rules.

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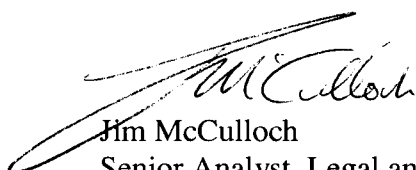
- improvements in operational efficiency (notably in the engineering and procurement functions) in the Electricity industry since privatisation have reduced the scope for reducing the costs
- efficient market conditions of the current arrangements where the work is already outsourced through a formal tendering process to specialist contractors and it seems unlikely that Users would have sufficient incentive and experience to extract even better value through tendering themselves.
- TO as owner of the connection assets and obliged to replace the assets should they fail at any time yet the TO would have increased risk where assets are maintained by a 3rd party and therefore would be disadvantaged unless its return was increased to match risk.

Given the foregoing circumstances it seems that the set up costs would be disproportionate to the benefits to Users. In fact such a change would have an obvious disadvantage. Faced with the choice of a predictable annual charge, of half of one percent of the asset value, against an unpredictable charge every few years, the User, who has run his business to budget, would always prefer the former.

We also see the merit in the suggestion that maintenance charges might be made more cost reflective if included in Total Running Costs as this element is part of the rigorous transmission price control process.

I hope that these comments are of assistance and I look forward to hearing from you if you need further clarification of any points made.

Yours sincerely



Jim McCulloch
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SP Energy Networks,
for and on behalf of SP Transmission Ltd