



Managing Director Report for Transmission Report 2019

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 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. 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.
- (4) 2019 was the sixth full 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 2I. 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 ("Energy Networks"). 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.
- (8) Until 31 December 2017, SP Power Systems Limited ("Power Systems"), an unregulated business, provided asset management expertise and conducted the day to day operation of the networks. Along with the asset-owner companies it acted as an integrated business unit to concentrate expertise on regulatory and investment strategy with Power Systems implementing programmes commissioned by and agreed with the asset-owner companies. Strict commercial disciplines were applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses. From 1 January 2018, the role of Power Systems has changed and it now provides a narrower range of asset management support services as opposed to being an internal contractor delivering work programmes. As part of this change, on 1 January 2018, the service contracts of 345 employees and certain liabilities were transferred from Power Systems to the company. Power Systems transferred an amount of cash equivalent to the net liabilities acquired by the company.
- (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) 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.
- (12) 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.
- (13) 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. Following the integration of IEC and SPT in late 2017, SPT continue to develop this disaggregated model whereby numerous packages are contracted separately for both equipment supply and site activities within each project.

- (14) Adequate finance was available to the transmission business during the year ending 31 December 2019.
- (15) In respect of financial year 2018-19, the regulatory accounts were approved by directors on 16 July 2019. In accordance with Licence Condition B7, directors approved, on 17 July 2019, 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.
- (16) Regulatory accounts for the financial year 2019-20 were approved on 21st July 2020. And on the 20th of July, 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.
- (17) For the year ending 31 December 2020, adequate staff and resources will be available to the transmission business for the planned programme of works.
- (18) 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. Engagement with Ofgem and other key stakeholders is ongoing in this area across Transmission and Distribution.

SP Transmission activities in 2019

- (19) In 2019 we continued our strong delivery focus reaching nearly £2bn investment for the T1 period. We are firmly on track to deliver on all our T1 commitments.
- (20) We provided 1360MVA of additional capacity in the reporting year around the Coalburn and Kilmarnock areas, facilitating connection of new generation directly to our network and enabling connections via the distribution network. Our forecast has increased very marginally to 3,561 MVA for the full period, which is over three times the original target.
- (21) As per our forecast, no new wind farms were connected in the year. The cumulative total remains at 1500 MW, 60% of the output target of 2503 MW for the price control period.
- (22) Our asset replacement related programme is continuing very well with delivery of a broad range of outputs. This is evident from the extent to which we are ahead of plan. We completed a cumulative 80% of non-load outputs in the reporting year with our T1 submission forecast set out to achieve 76% for the equivalent period. Our comprehensive planning approach has enabled us to achieve more whilst not increasing network risk. During the year, up to the commencement of lockdown, works progressed well on site for delivery of all the remaining units in RIIO-T1. Planned outages were secured to complete the remaining few circuit breaker, transformer and overhead line outputs required of RIIO-T.
- (23) We also completed an extension to Kilmarnock South 400kV substation adding new 400kV GIS and a third 400/275k 1,000MVA transformer. This additional capacity will support the connection of directly connected and embedded renewable generation for the benefit of customers and assist in the achievement of UK and Scottish government climate change targets.

- (24) The Western Link HVDC was completed in late summer 2017 utilising subsea cables to provide the link. The link is now in full operational service following contractual take-over in November 2019. With the Western HVDC operational, the power transfer capability between Scotland and England is increased to 6600MW, more than doubling the capacity since the start of RIIO-T1.
- (25) Other load related projects relate to the installation of an additional seven 33kV 60MVA shunt reactors – with six now in service - to support the effective management of system voltage across Scotland, resulting from reduced availability of large synchronous generation plant.
- (26) Using the Green Economy Fund a further two rounds of funding were completed, ensuring that the fund, along with the administration costs is fully allocated. The second tranche of funding saw a further 21 projects, receiving just under £10m of funding. This funding round saw a variety of projects being supported, including two projects developing and utilising e-cargo bikes which are an answer to the inner cities last mile deliveries, removing the need for vans and lorries in these congested areas. The third round of funding has seen a further £3m of funding being allocated.

SP Transmission activities in 2020

- (27) The commencement of construction works to fully refurbish V-route (which runs between Galashiels, Hawick and Harker) 132 kV overhead line, is scheduled for completion by the end of RIIO-T1. This was the last of our overhead line routes to enter the construction phase. In accordance with the company's asset strategy. Asset replacement and refurbishment works were undertaken to improve the asset health of a number of 400 kV, 275 kV and 132 kV overhead line routes. We are continuing the work on two 275 kV routes – Kaimes to Cockenzie and Dalmally to Windyhill.
- (28) We are also maintaining significant momentum in our 275kV switchgear modernisation programme, despite impacts from unplanned extended generation plant outages in Scotland. Our 132kV programme is on track, with Currie substation substantively complete. Our 275kV programme is delivering outputs at Kaimes, Strathaven and Wishaw, all critically important nodes on our network. Kaimes substation will be the final switchgear project in our RIIO-T1 plan.
- (29) Our forecast for the RIIO-T1 period has increased to 1950MW, following commencement of construction works for Nearth Na Goithe (NNG) offshore windfarm. We continue to work closely with developers to seek earliest connections where it is cost efficient and economical to do so.
- (30) Other load related projects relate to the installation of an additional seven 33kV 60MVA shunt reactors – with six now in service – to support the effective management of system voltage across Scotland, particularly important with the reduced availability of large synchronous generation plant.
- (31) The impact of COVID-19 and subsequent lockdown in March 2020 has had significant consequences for this year's outage programme and major effects on our supply chains. We remain committed to the delivery of as much of the remaining work programme as is humanly possible.
- (32) Our two-year Green Economy Fund (GEF) is currently supporting 33 diverse and innovative projects to deliver over 21,000 tonne of annual tCO₂e savings, creating over 40 local jobs, and directly supporting over 2,300 customers. Within 2020, the £20m fund has been fully committed and is now closed for further applications.

- (33) 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 2019/2020, SP Energy Networks recruited 35 Graduates and 28 Apprentices. In addition, internal recruits have enrolled on the Trainee Engineer and Technical Craftsperson programmes to increase the engineering and technical capabilities of the front-line teams. The 2020/21 forecast is in line with the 19/20.

Conclusion

- (34) 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 2020.

Pearse Murray



Managing Director, SP Transmission plc