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## ESO Response regarding SO:TO Optimisation ODI in RIIO-2 Consultation

Dear Anna,

We are pleased to be able to provide a response on Ofgem's consultation on the RIIO-2 System Operator Transmission Owner Output Delivery Incentive. The ESO is the electricity system operator for Great Britain. We direct the flow of electricity around the country second by second to ensure that the right amount of electricity is where it's needed, when it's needed. As Great Britain transitions towards a net zero future, our mission is to drive the transformation to a fully decarbonised power system by 2035 which is reliable, affordable and fair for all.

The ODI was initially a 2-year trial (April 2021 to March 2023), aimed at encouraging the Electricity Transmission Owners (ETOs) to proactively identify and provide solutions to the Electricity System Owner (ESO) to help reduce constraint costs, in accordance with the STCP 11-4 process. The first 2 years of the trial have been successful with over £30m being saved in year 1 and over £100m being saved in year 2. It is our view that there is a clear case for the extension of the trial to continue to realise the benefits that have been encouraged by the ODI trial up to now.

### Consultation Questions and Responses

#### **1. Do you agree that the SO:TO Optimisation ODI has delivered positively for consumers in year 1 of the trial?**

We agree that the SO:TO Optimisation ODI has delivered positively. We believe that the consumer saving achieved in year 1 and year 2 (>£130m) would not have been realised without this mechanism. The ETOs have worked closely with the ESO during this period and have proactively offered services which are above previous business as usual activities.

#### **2. Do you agree that it is in consumers' best interests for the SO:TO Optimisation ODI to continue to operate for the remainder of RIIO-2?**

We agree. The first 2 years of the trial have demonstrated considerable consumer savings which have also increased from year 1 to year 2. As the electricity transmission system is being decarbonised it is undergoing significant development and the management and minimisation of constraint costs during this period of change is essential. The SO:TO Optimisation ODI encourages the ETOs to consider options outside of the business-as-usual activities to deliver savings for consumers in relation to constraint costs and has driven significant value over the first two years of the trial.

**3: Do you agree with our assessment that there are some aspects of the ODI that could be improved to increase the benefits for existing and future consumers?**

We agree that there are some aspects of the ODI that could be improved to increase the benefits for existing and future consumers. In year 1 and year 2 the incentive out-turn has been calculated using ex-ante constraint savings rather than ex-post. The forecasting of constraint costs is complex and impacted by factors such as wind forecasts, wholesale energy costs, interconnector transfers as well as geo-political events. Therefore, an adjustment of the weighting towards ex-post constraint savings rather than ex-ante would provide a closer link between the actual constraint cost savings realised and the incentive return for ETOs. Furthermore, a review of the annual financial cap will help ensure that the benefits realised in year 1 and year 2 can continue to be realised and increased further in the remaining period.

**4: Do you agree with our preferred option to use both the forecast and outturn constraint cost savings in the ODI reward calculation from year 3 of RIIO-2?**

We agree, the forecast constraint cost savings are used by the ETOs to provide the case for committing resources to designing or deriving enhanced services. An ODI reward calculation based on a balance between forecast and outturn would provide the ETOs with a level of certainty required to design enhanced services whilst protecting the interests of consumers by providing a strong link between actual savings and ETO incentive return.

**5: Do you agree with our preferred option to use a 95% weighting on the outturn constraint cost saving in the ODI reward calculation from year 3 of RIIO-2?**

Forecasting constraint costs can be challenging due to the impact of weather and interconnector markets and the use of a greater weighting on outturn constraint costs would provide better protection for consumers by ensuring that the incentive returns directly align with actual savings. It is our view that the weighting should be set at a ratio that balances the interests of consumers with a provision of certainty for the ETOs to ensure that the value realised over the two-year period of the SO:TO optimisation trial can continue to be accessed and increased in the later years of the RIIO-T2 period.

**6: Do you agree with our preferred option to remove the annual financial cap on the ODI reward from year 3 of RIIO-2?**

We believe that arrangements around the annual cap should be set in a way that balances the interests of consumers with a level of certainty for ETOs. The removal of the annual financial cap would ensure that ETOs are not prevented from continuing to provide enhanced services during each year and ensure the consumers continue to benefit from the constraint cost savings achieved through the enhanced services. Where, an enhanced service crosses multiple years consideration should be given to the reward in subsequent years for the provision of the same service to ensure the return is proportional to the ongoing cost or risk of the service in those years. This would ensure a balance remains between certainty for ETOs and protection for consumers.

We support the principle of extending the ODI trial past year 2 of the current period and into years 3-5 of RIIO-T2 and see it as being in the interest of consumers. The first 2 years of the trial have demonstrated the constraint cost savings that can be achieved by the provision of enhanced services from the ETOs. We welcome the opportunity to discuss any of the points raised within this response. Should you require further information or clarity on any of the points outlined please contact [Kathryn.Sorrell@nationalgrideso.com](mailto:Kathryn.Sorrell@nationalgrideso.com) in the first instance.

Yours sincerely

Steve Wallace

Head of Network Access Planning, ESO.

