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Date

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Contact / Extension

Lauren Logan

Dear RIIO Electricity Transmission Team,

Consultation on proposal to modify special conditions of the electricity transmission licence held by SP Transmission plc.

This letter is from SP Transmission plc (SPT), which holds the transmission licence for the south and central Scotland. SPT is part of SP Energy Networks (SPEN) and the wider Iberdrola group. We welcome the opportunity to respond to this Consultation on the proposal to modify Special Condition 4.7: SO-TO optimisation output delivery incentive.

As we set out to Ofgem in our previous informal consultation response dated 26/07/2023, we agree with the decision to retain the System Operator-Transmission Owner Optimisation output delivery incentive (SO-TO ODI) following a successful RIIO-T2 trial period of two years. We welcome the decision to remove the annual financial incentive cap, as well as the decision to include the total outturn constraint saving as part of the equation to calculate potential reward, ensuring consumer protection against forecasting uncertainty whilst maintaining the ex-ante strength of the incentive.

SPT further agrees with the decision to change the reporting in the SO-TO ODI to the annual Regulatory Reporting Pack cycle.

We believe that the SO-TO ODI is driving the right behaviour from TO's, by supporting innovative solutions that go beyond business as usual to reduce the ESO's constraint costs. Moving forward into RIIO-T3, SPT are forecasting a significant upturn in system access requirements to achieve the government 2035 decarbonisation target and 2050 net zero targets including HND and tCSNP2 schemes coming online. Increasing outage requirements could impact consumer constraint costs, therefore the potential benefits consumers receive from the SO-TO ODI will continue to grow. **We therefore strongly support the continuation of the SO-TO ODI into the RIIO-T3 price control.**

Already, SPT faces a contracted position of over 45GW generation in the final year of T2, relative to a current total capacity of 6GW, and not taking into account future connections applications which we are currently receiving at over double the rate relative to 2022/23. At the same time, the ESO is

currently forecasting a constraint cost bill of £1.6bn in 2024/25¹. **The SO:TO Optimisation Incentive must be maintained to reflect the connections and outage challenges of RIIO-T3 and the positive behavioural change required from TOs.** The incentive is still in its infancy in terms of organisational behaviour change and consumer benefits, for example developing technical and governance processes for the identification of solutions under STCP11-4, with the SO:TO ODI enabling TOs to dedicate significant time and resources, above business as usual, to deliver consumers savings in the form of lower constraint costs. The SO:TO ODI has already led to very substantial savings for consumers, which we see as a clear success from the RIIO-T2 framework.

During the 2-year trial, six SPT projects were identified with a total cost of £0.21m, and a forecast constraint cost saving of £25.79m, as set out in our SO:TO ODI Final Report, **with consumer benefits at over 100x greater than the cost in SPT's area alone.** SPT has developed its approach to identifying and delivering solutions under STCP11-4, including additional overhead line surveys, reviews of circuit and plant thermal ratings, deeper outage plan studies, and setting up an SO:TO Optimisation Governance Group. With the operational and behavioural changes that SPT is continuing to adopt, there is an opportunity in T3 for the SO:TO ODI to drive even greater consumer benefit and continuing to deliver whole system solutions into RIIO-T3.

As we move into RIIO-T3, we urge that Ofgem **maintain the SO:TO ODI**, with the strongly consumer-weighted 90:10 sharing factor and consumer protection from forecasting errors, as set out in Ofgem's recent decision². It also remains appropriate to maintain the SO:TO ODI as uncapped, ensuring that potential consumer savings are not limited by the regulatory mechanisms that govern them. Especially given the potential increase in outage requirements and benefits to consumers during RIIO-T3. Given this incentive is still in its infancy, maintaining this incentive will help embed the behavioural changes and benefits that are being evidenced in RIIO-T2.

Please do not hesitate to reach out should you wish to discuss further. We would be happy to provide any further information required following the consultation.

Yours sincerely,



Lauren Logan

Head of Transmission Regulation, Policy and Economics

¹ <https://www.nationalgrideso.com/data-portal/24-months-ahead-constraint-cost-forecast>

² <https://www.ofgem.gov.uk/publications/decision-system-operator-transmission-owner-optimisation-output-delivery-incentive-riio-2>