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Date

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Contact

Subhan Shahid

By email: [ESOperformance@ofgem.gov.uk](mailto:ESOperformance@ofgem.gov.uk)

Dear Adam,

### **Call for input: ESO Incentives BP2 – Mid-scheme Assessment 2023-24**

We welcome the opportunity this call for input provides to present our views on the ESO's performance during the last year, which has generally been collaborative. We continue to engage regularly with the ESO across our activities in respect of network operation, customer connections and network investment planning, as well as on strategic policy issues such as early competition. These engagements are generally positive and collaborative, demonstrating our shared responsibilities and commitment to delivering for consumers, customers, and stakeholders. Despite this, we do have concerns with certain engagement areas including the early competition process and have set out in detail below our feedback on the ESO performance.

Our feedback is focused on those roles of greatest relevance to us as a network operator, and reflective of our interactions with the ESO.

#### **Role 1 – Control Centre Operations**

##### Operations and Outage Management

We continue to have good working relationships, both at a working level and a senior level, with the ESO's operational staff. We have had strong collaboration with the ESO's Network Access Planning and Control Teams which we welcome and look to maintain going forward. We continue to see good engagement with the ESO on the Nick Winser report recommendations on outage planning management, particularly on OP.1-OP.4. We welcome the ESO's efforts in setting up relevant working groups for each of the Nick Winser report recommendations. This engagement has been a sufficiently collaborative and visible piece of work that SPT is committed to continuing to support.

##### Winter Preparedness and Balancing Actions

We have had further positive collaboration with the ESO in terms of Operational Planning and Control. We believe the ESO has been proactive in regular engagement on winter preparedness with the changes being proposed going through the correct process.

We recognise the challenges faced by the ESO as the network transitions. We appreciate that the ESO is facing challenges and restrictions in the balancing options available for Scottish demand security. This is an area that we understand is an issue, and it is likely to continue to be an issue going forward. We would therefore encourage the ESO to develop the network design and structure that market players must adhere to and where there are limitations to the ESO's ability to address challenges, there needs to be collaboration with Ofgem and other relevant stakeholders.

In terms of the ESO's response to system oscillations from June 2023, we believe that the ESO could conduct a piece around lessons learned from the way the control system created a system oscillation. We worked well with the ESO to determine how the system was reacting differently and to identify the system oscillations despite the initial reaction of the ESO being somewhat delayed in comparison to SPT's response in identifying the cause and proposals to rectify the issue. We would encourage the ESO to use the expertise of SPT and other stakeholders who have monitoring capabilities to identify issues and agree a course of action accordingly. We would also encourage the ESO to introduce any necessary code changes to mitigate issues like this in the future.

### **Role 3 – System Insight, Planning and Network Development**

#### Transitional Central Strategic Network Plan 2 (tCSNP2)

In terms of the tCSNP2 published in March, we welcome the ESO's two step governance meetings that helped to progress the tCSNP2 report towards publication. As a result of discussions at the 1<sup>st</sup> governance committee meeting variations to certain reinforcement options were proposed which required additional input to the ESO. The ESO was very accommodating of these additional inputs, proving a willingness to adapt to stakeholder needs. We welcome this approach by the ESO and would encourage a continued effort to maintain this level of stakeholder engagement.

Despite the ESOs adaptability to stakeholder needs during the tCSNP2 governance period, we believe the ESO could have included more detail in the final tCSNP2 technical report, particularly in regards to the analytical relationship between the Holistic Network Design Follow-Up Exercise (HNDFUE) and the NOA 2023 inputs. We believe that the lack of transparency in the report around the additional options considered and discounted through the prior HNDFUE process could have potentially negative impacts on future community and stakeholder engagement exercises, especially where we are expected to evidence that alternative options have been considered and that the option recommended by the tCSNP2 has been determined as the best possible option.

#### Centralised Strategic Network Plan (CSNP) and Strategic Spatial Energy Plan (SSEP)

We are mindful of the important relationship we have working with the ESO on the enduring CSNP and the SSEP. We believe that these two workstreams should be fully aligned in order to facilitate development of a single economic, efficient, and coordinated future electricity transmission system. Due to the fundamental interactions with the network that the two workstreams have, we believe that the ESO should consider aligning the separate teams they have internally dealing with these and ensure there is consistent messaging across the workstreams and that stakeholders fully understand the interactions. We remain committed to supporting the development of both the CSNP and SSEP.

#### Holistic Network Design Follow-Up Exercise (HNDFUE) Impact Assessment (IA)

We believe that the ESO's approach to the HNDFUE IA needs to be reconsidered. We would like to see the ESO take leadership in adapting the IA process to provide a broader appreciation amongst the developer community of the extensive work that was undertaken across the ESO and TOs to determine the final design in line with the HNDFUE terms of reference. Developers may not necessarily fully appreciate the broader consumer impact of design changes, such as removing interconnection between offshore windfarms. As such, if the ESO reaffirms its position on supporting its HND 1 and HNDFUE designs, this will demonstrate leadership and support a clear and unambiguous blueprint for the future transmission system.

We would also encourage the ESO to consider the wider implications of other policy developments such as the Innovation Targeted at Oil and Gas (INTOG) process which was not considered as part of the tCSNP2. Early indications from the ESO are that leading INTOG designs may have a reasonably material impact on the cost effectiveness of some reinforcement options that have just been recommended by ESO within the tCSNP2 report. We therefore believe that INTOG should have been

considered under the broader remit of the tCSNP2, and that the lack of activity by the ESO to coordinate these two processes exacerbates current challenges in the design and development of a single economic, efficient, and coordinated electricity transmission network.

#### Early Competition

The ESO's development of Early Competition and subsequent workstreams has led to significant issues relating to stakeholder engagement, timelines, and transparency. We noted significant issues in relation to the ESO's proposed methodology for the cost-benefit analysis (CBA) model for early competition and have raised this both to the ESO and again in our Ofgem consultation response on the Early Competition Process in March 2024. From a methodological standpoint, the CBA proposals have significant and fundamental flaws, and we have stated we are happy to engage on the issues we have identified with the consultation proposals. This appears to have been ignored by the ESO with marginal changes being proposed to the CBA. All of our initial concerns remain alongside the concerns of other TOs, none of which have had their concerns addressed by the ESO. We also note that from consultation to decision the ESO took over 14 months, despite suggesting publication was imminent far earlier in the process.

The ESO's competition workstreams during the assessment period have placed significant resource requirements on the TOs. Frequently, we are finding that the same individuals within SPEN are requested to dedicate considerable time and resource into supporting the early competition development process, often whilst receiving similar requests as part of other ESO workstreams. At the same time, the role of the TOs being considered as part of the early competition tender process appear likely to require significant resourcing. As a result, we have had to prioritise where to focus our engagement with the ESO on competition. Currently, SPT is not appropriately resourced to deliver the draft responsibilities set out in the ESO's Early Competition Plan, and we do not have a pass-through mechanism to resource up in the way that the ESO can and has. This will need to form part of RII0-3 discussions, or potentially be addressed sooner given the intention to select a trial project for competition from the set of projects recommended as part of the tCSNP2. We fully support ongoing engagement with the ESO on strategic issues, however these should be appropriately prioritised, and use already highly constrained TO resources in the most efficient way possible.

#### Connections Process

##### *Connection Reform*

The Connections Reform Project, spearheaded by the ESO, represents a significant step towards modernising the connections offer process to address many of the existing challenges which face SPEN across the connections process today, with a significant increase in the volume of connection applications to be processed as well as a transmission and distribution queue of over 700GW. The collaborative efforts between the ESO, Network Owners, Ofgem and Government have been instrumental in shaping the reform, particularly through the establishment of working and steering groups that facilitate a broad spectrum of input.

Since publishing their final recommendations in December 2023, the ESO has recently proposed an updated proposal termed "Target Model Option 4" (TMO4+) to apply connections reform to both new and existing connection offers. While SPEN fully supports the initiative to reform the connections process and tackle the existing queue, there is a concern regarding the ambitious timeline set for implementation by January 2025. We are particularly concerned about the extent of the work which still must be undertaken, in relation to understanding what the new network planning processes will be, to support this new model, which are also required to be implemented internally across SPEN by 1st January 2025.

### *Day to Day Connections*

The day-to-day management of connection applications continues to pose a considerable challenge due to the sheer volume, which strains the resources of Network Owners and the ESO alike. In response, the ESO has bolstered its workforce, a move welcomed by SPEN. However, the complexity of the industry means that training new personnel is a significant hurdle. This is reflected in the quality of connection applications received and feedback from SPT's Quality of Connections Survey. Ongoing connections related process issues, outside of our control, are continuing to have tangible effects on SPT's performance and financial outcomes. Despite progress since the 2022-23 regulatory period, there remains a clear need for improvement. We welcome the fact that the ESO is keen to work with us on this.

The ESO's increased presence in Scotland, through the new Glasgow Office and various seminars, has strengthened its relationship with SPT. The growing collaboration between SPT's Commercial Team and the ESO's Connection and BAU Teams is a testament to their commitment to this. This ongoing dialogue is crucial for addressing any challenges and ensuring success once we introduce the new connections reform model.

### SO:TO Optimisation Incentive

SPT and the ESO have collaborated effectively on system optimisation solutions delivered under STCP11-4. Incentivised via the SO:TO Optimisation Incentive, these solutions have reduced the constraint costs paid by the ESO and therefore reduce costs to consumers. The quality of engagement from the ESO has been strong and collaborative on this incentive, and we are pleased overall with the way in which it is operating so far.

We welcome Ofgem's decision to extend the trial incentive to the remainder of RIIO-T2, and we welcome and support the continuation of the incentive into RIIO-T3 given the strong consumer benefit and weighting. We also fully appreciate the work done by teams in the ESO to both support the delivery of the solutions and demonstrate the value that the incentive provides for consumers. We look forward to working with the ESO to further develop solutions for delivery for the remainder of RIIO-T2 and beyond.

Should you have any questions in relation to the issues raised in this response, please do not hesitate to contact me.

Yours sincerely,

**Subhan Shahid**  
Senior Policy Analyst