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Your Ref: 136/12

Our Ref:

Date: 21 December 2012
Contact: Alan Kelly
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Dear David,

Electricity System Operator incentive schemes from 2013: disallowing costs and the efficiency in system operations reward scheme

This response is from SP Transmission Ltd (SPT) as the onshore Transmission Owner (TO) for the south of Scotland. As a Transmission Owner (TO) located in the South of Scotland, we are required under our transmission licence to comply with the System Operation – Transmission Owner Code (STC) to make available our transmission assets to National Grid Electricity Transmission (NGET) as the System Operator (SO). We also must ensure that we develop an economic, efficient and coordinated onshore transmission system.

SPT welcome Ofgem's proposals to develop the SO incentive as we consider the current arrangements do not provide the best platform to encourage the level of investment required to connect the volumes of renewables to meet UK and European low carbon targets, nor the level of infrastructure reinforcement to relieve constraint costs for the benefit of the UK consumer. We agree with Ofgem that under the current regime, short term constraint management takes precedent over longer term network development and operation.

The financial incentive on the SO must therefore drive the right behaviours to ensure safety, security of supply and a good balance of short term and long term economic considerations. Over the last year we have had frequent discussions with the SO on certain system outages in which short term constraint cost issues have resulted in our outages being curtailed or postponed as the cost of doing this is less than the potential constraint costs. However, this does not consider the impact on project delays to our overall work programme, with significant knock-on impacts. We would continue to stress that the overall focus must be to ensure that the GB transmission network is upgraded by delivering the ENSG agreed projects as quickly as possible, and accept that there may be higher constraints in and from Scotland until these reinforcements are complete.

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We believe that the Network Access Policy is a very positive development, which we are fully committed to, and this Policy will help to optimise system costs particularly in the period up to when key system reinforcements are completed.

We have made further comments against some of the questions in the consultation in the attached appendix.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Alan Kelly'.

Alan Kelly
Transmission Policy Manager

Appendix 1 SPT responses to consultation questions:

Q1-6 Disallowing Costs

If it is decided to disallow inefficient costs then it is important that the analysis includes a long term view of costs. Currently short term economic balance of costs will typically result in outages being curtailed or postponed as the cost of doing this will be less than constraint costs. However, this does not necessarily consider the impact on project delays to the overall programme of infrastructure works or increased risk of not completing refurbishment works. Furthermore, all parties involved in this process should have their actions included in the post event analysis including TO's and generators, so a full picture of why the constraints cost were excessive or why network operation was inefficient can be determined.

Q7-10 Efficiency in System Operations reward scheme.

SPT support the ex Ante proposal, which will encourage the right engineering decisions being made to achieve both short and long term benefit. A mechanism to ensure additional funding can be considered for projects at their design stage and in advance of contract placement to minimise or avoid future system costs would be helpful. For example, an "offline" build of a grid substation could reduce significantly system outages compared construction at an operation substation. If the SO can establish a view of constraint costs that exceed the additional costs of construction then the funding of the most economic solution should be facilitated under this incentive mechanism.

Application of the SQSS plays an extremely important part in constraint cost management and network operation, and must be included within any assessment of whether inefficient costs have been incurred. SPT would support a review of current procedures to understand if constraint savings could be achieved by relaxing security standards at times when the network risk is extremely low and constraint cost are excessively high. Ofgem could consider including in their 'beyond business as usual' proposals rewarding the SO for developing and implementing effectively a risk based methodology to facilitate this type of approach.

Q11-15 Model Development and Forecast Accuracy Incentive Scheme

SPT understands the challenge for the SO to produce an accurate mechanism for forecasting BSUoS charges, and considers the proposed incentive scheme seems reasonable. The variation of forecast from outturn increasing substantially from 2007/8¹, may suggests the increased volumes of wind generation on the UK network are hampering the ability to accurately predict output. This reinforces the requirement for better models to be developed.

In Scotland, high constraints are due to the scale of renewable generation that has connected over recent years. It is notable that the scale of constraints across the Cheviot boundary (i.e. from Scotland to England) has recently reduced while constraints in Scotland have increased. It should come as no surprise that this reduction across the Cheviot boundary is due to the completion of the joint network reinforcement to increase the Cheviot boundary capacity from 2200MW to 2800MW. Part of the high constraints seen on the Cheviot boundary were in part due to the fact that commissioning outages were required to implement the upgrade.

¹ Figure 4 on page 34 of the consultation

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Our point is that although it is absolutely right to optimise short-term constraints, the priority must be to reinforce the network through the ENSG agreed projects as quickly as possible, and accept that there may be higher constraint in and from Scotland until these reinforcements are complete. In addition, it is important to note that the GB transmission companies also need to refurbish and replace existing assets as our many of their transmission assets reach end of life, and this work will have to be carefully coordinated to minimise system impact and constraints.

The Network Access Policy will help by setting out principles to ensure that the right decision is taken when assessing the economics of short term versus medium and longer term system costs. It is important to note that Ofgem has strongly incentivised the onshore TOs to deliver their system reinforcement outputs as part of their RIIO T1 package. Failure to deliver these outputs could lead to substantial penalties of up to 10% of annual turnover.