

To: (by e-mail)

Lewis Heather

soincentive@ofgem.gov.uk

Dear Lewis,

18th July 2014

From: (by e-mail)

zoltan.zavody@renewableuk.com

RenewableUK consultation response Electricity System Operator Incentives

Summary

RenewableUK welcomes Ofgem's consultation on the System Operator Incentives for the period 2015-2017. These incentives are important for ensuring that the System Operator seeks efficient and economic means of running and developing the electricity system in its evolution to meet the needs of an increasingly decarbonised economy.

- **We would value data on performance under the current incentives, in order to make informed judgements on whether there is a need for change.**
- **We accept the necessity of a further two-year incentive scheme while a variety of new policies and regulatory measures are implemented.**
- **A two-year incentive does not however encourage upfront investment in necessary infrastructure and processes, for example on wind forecasting or engagement with new ancillary service providers.**
- **We are concerned that the incentives may in theory drive the System Operator to reduce their own costs, with less consideration of whole-system costs.**
- **We would value more detail on wind forecasting performance and the impact of forecasting improvements and uncertainties on balancing costs.**
- **We support the ongoing incentivisation of innovation, noting with regret that no innovation scheme has been approved to date.**
- **We support the incentivisation of better TO / SO coordination to maximise whole-system benefits that can be passed on to the end consumer, including oversight and facilitation of timely infrastructure delivery.**
- **We agree that the losses condition should remain non-financial, as losses are dependent on a wide range of variables outside of the SO's control.**

Introduction

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with some 600 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies. The association's response aims to represent these industries, aided by the expertise and knowledge of our members.

The renewables industry has an interest in the System Operator Incentives for a number of reasons:

- These encourage the SO to keep Balancing System Use of System Charges low.
- They drive SO activities in the area of wind forecasting and information provision.
- They support the roll-out of innovation, essential as more wind comes on the system.
- They should support the SO in facilitating the effective deployment of grid infrastructure.

This response follows the order of the questions posed.

Questions

Background

1. Do you have any views on how the current incentive scheme is functioning?

We would value data on performance under the current incentives, in order to make informed judgements on whether there is a need for change. On total balancing costs, while these have risen by around 5% a year, the reasons behind it are complex – for example the consequence of network outages for necessary reinforcements – and the rise is not suggestive of any inefficiency on the part of the System Operator.

We are concerned however that, in principle, the incentives may drive the System Operator to reduce their own costs, with less consideration of whole-system costs. An example is where the SO may wish to impose new requirements on generators in order to provide a service, even though this may impose costs on those generators.

RenewableUK would like to place on record the good engagement that National Grid has sought in developing a variety of services from the wind industry to the System

Operator. The engagement suggests that the SO incentives are broadly working to encourage the procurement of services from providers who can offer these in the most economic and efficient manner, in the context of an evolving electricity system.

2. What are your views on our proposal to introduce a two-year incentive scheme consistent with the current framework?

We accept the necessity of a further two-year incentive scheme while a variety of new policies and regulatory measures are implemented.

A two-year incentive does not however encourage upfront investment in necessary infrastructure and processes, for example on wind forecasting or engagement with new ancillary service providers.

Proposed Scope of Changes

1. Do you agree with the proposed scope of changes to the 2015-17 scheme?

We agree that there needs to be a pragmatic approach to BSIS in view of uncertainties that may arise. We have no view on the detail.

We agree with the proposal to introduce an incentive for better SO-TO coordination, though care needs to be taken not to do this for things that are already incentivised under RIIO-T1.

2. Do you consider NGET's modelling to be sufficiently transparent? How could this transparency be improved?

The modelling is complex and we have no detailed views on this at this time.

3. How do you think the additional incentives that sit alongside the BSIS could be improved?

a) functionality of models

No view.

b) wind generation forecasting

We are disappointed not to have better access to more detail on wind forecasting performance, including the impact of forecasting improvements and uncertainties on balancing costs. The link on the National grid site does not seem to provide this.

We note that the accuracy target is expressed as Mean Absolute Error rather than Root Mean Square, which we believe is the industry norm that would enable more consistent comparisons with other forecast providers and SOs.

We note also that Eirgrid publishes wind power forecasts for 15 minute periods, in contrast to National Grid's hourly forecast. Unfortunately we are not in a position to comment on the use of these forecasts and whether more frequent forecasts are needed. We believe that the use of National Grid forecasts should be clearly set out, in order to provide a clear justification of the financial incentive for producing them.

Please note that RenewableUK is exploring the area of wind forecasting further in the context of wider developments.

c) innovation roll-out

We support the incentivisation of innovation. We agree with Ofgem's suggestion to learn from the process of application, and subsequent rejection, of two innovation proposals. We would support the use of innovation funding for an investment that might be hard to justify under a two-year incentive scheme, or where an additional "push" is needed to reform or work around entrenched processes in order to deploy new methods and technologies for longer-term gain.

d) transmission losses

We agree that the losses condition should remain non-financial, as losses are dependent on a wide range of variables outside of the SO's control. It would be perverse for the SO to be penalised for higher losses that are inevitable if large volumes of renewable generation are connected on the periphery of the current grid network.

4. Is there a need for additional SO-TO financial mechanisms to facilitate whole-system consideration of outage planning (i.e; taking account of the impact on constraint costs)?

We support the incentivisation of better TO / SO coordination to maximise whole-system benefits that can be passed on to the end consumer. Through dialogue and careful coordination, the SO has the potential to maximise opportunities for TOs to proceed with grid reinforcement works and associated outages, while also exploring the mainstreaming of well proven innovation such as dynamic line ratings.

We believe the incentive should stretch further to cover oversight, monitoring, and reporting on infrastructure delivery by all TOs, and facilitation of this where the SO is able to do so. The proposed “enhanced SO” under Ofgem’s forthcoming ITPR regime may be a vehicle for bolstering this function further, but there are elementary functions such as reporting on progress with transmission works that can be supported today. This has been the subject of the DECC-Ofgem chaired Electricity Networks Strategy Group (ENSG) and associated sub-group.

5. Is there sufficient transparency of the SO’s actions? If not, where are improvements needed?

In general we believe there is sufficient transparency. We in particular welcomed National Grid’s publication on disaggregated constraint costs, which paint a fuller picture of constraint payments to wind generators.

We believe reporting on the Connect and Manage regime and on constraint payments should make more explicit the link between constraint costs and progress with infrastructure investment.

I trust this submission is helpful. Please do not hesitate to get in touch if you would like further detail on our views or our associated activities.

Yours sincerely,

Zoltan Zavody
Head of Grid