



Lewis Heather  
Electricity System Operator Incentives  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Head Office  
Inveralmond House  
200 Dunkeld road  
Perth  
PH1 3AQ

[lois.wares@sse.com](mailto:lois.wares@sse.com)  
01738 456410

15 July 2014

Dear Lewis

### **Electricity System Operator Incentives: Incentives from 2015**

SSE welcomes the opportunity to provide its views on how the current SO Incentive scheme is functioning and Ofgem's proposal to develop a further two year incentive scheme for the 2015-17 period.

We agree with Ofgem's proposal to introduce a new two year incentive scheme which is consistent with the current framework, but on the basis that the fuller review and development of enduring arrangements to apply from April 2017 begins now. SSE is keen at this stage to engage with Ofgem and National Grid Electricity Transmission plc (NGET) to identify where incentivisation could deliver benefits for the industry and consumers for the longer term.

However, that longer term review for post 2017, as well as the proposed scheme for 2015-2017, needs to take account of the substantial, and fundamental, changes that are arising from the European Network Codes. There is a very serious danger that the SO incentive schemes (for 2015-17 and well as post 2017) end up 'incentivising' NGET to do things that they or other stakeholders are required, by law, to undertake anyway. Such an outcome would be wrong as there is a specific cost recovery mechanism in those Codes to address the recovery of costs efficiently, reasonably and proportionately incurred. Providing an 'incentive' mechanism over and above this would be bad for consumers.

Whilst SSE agrees with the reasons presented by Ofgem for delaying the introduction of a more enduring incentive scheme, we believe that there are business-as-usual issues which

can and must be addressed now. These issues should be within the scope of changes to the 2015-17 scheme.

#### Greater transparency

Whilst NGET already publishes information on its website we believe that greater transparency on pricing and volume data is required to aid the industry. We believe NGET should make more readily available, as near to real time as possible, data for mandatory frequency response, pumped storage, and fast response contracts. This information is valuable to the industry when making commercial decisions and we believe greater transparency in these areas will lead to more effective commercial decisions and greater competition across the industry, leading to lower costs for the consumer. Given the REMIT, MiFID and Transparency Guideline obligations, together with the proposals in the European Network Codes, it may be the case that NGET is (or soon will be) required, by law, to provide some or all of this information. If this were the case then no incentive would be required to ensure that NGET discharge their legal obligation(s).

#### Forecasting

We find great value in NGET's wind generation forecasting data and consider that there would be further benefit from extending this incentive to other forecasts of generation that NGET publishes, such as solar PV. NGET's forecasts are fed into our own pricing and scheduling models, which form the basis of our trading decisions. If Ofgem was to extend the forecasting incentive to deliver improved accuracy to other forms of intermittent generation this would be extremely beneficial to SSE and other industry players who utilise this NGET data. SSE is keen to engage with Ofgem and NGET on developing these forecasts and we think it would be beneficial to set up an industry workshop to encourage progress in this area.

#### Model development

SSE agrees that the development of NGET's target setting models should focus on greater transparency and that increasing industry understanding of how the models function should allow the industry to better understand how NGET forecasts its SO costs. Until the industry has a better understanding of how the models are developed it is difficult to suggest design improvements. We think this could be achieved through more involved engagement with the industry and suggest this could be delivered via more frequent stakeholder workshops with the relevant business experts from across the industry. SSE is keen to be involved in this process and would welcome engagement with Ofgem and NGET on the issue.

We believe that all of the above are enduring principles which will not be affected by the policy changes discussed in the consultation, which could impact the role of the SO over the coming years. We therefore believe it is important that these issues are addressed within the scope of the 2015-17 incentive review but also for the enduring scheme to be introduced post March 2017.

Further to Ofgem's proposals regarding the scope of changes to the 2015-17 scheme, SSE agrees that the correct areas which could benefit from potential development have been identified.

#### SO Innovation Roll-out Mechanism

SSE believes that this mechanism does incentivise NGET to work with third parties to roll-out innovation. We think the incentive is particularly beneficial for smaller start-up companies that are trying to develop innovative technologies, as there is a current lack of funding for such practises and the market prices for new technologies are not particularly favourable.

#### Transmission losses

We believe the current level of reporting undertaken by NGET is effective and that maintaining a reputational incentive in this way is appropriate.

#### SO-TO financial mechanisms

SSE agrees with Ofgem's analysis of the current challenges facing SO-TO outage planning processes, particularly those associated with the stress of intensive network reinforcements required to accommodate increasing levels of renewable generation. Both TO's and Generators require certainty within a reasonable timescale in order to manage an outage without any environmental or safety concerns. It is important from both a generation and TO perspective that TO outages are not cancelled and that there is a long term solution to this challenge. A potential solution would be to introduce a requirement for NGET to contract in advance for generation which will be required to be contracted off, and when, due to planned outages, with terms agreed with the generator for the payment of lost generation. The arrangement of such commercial terms between Generators and the SO should be agreed at the planning stage. This would limit the requirement for a power station to be despatched off at short notice or for TO outages to be cancelled. We also consider that there may be a benefit in introducing mechanisms to support further planning and coordination of outages to ensure whole system cost efficiency and we are keen to discuss potential options with Ofgem and NGET.

Ofgem also indicates in its consultation that there are instances where additional building costs to improve system efficiency are placed on TO's bottom costs and cannot be recuperated through the RIIO price control. SSE agrees that an appropriate solution to this would be to introduce a financial mechanism within the incentive scheme to pay for these uncertain costs. We think it would be beneficial to engage further with Ofgem to discuss the design and implementation details for such mechanisms.



We would welcome the opportunity to discuss any of the above issues in more detail and look forward to engaging further with Ofgem to assist with the development of the proposals for a further two year incentive scheme for the 2015-17 period.

Please contact me if you have any questions or would like to discuss any aspect of our response.

Yours sincerely

Lois Wares  
**Regulation**