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Dear Leonardo

Electricity System Operator Incentives 2015/17: Initial Proposals

SSE welcomes the opportunity to respond to Ofgem's consultation on its initial proposals to largely extend National Grid Electricity Transmission plc's (NGET) existing System Operator (SO) incentive arrangements for a further two years.

Whilst we agree with this proposal, we are concerned that a further two year scheme does not incentivise NGET to enter into longer term arrangements in the market. For example, the market needs investment in flexible plants and this requires 8-10 year contracts to be in place. There is a risk that under a two-year scheme, NGET does not have the long-term view needed to commit to such contracts.

Moreover, we are aware that there are a number of industry developments that are likely to affect the long-term role of the SO including, but not limited to, the Integrated Transmission Planning and Regulation (ITPR) project. Whilst this response deals with the SO incentives' immediate future, we would urge Ofgem to consider a more holistic and longer-term approach to the development and funding of the SO role post-2017.

Therefore, in order to achieve a longer-term scheme from 2017, we believe engagement with key stakeholders needs to start now. Whilst we recognise from Ofgem's proposals that it intends to use this two year period to engage with NGET and monitor its performance



against the incentives in an effort to determine whether more fundamental arrangements can be implemented from 2017 onwards, we believe this must run in parallel with stakeholder discussions over what areas could be improved. Otherwise, we believe there is a real concern that we will run out of time and the opportunity to put in place longer-term signals for the SO is further deferred.

We are keen to engage with Ofgem now on this particular issue so that it can be fully consulted upon. We will be in touch to discuss this further but please feel free to get in touch in the meantime if you have any queries.

Yours sincerely

Lois Wares
Regulation