SP Distribution 2015 NIC submission: EVOLUTION

ISP Q&A: 22 April 2015

Q1: Please convert the estimated savings from balancing actions (on P5) to a £m figure and compare this cost against the project cost to provide a rough indication of the net financial benefit to customers

A1: The figures quoted on Page 5 of the EVOLUTION ISP submission was referenced to the recent work commissioned by ELEXON around the impact of Active Network Management and its potential impact upon the BSC.

The report considered annual data covering 2012/2013. During the same period, National Grid reported £169.6m in GB transmission constraint payments, of which £35.4m was identified as alleviating network problems (covering constraint management & system rebalancing) across the Scottish transmission Boundary B6 (Anglo-Scottish Interconnector).

In 2013/2014, National Grid reported £339.9m in GB constraint payments (£52.4m for Constraint Management & £287.5m for system rebalancing). Further breakdown of these figures shows that £90.1m was reported to alleviate network problems associated with the Scottish transmission Boundary B6, more than double the previous year.

Therefore based upon this evidence and trend of increasing constraint/system balancing payments, the ELEXON report referenced above, identified that the use of flexible resource under a targeted Grid Supply Point (In line with Project EVOLUTION's objectives) and the affect that this would have on transmission constraints and balancing alone, would equate to approximately 7% saving on constraint & system balancing payments. Based upon 2013/2014 data this would equate to a saving of **£6.3m** per annum based upon the £90.1m reported to alleviate network problems associated with the Scottish transmission Boundary B6.

In addition, estimated annual curtailment under an actively managed Grid Supply Point currently equates to between £0.5 - £2.0m p.a. (based upon penetration of actively managed connections under the particular Grid Supply Point) with lost revenues borne by the actively managed customers. The ELEXON report considered that the impact of new managed connections under a singular GSP could equate to lost revenues of up to £10m p.a.

Therefore the creation of a local balancing market could realise a further reduction in lost revenues of between 5% - 45%, which at the higher estimate, equates to **£4.5m** p.a. for a singular Grid Supply Point.

In conclusion with respect to the original paragraph 3 included on Page 5 of our Initial Screening Proposal this would now read the following to reflect this information;

'Annual local balancing actions are forecast to reach 1TWh by 2023, all of which will be invisible to the TSO. The rules based approach (LIFO/Pro-Rata) currently used by DNOs to manage ANM balancing actions will result in higher network reinforcement. Local balancing markets integrated with national system balancing could deliver an annual estimated reduction in national constraint payments and lost revenues of approximately ***£10.8m p.a. per locally managed Grid Supply Point*** *and could be replicated across GB, (within SP Distribution's licence area alone we have 80 Grid Supply Points)'*

(This is based upon 7% transmission savings on constraint & system balancing payments & 45% Local Market Saving)

This equates to a net financial benefit to customers in executing project EVOLUTION of around **£4m p.a.** under a Distribution System Operator model after year one, which over a typical 8-year price control period could equate to approximately **£80m** based upon 2013/14 data for one Grid Supply Point.