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Sheona Mackenzie

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Ofgem

107 West Regent Street

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Dear Sheona,

Re: Consultation on licence modifications to enhance the role of the System Operator

I am writing on behalf of Scottish Hydro Electric Transmission plc (SHE Transmission) regarding the above consultation. We appreciate the opportunity to respond to Ofgem's latest thinking on the implementation of the Enhanced System Operator (SO) role, as part of the Integrated Transmission Planning and Regulation (ITPR) project.

Our detailed response to the questions posed in the Consultation document is provided in Appendix 1. Where we have specific comments on the proposed licence drafting, we have provided these in the format requested in Appendix 2. Some additional thoughts are provided below.

Transitional arrangements

Having reviewed the proposed drafting, we are concerned that there is no provision made at present for transitional arrangements. As you are aware, we have a number of Needs Cases for Strategic Wider Works (SWW) that we expect to submit for approval this financial year. These will be significantly completed prior to these modifications taking effect. Whilst we expect to engage with the System Operator (SO) as a stakeholder in the development of these, the requirements are presently not to the same extent as those envisaged under the enhanced SO arrangements. Given the criticality of the timing for submission of these Needs Cases, we may not be able to fully comply with the proposed enhancements and therefore propose that transitional arrangements are introduced.

Further, discussions in the licence drafting Working Group and the industry-led Network Options Assessment (NOA) methodology working group have considered the timing of amendments to industry codes, particularly the System Operator – Transmission Owner Code (STC). It is our view that, until the licence modifications are in place and parties have fully explored the data exchange required to undertake the NOA process, it is inappropriate

to modify the STC. However, the propose modifications to Standard Licence Conditions B12 will require such modifications to be in place as soon as the licence comes into force. Again, we believe transitional arrangements are necessary.

We propose, and are happy to discuss further directly or at a subsequent licence drafting working group, that a transitional period of at least twelve months is introduced to the SWW and STC licence conditions. This will allow all parties to fully comprehend and incorporate the effect of the licence modifications into their actions and allow time for appropriate modification of the STC.

Future licence drafting working group meetings

We appreciate the opportunity to participate in the licence drafting process to date through the Working Group established by Ofgem and would be keen to see this Group continue to be used as Ofgem refines its drafting on the basis of responses to this consultation. As such, please let me know proposed date/s for future meetings at your earliest convenience so I can ensure we are suitably represented.

If you have any questions or comments on our response, please do not hesitate to contact me.

Yours sincerely,

Jen Carter

Networks Regulation, Transmission



Appendix 1 – Response to the Consultation Questions

Qu 1: What are your views on our proposed licence changes for system planning?

The licence drafting generally gives effect to Ofgem's proposals as set out in its March 2015 Decision Statement. Where we have specific comments on the proposed drafting, we have provided these in Appendix 2.

We are concerned that the drafting currently proposed requires the System Operator – Transmission Owner Code (STC) to be modified to provide for the enhanced SO role with immediate effect once the licence modifications come into force. As previously discussed, we believe that the industry needs to complete at least one Network Options Assessment (NOA) cycle to be able to understand what modifications to the STC are required and how best to implement these. The proposed modifications to Standard Condition B12 do not provide for this and therefore are likely to be problematic.

In relation to the NOA process, we are concerned that the provision that allows for commercially sensitive material to be excluded from the report published by the SO does not appear to have been retained in the version of the drafting issued as part of this consultation, despite the text in para 2.22 of the consultation document. This is of significant concern to us and we request that a provision on these grounds is reinserted. For example, on some projects, where a significant proportion of the works is tendered as a single item, publically available information on anticipated costs would greatly undermine our contracting position, resulting in inefficient outcomes for consumers.

Qu 2: What are your views on our proposed timing of the NOA report from 2016/17 onwards?

We understand Ofgem's desire to see the NOA report published as soon after the Electricity Ten Year Statement as practically possible. However, we are concerned that the proposed January publication date is unachievable and believe that a March publication on an enduring basis is required.

The industry-led working group that has been established to develop the proposed methodology and form of report has identified significant data exchanges that are required between the System Operator and the Transmission Owners to collate the data that is necessary to underpin the NOA analysis. By mapping out the timing and requirements of these flows, this group has been able to demonstrate to Ofgem the challenges associated with an early publication of the NOA report.

Whilst we note Ofgem's comment regarding potential future efficiencies, this needs to be taken in context that future reports are expected to be more extensive, with potentially additional work needed beyond that currently envisaged for the 2015/16 report.

As such, we do not believe it is practical to require the SO to publish this report any earlier than 31 March in either 2015/16 or subsequent years of publication.

Qu 3: What are your views on our proposals for the scope and approvals process for the NOA methodology and the NOA report?

Having been involved in the discussions in the licence drafting and NOA working groups, the scope and approvals process specified in the licence largely aligns with our expectation. However, as previously noted, we do see merit in a draft methodology being complete (or largely complete) and approved by Ofgem prior to a final decision being made on the licence drafting to ensure that the specific implications of the drafting are achievable. Given that the SO will depend on information provision from a number of parties, we believe it is particularly important to use the 2015/16 report to validate what other parties are able to provide to the SO and the associated timescales.

Qu 4: Do you think our proposals for provision of information by the SO are appropriate?

Generally, we think that the proposals for provision of information by the SO are appropriate. However, we are concerned with the latest drafting in Standard Condition C27 that suggests the SO will be required to submit additional information to Ofgem on our Strategic Wider Works' Needs Cases directly (para 16).

We support the involvement of the SO in the development of the Needs Cases for these projects. However, the current drafting cuts across the requirement on us under the proposed modifications to our Special Condition 6l (para 6l.37(b)) which requires us to explain any differences between our proposals and the SO's analysis. Without sight of the SO's submission, we are unclear how we are intended to discharge this obligation. We propose that the analysis should instead be provided to the TO, who in turn is required to provide it as part of its submission to Ofgem.

It was our understanding that the SO would be required to provide Ofgem with the same information and analysis that it provides to the TOs. However, the current wording in para 16 of C27 suggests that this may not be the case and appears to contradict with para 2.26 of the consultation document. We would appreciate further discussion to clarify the intent of this paragraph.

Qu 5: What are your views on the way we propose to formalise the process used to determine efficient connections?

It is our understanding that these modifications relate to the process for offshore connections and largely formalise arrangements that are already in place. As such, we believe they should be appropriate.

Qu 6: What are your views on our proposed licence modifications for conflict mitigation?

We still believe that an appropriate separation of the transmission owner and system operator licences are required but note that Ofgem has decided not to pursue this approach at this time.

In the absence of such separation, we welcome the insertion of paragraph 20.3, although are concerned that this may not be enforceable in the event that an affected party believes that the System Operator has acted in a manner that contravenes this requirement.

Qu 7: Do you think there could be any unintended consequences from our proposal to remove special conditions (SpCs) 2D and 2E?

We are not aware of any.



Appendix 2 –Specific comments on the proposed licence drafting

Respondent details		Jen Carter, on behalf of SHE Transmission Email: jen.carter@sse.com			
No.	Condition number	Condition name	Page/Paragraph Ref	Comments	Suggested alternative drafting (please use tracked changes wherever possible)
1	B12	STC	2(b); sub bullet 9	As noted above, we are concerned that these changes will come into effect as soon as the licence modifications come into force. We do not believe this is appropriate and believe that suitable transitional arrangements are required to allow appropriate time for modification of the STC.	
2	C1	Interpretation of Section C	Definition of Major National Electricity Transmission System Reinforcements	This definition seems appropriate. However, we need to further develop the NOA methodology before this can be confirmed.	
3	C8	Requirement to offer terms	5A	We remain unclear how this will operate in Scotland where there are separate SO and TO licensees. This is a further example of where separation of the SO licence would bring greater clarity.	
4	C27	NOA	1	NOA process cannot, of itself, achieve the development of the system.	"...The network options assessment (NOA) process is designed to achieve facilitate the development of an efficient, co-ordinated and economical system..."
5	C27	NOA	4	We believe this could still be misconstrued as to what consultation will be undertaken in 2015/16. Suggest this para is amended for 2016/17 onwards and an additional para is added.	Para 4. "The licensee must at least once in each financial year, commencing 1 April 2015 2016 (or such other times as the Authority may direct), consult with interested parties..." New Para to be added "For the financial year, commencing 1 April 2015, the licensee should engage with interested parties on the NOA methodology and the form of the NOA report. Such engagement to be described within the methodology submitted by the licensee to the Authority as described in paragraph 6 (a)."
5	C27	NOA	11 (b)	As described in our response to question 2, we believe this should be 31 March, not January.	"publish an updated NOA report by 31 January March ..."

7	C27	NOA	13	Provision for commercially sensitive information to be redacted at the request of the providing party has been removed from the drafting. This needs to be added back in.	
3	C27	NOA	16	As set out in response to Question 4, this paragraph does not align with our understanding of the intent. We would welcome further discussion on this point.	
9	20	Business Separation	20.3	As set out in response to Question 6, we welcome the addition of this paragraph but are concerned that this may not be enforceable in the event that an affected party believes that the System Operator has acted in a manner that contravenes this requirement.	
10	20	Business Separation	20.13(c)	This should be limited to these parties acting relevant to the Enhanced SO role. Suggest the following is added to the end of this para.	“to persons engaged in the provision of Shared Services, to the extent necessary to allow them to carry out their respective functions in support of the Relevant System Planning Activities ”
11	1A	Definitions (in SHE Transmission and SPT’s licences)		This currently points to a condition that doesn’t exist in the licences of SHE Transmission and SPT. Suggest additional wording to point to NGET’s licence. (N.B. This isn’t an issue for the Standard Conditions as these sit in the licence for all TOs, even if not applicable to a given holder e.g. Section C doesn’t apply to us.)	“for the purposes of Special Condition 20 (Business separation requirements...), as it applies in the licence conditions under which the System role is permitted, means...”
12	6l	Specification of Wider Works	6l.37 (b)	As this paragraph requires SHE Transmission to explain any difference between its submission and that provided by the SO, it is essential that the SO is required to provide SHE Transmission with a copy of all material provided to the Authority that is pertinent to SHE Transmission’s submissions. See also comments on para 16 of C27.	