

CATO Incentives Workshop Report

Context

As part of its extending competition in transmission (ECIT) project, Ofgem has established a steering group to assess policy options. This steering group is attended by TOs, potential CATOs, generators and the Scottish Government, along with the ENA.

ENA was asked at the ECIT steering to facilitate a one off stakeholder session to assess policy options being developed on incentives for CATOs. The workshop took place on 28 April and DNV GL (consultants working for Ofgem) presented its latest thinking on the development of incentives. The ECIT steering group asked ENA to draft a short report to capture the views expressed by stakeholders at the workshop and specifically on six key questions posed around the incentives. The note below captures those stakeholder views but does not represent an ENA position on these questions. This note should be read alongside the slides presented by DNV GL at the workshop.

Annex 1 to the note includes a list of the stakeholders who attended the workshop on 28 April.

Stakeholder views on Incentive questions

1. Are these four performance criteria the right ones? Is high availability what we want or is it only high reliability?

There was general agreement that the four performance criteria (high annual availability; high annual reliability, co-ordination and co-operation and long term sustainable asset management) were the right ones. No other criteria were offered but a number of comments were made:

- Before assuming that all the performance criteria need to be included within the scope of incentives, thought should be given to those which could be covered by requirements (either within industry codes or as part of tender delivery). The System Security and Quality of Supply Standards (SQSS) and the System Operator – Transmission Owner Code (STC) could be the first step in driving correct behaviour.
- It is important to establish the right balance between the criteria. The incentives must ensure that availability isn't maintained at the cost of reliability.
- The incentives should allow CATOs some flexibility on when planned outages take place. You wouldn't want a regime which rewards a CATO for sticking to planned outages on a windy day when discussions with generators indicate that they would prefer a delay of a couple of days when the forecast indicated less wind. Recognise that CATO needs some notice and follow STC process.
- TOs highlighted that they were subject to far more onerous incentive regimes and performance reporting. For instance, they are required to develop network output measures (NOMs) to assess whether operational maintenance and repairs which they have been funded to undertake have taken place. There was agreement that in the absence of regular reporting on NOMs, CATOs should be subject to some form of technical assessment at the end of 25 year revenue stream. Views were that this didn't need to be an onerous assessment but a sense check on the state of the assets but not leave to subjective assessment. There was a suggestion that the outcome of this assessment could inform the evaluation of depreciation value remaining in the CATO assets. Any regime needs to be clearly set out upfront (at start of process) and mechanistic. Needs to be measurable.
- SO needs greater granularity on performance criteria and how incentives fit with code requirements

2. What do you think of the financial incentives we have proposed? Should all of these criteria be financially incentivised, or could some be incentivised in other ways?

Many of the comments under question one help to answer this question, in particular those on the role industry codes and tender requirements can have in driving the right behaviour for CATOs. There were some other comments raised:

- Financially incentivising the criteria seems appropriate. However, each of the proposed categories needs to be weighted differently to account for necessary trade-offs between them. More work is required to think about these weightings and potentially role-play some scenarios to test different options.

3. What do you think of our proposals as a package? Is it too complex? Does it need to be complex?

The overall feedback was that the package did look complex, particularly when considering the variety of different ratings proposed:

- There is uncertainty on a practical level about how an all-encompassing single incentive could be transcribed effectively into a licence condition.
- Parties asked for further clarity over how annual declared availability can be measured and assessed, particularly in an integrated system.

4. What are your views on individual circuit vs. whole CATO system incentives?

The group was clear that CATO incentives should be on individual circuits. There were suggestions that circuits could be grouped into categories. For example, categories could be based on either the technical type of circuit or its criticality to the system. If categorised by criticality, there would need to be a mechanism for the categorisation to change (i.e. according to season or as the system develops).

5. What do you think about the non-financial elements of our proposals (e.g. the NAP)?

The answers to question one provide some thoughts on this question. There were views that CATOs should be subject to some requirements in the STC and SQSS. There was also a consensus view that it was worth merging the current network access policy into the STC through a modification proposal. This would provide transparency and ensure that CATOs comply with the requirements. Scottish Power Transmission agreed to circulate its network access policy so that all parties had visibility of what was contained within it.

6. How much involvement do you think the SO should have in (a) setting the incentives before the tender and (b) defining particular premium periods during the revenue term?

National Grid agreed that this was a valid question which starts to assess whether the set of arrangements for onshore competition can provide them with confidence that they can still co-ordinate and control the electricity system. At present they don't have sufficient visibility of the broader framework for CATOs to make an assessment of this. They urged for greater clarity on the broader framework to enable them to make a recommendation in response to this question.

Annex 1 – Stakeholder attendees at CATO incentives workshop, 28 April 2016

Name	Organisation
Mark Askew	Energy Networks Association
Elizabeth Smith	Energy Networks Association
Malcolm Burns	SHE Transmission
Ben Graff	National Grid (SO)
Nigel Fox	National Grid (SO)
Alan Kelly	Scottish Power Energy Networks (Transmission)
Gordon Hutcheson	Ofgem
Gary Thornton	Diamond Transmission
Heather Stewart	Scottish Government
Danny McMillan	SHE Transmission
Mark Westbrook	Laing
Fiona Muir	Scottish Power Energy Networks
Mike Lee	Transmission Investment