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Your ref

Our Ref

Date
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Contact / Extension
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Dear Leonardo

Initial Proposals for electricity SO incentives from April 2017

This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As a TO we are subject to the RIIO-T1 price control framework and must ensure that we develop an economic, efficient and coordinated onshore transmission system.

This consultation is being undertaken against the backdrop of a wider review of the role, responsibilities and structure of the System Operator (SO), together with the proposed in-depth review of the incentive framework around the SO function.

In the period since BETTA Go-Live, SPT has delivered, and continues to deliver, critical upgrades to transmission infrastructure in central and southern Scotland. These upgrades have increased the capability of the GB transmission system in an efficient and timely manner, in line with our statutory and transmission licence obligations, reducing constraint costs ultimately borne by consumers and facilitating the economic integration of new generation, in line with Government renewable energy targets. These transmission upgrades facilitate increased power transfers both from north to south and south to north, and will increasingly underpin security of supply in Scotland as the generation position continues to evolve.

The creation of the Independent System Operator, within the National Grid Group, should not lead to any diminution in the roles and responsibilities of TO's, or undermine in anyway their ability to provide constructive and effective challenge to the SO in matters related to transmission planning and operation. We therefore welcome the opportunity to comment on this consultation in areas that are directly relevant to our role as a transmission owner, namely the proposals for black start services and an SO-TO funding mechanism.

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Black Start

We welcome the proposals for Black Start services and agree it is appropriate to remove Black Start from BSIS and the target-based approach of incentivising NGET on an interim basis. In particular, we support the development of a long-term strategy for Black Start which we consider will require input from transmission owners. We welcome the recognition by Ofgem that this area requires particular focus at this time, as we strongly believe that a continuation of the historical approach will not drive the required outcomes from a GB resilience standpoint.

SO-TO Funding Mechanism

We also welcome the proposals to introduce an SO-TO funding mechanism as a pilot from April 2017. This is a positive step that provides a mechanism to fund TO's to provide services in relation to network outages, that could reduce whole system costs for consumers. We have already been developing the necessary code change proposals to implement a scheme from April 2017 through the Network Access Policy working group. However, as the time frame is short we agree a simplified pilot scheme should operate for 2017/18 as an interim measure.

We have commented on the questions raised in the consultation in the attached appendix where they are relevant to these two issues.

Yours sincerely



Alan Kelly
Transmission Commercial and Policy Manager
Network Planning and Regulation

Appendix 1: Answers to Specific Questions

CHAPTER: Two

Question 1: Do you agree with our proposals to introduce new licence requirements / guidance around SO balancing behaviour? Please explain your answer. Initial Proposals for electricity SO incentives from April 2017

Question 2: Do you agree with the clarifications we propose to introduce to NGET's licence? Is there anything missing or that should be removed? Please explain your answer.

Question 3: Do you agree with our Initial Proposal of maintaining a model-based target from April 2017 until March 2018? Please explain your answer.

Question 4: Do you agree with our proposed changes to the governance and incentive parameters? Is there anything missing or that should be removed? Please explain your answer.

We have no further comments in relation to these proposals at this time.

CHAPTER: Three

Question 1: Do you agree with our proposal to remove Black Start from BSIS? Please explain your answer.

We welcome the initial proposals for Black Start services and agree it is appropriate to remove Black Start from BSIS and the target-based approach of incentivising NGET at this time. In particular, we support the development of a long-term strategy for Black Start which we consider will require significant input from transmission owners.

Question 2: Do you agree with the principles of our Black Start regulation? Should we add or remove any principle? Please explain your answer.

We note Ofgem's stated high level principle in paragraph 3.11 *"to ensure that NGET can make decisions that allow the optimal level of Black Start provision at the lowest possible cost to consumers. Where there are trade-offs between additional protection and lower costs, we aim that our regulation supports an accurate cost-benefit analysis weighing in consumer preferences for security."*

It is important to ensure not only that the appropriate framework is in place, which enables NGET to make the necessary decisions, but that these decisions are ultimately made. An appropriate licence condition should be considered that will give effect to this.

We are supportive of the more detailed objectives underpinning this high-level principle, as set out in Table 1 in the Initial Proposals document, and we expect these will be subject to more detailed consideration as part of in-depth review of SO incentives. We would also emphasise the need for:

- Agreement and transparency on the appropriate level of resilience GB wide;
- Appropriate and transparent technical standards; and
- Appropriate forward looking signals to the market in the short, medium and long-term.

Question 3: Do you agree with our proposed regulatory framework for 2017/18? Please explain your answer.

The proposed framework is an improvement from the ex-ante forecasting approach and should provide for a more robust black start capability for GB. We consider that NGET's Black Start Strategy and Procurement Methodology should be subject to stakeholder engagement, with a clear timeline for development, industry consultation and approval.

CHAPTER: Four

Question 1: Do you agree with our amended wind generation forecast incentive proposal? Are there any elements you feel should be changed or that are more relevant to you? Please explain your answer.

Question 2: Do you agree with our proposal to introduce demand forecasting incentives in this interim scheme? Are there any elements you feel should be changed or that is more relevant to you? Please explain your answer.

Question 3: Do you have any additional criteria that you would propose for the Quarterly Forecast Report? Please explain your answer.

Question 4: Do you agree with how the parameters for the incentives are calculated? Should we consider anything else when setting the target?

Question 5: Do you believe we should introduce an additional mechanism to counter the incentive to under or over-forecast in any given month to maximise incentive value? Please explain your answer.

We have no further comments in relation to these proposals at this time.

CHAPTER: Five

Question 1: Do you agree with our proposal to introduce a mechanism for the SO-TO to exchange funds? Please explain your answer.

The initial proposals to introduce an SO-TO funding mechanism as a pilot from April 2017, are a positive step that will potentially provide a mechanism to fund TOs to provide services in relation to network outages that could reduce whole system costs for consumers. This proposal builds on the existing mechanism that fund TO's for providing additional services to mitigate system security issues as provided for in STC 11-3. The scope of the current proposal is limited to near real time changes and therefore provides only limited opportunity for a TO to implement changes that could reduce constraint costs.

Further developments to provide medium and long term solutions to reduce whole system costs related to outage planning need to be considered to ensure consumers benefit for the most economic and efficient approach to delivering system outages. Currently, the industry framework does not achieve this; however, this proposal is a step towards this. The proposal in paragraph 5.20 to ensure that larger investments exceeding the £1.4million pot will be considered on a case-by-case is positive. However, it is not clear if this is to be for one off projects, each exceeding £1.4m, or where the £1.4m pot is exceeded in total. We would also welcome clarity on whether the principles in paragraph 5.21 need to be applied to every project, however small, or only larger scale projects.

Question 2: Do you agree with our proposal to introduce a pilot SO-TO incentive? Do you agree with the structure proposed? Is there anything missing or that should be removed? Please explain your answer.

We have been developing the necessary code change proposals to implement a scheme from April 2017 through the Network Access Policy working group. However as the time frame is short we agree a simplified pilot scheme should operate for 2017/18 as an interim measure.

We agree that the TO should estimate costs that would be incurred that could deliver constraint savings. These savings would be estimated by the SO and if greater the works should be delivered. Should the works be complete on time but the constraint costs do not materialise then the SO can still recover these costs. If the works are delayed but still achieve constraint savings these would also be recoverable. We would expect both the SO and TO to be able to propose changes. However the pilot year will provide evidence to support these assumptions or otherwise and will inform an enduring mechanism.

Question 3: Do you agree with our proposal to introduce a requirement for a quarterly report? Is there anything missing or that should be removed? Please explain your answer. Initial Proposals for electricity SO incentives from April 2017

We agree that reporting will be essential to provide transparency and accountability to consumers for this scheme. The scope of the report would need to be clarified. For example, a quarterly report could include a list of proposed schemes with forecast costs but not actual costs or constraint savings.

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Actual costs of the TO works would only be available after the event along and would exclude commercially sensitive information.

Constraint costs may be difficult for the SO to determine for a particular outage. Similarly, the proposed timeline to produce a report by May 2018, having had a consultation period and independent assurance, is not practical given that actual costs may not be available for some time after the end of the period.

We do not consider that an incentive is necessarily beneficial to consumers around this mechanism due to the volatility of constraints that are incurred, the difficulty of identifying and reporting on constraint costs relative to a specific outage and the lack of control the SO has on the level of constraints required to balance the system. Additionally, both the SO and TOs have clear licence obligations to act in an economic and efficient manner. The proposed incentive could give windfall savings or losses irrespective of effective SO-TO behaviour.

We are aware that there may be an additional opportunity to extend this mechanism to allow third parties such as generators with a single circuit connection to pay for similar services. The current regime would not accommodate this scenario as no constraint costs would be incurred by the SO for a generator connected in this way.

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CHAPTER: Six

Question 1: Do you agree that the proposed changes describe in Chapter 2 will enhance transparency? Please explain your answer.

Question 2: Do you agree with our proposal to not introduce a financial incentive on transparency? Please explain your answer.

Question 3: Do you agree with our proposal to retain the MDLC? If not, please explain your answer.

Question 4: Do you agree that we should amend the MDLC to require NGET to get third party scrutiny on areas where the model could be improved? Please explain your answer.

Question 5: Do you agree with our proposal to discontinue the System Operator Innovation Roll-Out Mechanism? Please explain your answer

We have no further comments in relation to these proposals at this time.

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