

David Beaumont  
SO Regulation  
Ofgem  
9 Millbank  
LONDON  
SW1P 3GE

Date:  
19<sup>th</sup> January 2018  
Contact / Extn:  
Alan Kelly  
0141 614 1736

Dear David

**The Electricity System Operator Regulatory and Incentives Framework from April 2018**

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.

SPT is committed to reducing whole system costs by flexibly managing our system access requests in conjunction with the ESO. We have also been consistent throughout the RIIO period in highlighting a longer term ESO incentive could unlock solutions that will bring additional benefit for consumers by reducing whole system costs.

SPT therefore welcomes the minded to decision for the incentives framework for the ESO in the period, from 1 April 2018 to 31 March 2021, which can support longer term whole system benefits for consumers. We agree an incentive based on a single, longer-term financial target for "whole system costs" could be ideal to meet future system needs. However, we recognise the challenges to achieve a deterministic incentive for this and therefore support the move towards a broader evaluative incentive.

The intent to try new approaches to regulating and incentivising the ESO is positive. For example, it can allow the ESO and TO's to build on the SO-TO mechanism, established as a pilot from April 2017 and implement alternative investment solutions to mitigate outage costs in the longer term.

SPT were represented at the stakeholder workshop on Oct 27<sup>th</sup> in Glasgow and feedback from stakeholders on the day included a view that of the 7 principles Ofgem have identified to describe the SO's future role, the need to ensure system safety and security of supply is not clearly stated. Ofgem accepted this but argued they considered this principle so inherent it wasn't explicitly

Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, G72 0HT, Telephone: 0141 614 0008, [www.scottishpower.com](http://www.scottishpower.com)

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SP Manweb plc, Registered Office: 3 Prenton Way, Prenton, CH43 3ET Registered in England and Wales No. 2366937 Vat No. GB659 3720 08  
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identified in the principles originally. SPT are concerned that this is not sufficient and could lead to a loss of focus on this obligation by the SO over time.

To mitigate these risks and ensure longer term solutions to reduce whole system costs and the focus on system security are maintained by the SO, strong representation from transmission networks companies should be included in the Performance Panel.

Finally, in respect of the SO-TO mechanism, the need to amend condition 4J to remove quarterly requirements and the existing incentive is not explained. It would be helpful for Ofgem to clarify their intention here and ensure this proposal does not undermine the implementation and development of Commercial Operational Services and Joint Works Projects. If implemented correctly these could lead to reduction in whole system costs, through reduced constraints for network outages achieved by adopting alternative, but higher cost, construction design or delivery options.

Responses to the questions in the consultation are provided in the attached appendix. Should you require any further information please do not hesitate to get in touch

Yours sincerely



**Alan Kelly**  
Transmission Commercial and Policy Manager  
Network Planning and Regulation

## **Appendix 1: Responses to Questions**

**Q1:** Do you agree with our updated roles and principles for the ESO?

**SPT:** In general SPT welcomes the minded to decision for the incentives framework for the ESO. We agree an incentive based on a single, longer-term financial target for “whole system costs” could be ideal to meet future system needs. However, we recognise the challenges to achieve a deterministic incentive for this and therefore support the move towards a broader evaluative incentive.

The intent to try new approaches to regulating and incentivising the ESO is positive. For example, it can allow the ESO and TO’s to build on the SO-TO mechanism, established as a pilot from April 2017 and implement alternative investment solutions to mitigate outage costs in the longer term.

However, the lack of an explicit statement within the 7 principles on the need to deliver system safety and security is a significant omission and should be included going forward.

As a transmission owner we recognise the need to be flexible in managing our outage needs to meet overall system objectives. It is important to ensure the ESO also retains this focus on system access to meet broad stakeholder needs that will optimise whole system costs for consumers in the longer as well as the shorter term. This requires a framework that supports the need to meet system security and safety over the longer term.

**Q2:** Do you agree with our proposals for the ESO Forward Plan? Do you think our proposed process for reviewing the ESO’s Forward plan will create a sufficient incentive on the ESO to develop a plan and performance metrics that are appropriately challenging and comprehensive?

**SPT:** The proposal for a Forward Plan is appropriate but it is important for this to have clear stakeholder input and accountability. It should explain the how the ESO will contribute to achieving system safety and security of supply now and in the future.

**Q3:** Do you agree with our proposals for within-year reporting? Do they appropriately balance the need for transparency with resource burden for the ESO?

**SPT:** The monthly performance reporting requirements may be too onerous and the quarterly reporting could be sufficient in itself. Removing monthly reporting may strike a balance between transparency and resource burden.

**Q4:** Do you agree with the design of our evaluative scorecard incentive? Do you have views on the Panel scoring criteria or payment-penalty methodology?

**SPT:** The development of performance metrics needs to avoid complexity and ensure stakeholder priorities are reflected whilst being within the control of the SO. For example, in respect of managing system outages, the sometimes conflicting needs of affected parties need to be managed through clear communication and engagement by the SO. This activity should be reflected in the performance metrics alongside financial metrics reflecting whole system cost savings.

**Q5:** Do you agree with our proposed scheme cap and floor of  $\pm£30m$ ?

**SPT:** We have no specific comment at this time

**Q6:** Do you agree with our proposal to introduce a new ESO Performance Panel?

**SPT:** Yes we agree a performance panel should be established to provide the qualitative assessment of SO performance.

**Q7:** Who should sit on the ESO Performance Panel? What is its appropriate size?

**SPT:** We agree with the proposed make-up of the panel. It is important a markets view does not become the sole focus of the future ESO as a result of separation from its TO business. The SO also needs to ensure the system is maintained, modernised and facilitates GB decarbonisation goals. To mitigate this risk and ensure longer term solutions to reduce whole system costs and the focus on system security is maintained by the SO, strong representation from transmission networks companies should be included in the Performance Panel as appears to be intended. The size of the group should ensure it is manageable but reflect the broad range of stakeholders required to hold the SO to account.

**Q8:** Who should chair the ESO Performance Panel?

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**SPT:** We support an Ofgem chair.

**Q9:** Do you agree with our proposed approach to implementing our new framework?

**SPT:** The approach seems appropriate

**Q10:** Do you have any comments on our draft licence changes?

**SPT:** In general the licence changes appear appropriate, however in respect of the SO-TO incentive mechanism, the need to amend condition 4J to remove quarterly reporting requirements and existing incentive is not clear. It would be helpful for Ofgem to clarify their intention here and ensure this does not undermine the implementation and development of Commercial Operational Services and Joint Works Projects. If implemented correctly these could lead to reduction in whole system costs, through reduced constraints for network outages achieved by adopting alternative, but higher cost, construction design or delivery options.