



**Scottish & Southern**  
Electricity Networks



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Louise van Rensburg  
Ofgem  
10 South Colonnade  
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E14 4PU

30 November 2018

Dear Louise

### **Call for input on 2019-20 ESO regulatory and incentives framework**

Scottish and Southern Electricity Networks (SSEN) is the trading name of Scottish Hydro Electric Power Distribution Plc (SHEPD), Southern Electric Power Distribution Plc (SEPD) and Scottish Hydro Electric Transmission Plc (SHE Transmission). This response is on behalf of all these licensees but predominantly reflects the views of SHE Transmission.

SHE Transmission is the owner of the electricity transmission network in the North of Scotland and maintains the 132kV, 275kV and 400kV network in our area. SHEPD and SEPD are the DNOs in the North of Scotland and Central Southern England and distribute electricity from the transmission grid to homes and businesses in these areas. We have a close relationship with the Electricity System Operator (ESO) who is responsible for operating and balancing the GB transmission system and therefore we welcome the opportunity to provide our views on potential improvements to the ESO regulatory and incentives framework from April 2019.

As the new regulatory and incentives framework for the ESO is still in its infancy, there is a clear need to keep this framework under review and continue to develop this as its role matures. However, as we are only half way through the first year of the new regulatory incentive framework, we agree that no fundamental changes should be made to the scheme until we have had more of an opportunity to experience the new regulatory incentive framework working in practice.

We have outlined our views on the different elements of the incentive scheme below.

ESO Roles and Principles - We recently responded to Ofgem's "Call for evidence on ESO performance" in which we outlined our views on how the ESO is performing against the set of 'Roles and Principles' which set out the expected baseline behaviours of the ESO.

In relation to role 4 of the ESO "Supporting Competition in Networks", the legal and regulatory framework has not yet been established to facilitate competition in onshore

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transmission. We have raised our concerns with and objections to Ofgem's approach in developing the current competition models (CPM and SPV) and remain of the view that these proposals are unsuitable and not sufficiently well developed to provide appropriate levels of certainty, clarity or scrutiny of the proposed approach, notwithstanding our view that Ofgem require primary legislation to introduce competition in onshore transmission. We will continue to work with industry and Ofgem to develop competition in onshore transmission in the most appropriate manner. We do not believe it is appropriate for the ESO to have a role to support a proposal, until Ofgem introduces the necessary legal and regulatory framework.

We have no further comments to make on the remaining roles and principles and therefore agree with Ofgem's proposal to keep these the same as they are now.

*The Forward Plan process* - As outlined by Ofgem, the 2018/19 report was the first example of the ESO's Forward Plan this year and the timescales were rather tight. We would welcome earlier opportunity to discuss future ESO Forward plans going forwards.

*Within-year reporting requirements* - We agree with Ofgem's proposal to not make any changes to the obligations in this area.

*The Mid-Year Review and Performance Panel processes* - As outlined above under the 'Roles and Principles' section, we recently responded to Ofgem's "Call for evidence on ESO performance". As the first Mid-Year Review process is currently underway, we believe it is too early to make any comments on the process at this stage.

*The evaluation process and financial incentive parameters* - We agree with Ofgem's proposal to retain the current evaluation criteria and the financial value of  $\pm$ £30m and agree a clear split between the seven principles is fair but should remain under review.

*Incentive payment / penalty reconciliation licence change* - We recognise the concerns raised around BSUoS volatility under the current arrangements and agree that the ESO's proposal to amend the licence to add an additional 'TotAdjt' in SpC 4C.2 would allow differences between its incentive forecasts and the final incentive value to be reconciled.

If you have any questions regarding the information above then please do not hesitate to get in touch.

Yours sincerely

Sam Torrance  
Networks Regulation