

Julie Black  
Programme Director, Network Price Controls  
Ofgem  
10 South Colonnade,  
Canary Wharf,  
London E14 4PU.

10 February 2020.

Dear Julie,

## **Call for Evidence on the Electricity Transmission, Gas Transmission, Gas Distribution and Electricity System Operator Business Plans for RIIO-2 – Electricity Transmission**

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

This aspect of our response focuses on issues particular to the electricity transmission sector. We highlight the following points having reviewed the electricity transmission companies' business plans:

- **Active Network Management schemes should be deployed in only certain scenarios and, if so, need to be time-limited.**
- **Network operators should not be permitted to provide ancillary services to the ESO that can could otherwise be procured via a competitive market.**

### **Active Network Management schemes may be deployed in only certain scenarios and, if so, need to be time-limited:**

We have concerns about the network operators' use of active network management (ANM) schemes as a means of addressing network constraints. SPT, in collaboration with the Electricity System Operator (ESO) and SPD, proposes to invest £10m to deploy the 'Generation export management system in south west Scotland' scheme<sup>1</sup>. NGET states it has achieved efficiencies connecting demand in RIIO-1 by using ANM schemes and those efficiencies "...have all been fully embedded into the T2 plan..."<sup>2</sup>. SHET confirmed it deployed ANM schemes in RIIO-1 and is considering deployment to accelerate connections in RIIO-2<sup>3</sup>.

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<sup>1</sup> SPT's Business Plan, page 82: [https://www.spenergynetworks.co.uk/userfiles/file/SPEN-RIIO-T2\\_Business\\_Plan.pdf](https://www.spenergynetworks.co.uk/userfiles/file/SPEN-RIIO-T2_Business_Plan.pdf).

<sup>2</sup> NGET's Business Plan, page 68: <https://www.nationalgridet.com/document/131776/download>.

<sup>3</sup> SHET's Business Plan, page 134: <https://www.ssen-transmission.co.uk/media/3761/a-network-for-net-zero-final-business-plan.pdf>.

We have concerns about the network operators' increasing use of ANM schemes as a means of addressing network constraints. ANM schemes are effectively flexibility services but with zero marginal cost to the network operator. The deployment of ANM schemes can have a detrimental effect on the business cases for investment in the provision of flexibility services and can hinder the uptake of low carbon technologies. ANM schemes, by definition, do not provide a guarantee users can use the network when they wish because they constrain network usage to match existing capacity, whereas flexibility services provide the additional capacity network users require. This means market participants will be less certain of revenue streams (and timing) because the availability of the network is not guaranteed when they may be required to deliver a service.

There may be a case for allowing an ANM scheme to operate on a time-limited basis. For example, an ANM scheme could allow multiple flexibility service providers to connect in a certain location ahead of reinforcement being required but without triggering reinforcement. The time-limited operation of the ANM scheme would give flexibility providers certainty that non-firm arrangements would be temporary, thereby improving investment cases. In turn, this would stimulate the development of competitive markets for flexibility services, leading to consumer benefits.

**Network operators should not be permitted to provide ancillary services to the ESO that can could otherwise be procured via a competitive market:**

NGET proposes that transmission operators (TOs) will be able to offer the Electricity System Operator (ESO) “...a range of flexible services, including rescheduling or accelerating timescales for delivery, providing alternative contracting, maintenance and construction activities, and working practices which would otherwise not be available to deliver whole system solutions...”<sup>4</sup>. NGET proposes the ESO should weigh the TOs' offerings against alternatives available in the market and TOs would be allowed to earn a market rate of return if selected. NGET states a market rate of return would encourage TOs to discover whole system solution they would not otherwise identify.

We do not support some aspects of this proposal. We do not support network operators using regulated assets (for which they have been funded to procure, construct, operate and maintain), to provide system management services to the ESO that are procured via competitive markets. Under RIIO, network operators' marginal costs are shared with customers through the totex sharing mechanism. Other providers face their full marginal cost and so are structurally disadvantaged. This will lead to inefficient outcomes. Companies using regulated assets to provide services to the ESO stifles the development of competitive markets and could lead to a loss of consumer value.

We agree that TOs should optimise some aspects of their operations, such as rescheduling maintenance, to provide a system benefit. We also accept that, in some instances, market participants will not be able to offer the same service (though they may be able to provide services that produce equivalent outcomes).

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<sup>4</sup> NGET's Business Plan, page 57.  
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At this stage, the proposal to earn a rate of return when TOs optimise their operations has not been fully justified. Provisions already exist in the ESO's licence which allows it to compensate TOs for rescheduling activities at its request<sup>5</sup>. As such, it is necessary to consider whether licence obligations or a financial incentive would better encourage TOs to seek such solutions. Crucially, the overall funding requirement should be considered from the consumer perspective – the benefit of identifying and implementing the relevant whole system solution should exceed the efficient cost of the TOs optimising their operations and financial rewards to the TOs for doing so.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning  
Head of Network Regulation, Industry Transformation, Investigations and Governance  
**Centrica Regulatory Affairs, UK & Ireland**

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<sup>5</sup> Special Condition 4J: the SO-TO mechanism.  
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