SP ENERGY NETWORKS

Network Planning & Regulation

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Dear Maryam

Call for input on 2020-21 ESO regulatory and incentives framework

SP Transmission plc (SPT) welcomes the opportunity to respond to this consultation. As a GB onshore Transmission Owner, SPT has significant interaction with the ESO to make our network available, allowing the ESO to balance the GB electricity system. We also provide key services in respect of network connections and investment planning. These arrangements are defined in the System Operator/Transmission Owner industry code (the "STC")[1]. This code defines the relationship between the transmission system owners and the transmission system operator and sets out responsibilities, procedures and interactions for system operation, outage planning and investment planning. This is supplemented by the Network Access Policy (NAP)[2], defined in Special Condition 2J of our respective licenses, as designed to facilitate efficient performance and effective liaison between the System Operator and Transmission Owners in relation to the planning, management, and operation of the National Electricity Transmission System (NETS) for the benefit of consumers.

Effective, optimised Transmission System operation, outage planning and network investment are crucial to the delivery of GB net zero ambitions, whilst keeping security of supply at current levels and reducing consumer bills. The interaction and whole system approach adopted by the Transmission Owners (TOs) and the GB system operator (ESO) needs to be properly aligned and incentivised to ensure this happens in the most economic and efficient manner for GB consumers.

The ESO regulatory and incentives framework has a significant bearing on these areas and therefore needs to support alignment across the ESO-TO interface. There are areas where this is not currently the case. For example, a revised draft of the NAP was mandated to be included in each TO's RIIO-T2 submissions that had to be agreed with the ESO. No such obligation was placed on the ESO. We have provided comments on each of the two guidance documents to highlight where alignment needs to ne achieved in the RIIO-T1 period.

1. ESO Roles and Principles Guidance

In general, we support the move from four to three roles. These changes provide clarity which is much needed in respect of the ESO framework, and have the benefit of aligning to the short, medium and longer-term timeframes, associated with the system operations, outage planning and network investment activities documented in the NAP and STC.

We have made more detailed comments against relevant areas as follows:

[1] https://www.nationalgrideso.com/codes/system-operator-transmission-owner-code
[2] https://www.spenergynetworks.co.uk/userfiles/file/GB_RIIOT2_NAP.pdf

Para 1.13 We agree with Ofgem that the ESO should be helping the market to balance the system as much as possible. The proportion of system balancing achieved ahead of time by markets compared to short term actions taken by the NGESO is crucial to the ESO roles and propose this should be reported as a key performance metric. Relative costs and efficiencies of each element should also be reported to highlight overall efficiency.

Para 1.14 We also agree effective co-ordination is essential if efficient and economic whole system outcomes are to be achieved. However, the aspiration to provide "user -friendly" information could fall short of what customers and stakeholders are seeking. Provision of data in a rawer form could allow other parties to analyse and use it effectively, and the stated aim to make this more user friendly may lead to delays.

As a TO, provision of network constraint information on a circuit by circuit basis both historical and forecast would be valuable information for TO's. Forecast constraint data on a weekly, monthly and annual basis can assist in network design and grid system outage planning, this information could be used to significantly benefit the end consumer by ensuring the TO's assist the ESO in managing whole system costs.

We therefore suggest rewording principle 1.1 accordingly, For example:

> *''Support market participants, or future market participants, by providing relevant data to allow them to make their owned informed decisions."*

Para 1.15 & 1.16 The challenge to manage system frequency is supported by asset solutions provide by network companies as well as the effectiveness of the market to balance itself and the tools the ESO has to balance the residual energy. It is important that these different services are deployed to minimise overall costs to current and future consumers. The ESO has to make these choices in the best interests to consumers and needs to establish effective methodologies and cost benefit analysis protocols to achieve this. It is not clear the existing ESO framework is driving the ESO to do this and explicit interaction between roles 1 and 3 needs to be achieved through the framework and demonstrated in ESO outcomes.

Para 1.21 Ofgem want the ESO to take a risk-based approach to plan and mitigate against any adverse market conditions that may arise in the future in respect of system balance. We would emphasise that the risks must be considered on a regional basis and not just at GB level. Scotland is well ahead of the rest of GB in moving towards a zero-carbon system and is facing the loss of its nuclear stations in the foreseeable future. Localised system issues must be clearly and proactively addressed in the ESO Role 1; Control Centre Operations.

Para 1.28. As part of our RIIO-T2 Business plan we have brought forward proposals that could address constraints on both transmission and distribution networks. We can provide services that mitigate the risk of high constraint costs associated with some essential planned outages years ahead of time and optimise network availability in real time. The ESO framework needs to incorporate incentives to support network companies to provide these services when they are in the overall benefit of consumers.

Para 1.31 Ofgem explain the ESO "*as the "manager and gatekeeper of transmission system outages we expect the ESO to optimise the timing of transmission outages to maximise efficiencies across the system as a whole."*. There is a risk that the proposed framework focuses on short term behaviours to

maximise efficiencies. This can lead to higher costs for consumers overall and could delay the development or a net zero ambitions. As a transmission owner we plan and co-ordinate our outages with the ESO according to the STC and the Network Access Policy (NAP). Yet it has been problematical to implement asset-based solutions under these arrangements (specifically in relation to STCP 11-4 Enhanced Service Provision). These solutions could be used to mitigate high constraint costs in future years but have been difficult to implement due to the lack of incentive within the existing regulatory framework. This is manifested in a perceived risk that costs that the ESO would incur supporting these solutions could be disallowed if the forecasted constraint did not materialise. This suggests a weakness in the regulatory framework in respect of system operation which must be resolved if we are indeed *"to maximise efficiencies across the system as a whole".*

We therefore propose that the guidance supporting standard licence condition C16 presented in the table on page 30 onwards be amended as follows:

> ***d) optimising the timing of transmission outages under the outage plan on the national electricity transmission system;***
>
> *When co-ordinating, scheduling and approving transmission outages, the ESO should consider how the timings of transmission outages may optimise consumer benefits (or minimise costs) by considering the impacts of outages across the whole electricity system and across short, medium and long-term time frames. This should involve engaging with other network operators when developing plans and supporting asset and market-based solutions that are intended to deliver forecast benefits in future years*.

Para 1.54 The role of the ESO in respect of early and late competition remains untested. It is not clear the ESO has the skills and experience to assess and support delivery of large scale infrastructure projects particularly in respect of planning and consenting. Ofgem have yet to demonstrate the "significant benefits" to consumers their proposals will bring against the counterfactual regulated model that is in place. The role of the ESO therefore needs to remain as a neutral party limited to flagging where projects meet competition criteria but independent of the process of tendering and selecting winners. This role should remain with Ofgem.

2. <u>The Electricity System Operator Reporting and Incentives Arrangements: Guidance Document</u>

The changes proposed to this document appear to support and align with the proposals in the main consultation and ESO Roles and Principles Guidance with respect to the consolidation of the ESO roles.

In general, our view is the evaluation of the ESO is too subjective and would benefit from a more deterministic approach. This evaluation could be based on the performance metrics proposed by Ofgem in **para 5.14**. These metrics are intended to be reflective of performance against each role but could be supplemented by additional metrics at the level of the four key criteria listed in para 3.8. Baseline levels of performance can then be determined and use to calculate a score. Evaluation by the performance panel on softer elements of their performance could then be used to supplement this deterministic score and achieve an overall result.

Para 3.14 We agree future benefits should be evidenced and rewarded appropriately. For example, the approval of projects to mitigate future constraints costs in respect of planned transmission outages developed under STC and NAP protocols could form part of this evidence. Our introductory comments in this response provide the context for this.

Conclusion

It is vital the regulatory frameworks across TO's and ESO aligns in key areas such as system operation, outage planning and investment planning access to ensure we can collaborate effectively to mitigate constraints and optimise low carbon generation flows onto the network. This must be achieved in the context of enabling system access to connect new low carbon generation, upgrade our network to transport this energy to centres of demand, and maintain our assets to ensure continued high levels of network reliability and reduce overall costs to consumers.

We would be happy to discuss any of the points we have raised in this letter with Ofgem in greater detail.

Yours sincerely

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