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Louise van Rensburg  
Interim Deputy Director, Energy System Transition  
Ofgem  
10 South Colonnade  
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03 February 2019

Dear Louise,

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

This response is submitted on behalf of SSE Plc (SSE) and its licensed businesses. SSE is involved in the generation, transmission, distribution and the production, storage, distribution and supply of gas.

SSE Generation is involved in the generation of electricity from both thermal and renewable sources. SSE Renewables has a portfolio of 4GW of onshore and offshore wind and hydro generation. SSE's Thermal Energy business complements our renewable assets, providing flexible and efficient generation which has a critical role in the transition to a low carbon economy.

Our electricity distribution and transmission networks carry electricity to over 3.7 million homes and businesses across the north of the Central Belt of Scotland and also Central Southern England. 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.

SSE's licensed entities all have close working relationships with the Electricity System Operator (ESO) who is responsible for operating and balancing the GB transmission system. We welcome the opportunity to contribute and provide our views on Ofgem's decision and proposals for potential improvements to the ESO's regulatory and incentives framework from April 2020.



## ESO Roles and Principles

We recently responded to Ofgem’s “Mid-year 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.<sup>1</sup>

As for Ofgem’s decision to streamline the ESO roles framework from four to three, we agree that this approach would minimise the scope for overlap in the ESO’s reporting and the overall evaluation process. This is a step in the right direction, which works to add coherence and clarity. However, as ‘facilitating whole systems outcomes’ is now an expected behaviour across all roles, this should not minimise the importance of decision making by the ESO when it comes to providing whole system solutions and decisions that benefit the end consumer.

Furthermore, under the new roles, we feel the ESO should make representations as to who leads on interactions with the DNOs and feel that greater visibility is required of the ESO’s IT projects and developments, as this is essential to effective system operation.

We disagree with Ofgem’s additions to role three of the ESO Roles and Principles Guidance document. Specifically, where Ofgem has stated:

- It is continuing to consider the most appropriate roles for the ESO before, during and after competitions for delivery of network solutions;
- Has asked the ESO to develop an early competition plan, setting out views on proposed early competition models and proposed roles and responsibilities of all parties in those models; and
- It continues to consider that there are significant benefits to consumers in introducing competition into the delivery of new, separable and high value electricity transmission projects.<sup>2</sup>

We note that the development of competitive models is not a requirement of the ESO and the obligation to support competition is set out within Ofgem’s statutory consultation on proposals to modify condition C27 in electricity transmission<sup>3</sup>.

Ofgem’s instruction to the ESO to develop an Early Competition Plan<sup>2</sup> is inextricably linked to the proposed modification to standard licence condition C27 and any proposed amendments to this licence condition must remain cognisant of this work. We are concerned that the potential roles for the ESO, transmission and distribution licensees and other stakeholders could become conflated as a result of the proposed amendments to standard licence condition C27 and the Early Competition Plan.

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/12/scottish\\_and\\_southern\\_electricity\\_networks\\_mid-year\\_call\\_for\\_evidence\\_reponse\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/12/scottish_and_southern_electricity_networks_mid-year_call_for_evidence_reponse_0.pdf)

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/01/eeso\\_roles\\_and\\_principles\\_guidance\\_2020-21\\_draft\\_for\\_consultation.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/01/eeso_roles_and_principles_guidance_2020-21_draft_for_consultation.pdf)

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-modify-standard-condition-c27-electricity-transmission-licence-0>

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Moreover, we remain concerned with the current status of Ofgem's Guidance on the Criteria for Competition and the lack of governance associated with this document<sup>4</sup>. The potential impacts on network licensees and other stakeholders as a result of changing, without proper and thorough assessment, particularly in the context of R10-2 Business Plans and stakeholder engagement, could reduce confidence in the regulatory framework, most notably for onshore transmission in Great Britain. Our objections stand that these proposals are unsuitable and not sufficiently well developed to provide appropriate levels of certainty, clarity or scrutiny.

We have no further comments on the remaining roles and principles and therefore agree with Ofgem's proposals contained within the updated guidance document.

#### **ESO Reporting and Incentives Arrangements (ESORI):**

We agree with the proposed changes to the ESORI, along with the performance evaluation criteria suggested by Ofgem. Furthermore, we support the equal weighting of  $\pm£10m$  each across the three roles, with the total financial incentive value of  $\pm£30m$ .

We recommend that upon considering evidence, the Performance panel should remain cognisant of whole systems planning and thinking, in that, when benefits from proposed or delivered ESO projects are being evaluated, these must not be counterproductive or at a disadvantage to other areas of the network. It is essential that the Panel ensures they are in the best interest of consumers overall and also considers the impact of unintended consequences, if any, whether financial, societal or otherwise, when making determinations on the ESO's performance and subsequent incentives.

Though Ofgem has added (as part of the proposed changes to the ESO's roles and principles), that it expects the ESO to optimise the timing of transmission outages to maximise efficiencies across the system as a whole, we feel this should be a 'baseline expectation' when evaluating performance.

Finally, we welcome Ofgem's proposal supporting greater transparency of the ESO's forecasted internal costs, which is expected to be incurred to meet the deliverables in the Forward Plan.

Should you wish to discuss the content of this response further, please do not hesitate to get in touch.

Yours sincerely,

Shane Ali

Regulation

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<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/02/criteria\\_guidance.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/02/criteria_guidance.pdf)