

National Grid Electricity
Transmission Plc,
Scottish Hydro Electric
Transmission Plc,
SP Transmission Limited,
National Grid Gas Plc,

Direct Dial: 020 3263 2768

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Date: 29/03/2021

Dear Network Companies,

Direction under Part B of Special Condition 4.7 (SO:TO optimisation output delivery incentive of the Electricity Transmission License) to issue the SO-TO Optimisation Governance Document

1. Each of the companies to whom this direction is addressed is the holder of a licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. In accordance with Special Condition 4.7.10 (SO:TO optimisation output delivery incentive), on 8 February 2021 the Gas and Electricity Markets Authority (“the Authority”)¹ published on its website the text of the proposed SO:TO ODI Optimisation Governance Document and stated that representations must be made on or before 8th March 2021.
3. We received responses from all three Electricity Transmission Owners (ETOs), the Electricity System Operator (ESO) and 2 system users. We have published all non-confidential responses on our website. Our response to these representations are set out in the issues log, which can be found alongside this publication.
4. Responses were broadly in agreement with the proposed SO-TO Optimisation Governance Document that was published. A few key issues were raised amongst the responses:
 - a. Stakeholders asked for additional clarity on what we mean by beyond business as usual (BAU), in relation to the ETO requirement to demonstrate how solutions delivered are above and beyond the existing ETO obligations. We have considered this response and do not intend to define BAU and risk limiting potential beneficial solutions. We recognise that this is a trial ODI and we want to allow sufficient flexibility for the ETOs to provide solutions in line with the STCP11.4.

¹ The terms “the Authority”, “we” and “us” are used interchangeably in this document.

- b. One stakeholder requested to publish the ETO's ODI trial reports, as a means of creating transparency with a view to allowing stakeholders, specifically users of the system, to identify adverse behaviours created from solutions delivered during the trial. While we place considerable importance on the principle of transparency, we have not included this in the SO-TO Optimisation Governance Document as a requirement at this stage. We note that some of the information contained in these reports may be confidential and/or commercially sensitive. We will consider whether the reports can be published alongside any future consultation on the outcome of this ODI.
 - c. Some of the ETOs queried how the reward will be granted when the solution spans over two regulatory years. We included text in the SO-TO Optimisation Governance Document to clarify that where a solution makes constraint savings across more than one year, the incentive for year one will be based on the respective benefit the solution provides in year one, and the incentive for year 2 will be based on the respective benefit it provides for year 2. The ESO should be able to assess level of savings forecast in year one (this will be the basis of the calculation of the incentive in year 1 for this solution) and level of savings forecast in year 2 for this solution (which will be the basis for calculation of incentive in year 2 for this solution).
5. We have amended the proposed text of the SO-TO Optimisation Governance Document as a result of consultation responses. The reasons for these amendments are set out in the issues log. We also made some minor amendments to the text where we thought additional clarity is needed.
 6. The full text of the SO:TO Optimisation Governance Document as well as a track change version compared with that published on 8 February 2021 can be found alongside this publication.
 7. The reason for this direction is to give effect to our decision in Final Determinations² that licensees prepare a report in accordance with the SO-TO Optimisation Governance Document, as required by Part B of Special Condition 4.7.
 8. This direction is our notice of reasons for the purposes of section 49A of the Electricity Act 1989.
 9. Now, the Authority, in accordance with and pursuant to the provisions of Special Condition 1.1 (Interpretation and definitions) and Part B of Special Condition 4.7 of the Electricity Transmission Licence Special Conditions hereby directs that the SO-TO Optimisation Governance Document is issued and will have effect from 1 April 2021.

For more information regarding this Direction you should contact Eilidh Alexander, Eilidh.Alexander@ofgem.gov.uk.

Min Zhu

Deputy Director, ET Sector, Networks

Signed on behalf of the Authority and authorised for that purpose by the Authority

² Section 2.41 in the ET annex: - SO:TO optimisation ODI-F – https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_et_annex_revised.pdf