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Date
8 March 2021
Contact / Extension
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Dear Keren,

RIIO-T2 SO:TO Optimisation Governance Document Consultation (RIIO-2 SO:TO Consultation)

This response is from SP Transmission (SPT) which holds the transmission licence for the south and central Scotland. SPT is part of SP Energy Networks (SPEN) and the wider Iberdrola group. We welcome the opportunity to respond to the RIIO-2 SO:TO Consultation, following the Licence Drafting Working Groups (LDWGs); the RIIO-2 Informal Licence Drafting Consultation issued by Ofgem in September 2020; and the RIIO-2 Statutory Consultation on the RIIO-T2 Licence published on 17 December 2020 (the Licence Consultation), which our RIIO-T2 team has actively participated in.

The matters raised in this response should be considered in conjunction with SPT's response to the Licence Consultation, which we submitted to Ofgem on the 19th January 2021 (SPT's Licence Consultation Response). References to licence drafting and licence conditions in this letter and the enclosed Issues Log (at Appendix 2) are references to the RIIO-T2 Licence Conditions as issued by Ofgem on 3 February 2021 together with its decision following the Licence Consultation.

We welcome the significant work and positive engagement from Ofgem in developing the SO:TO Optimisation Incentive together with the TOs and the ESO. By incentivising TOs to identify and develop proposals under STCP11-4, we believe that the SO:TO Optimisation Incentive can provide significant value to consumers. It is therefore critical that the SO:TO Optimisation Governance Document provides clarity and certainty on the incentive mechanism, to ensure it can be used to unlock whole-systems savings for consumers.

We are broadly supportive of Ofgem's approach to drafting the SO:TO Optimisation Governance Document, and the use of a trial period for the incentive. However, SPT has some comments on the draft SO:TO Optimisation Governance Document included by Ofgem in the RIIO-2 SO:TO Consultation, from both a policy and a drafting perspective. SPT's comments on the licence conditions associated with the SO:TO Optimisation Incentive are set out in detail in SPT's Licence Consultation Response, and any further comments provided in this letter, and its Appendices, on the licence conditions are in addition to our previous comments and should not be considered as

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replacing those comments. SPT's concerns on the draft RIIO-2 SO:TO Optimisation Governance Document are detailed in Appendix 2 of this response, and the key issues are as follows:

- Where a solution makes constraint cost savings across more than one regulatory year, it is not clear how those constraint cost savings will feed into the SO:TO Optimisation Incentive calculation. Clarity is needed from Ofgem on whether the portion of the saving in a given year will count towards the incentive calculation for that year, or whether the total constraint cost saving for the solution will count towards the incentive calculation only in the regulatory year in which the solution was first delivered. We would expect this to be set out clearly in the Guidance document and the associated RIGs.
- If the ESO identifies any need to update or change the methodology in Annex A, the SO:TO Optimisation Governance Document states that the ESO must engage with the Authority on the proposed amendments. The document should also require that the ESO engage with the TOs on any proposed amendments to the methodology.
- Further detail is required in the SO:TO Optimisation Governance Document on the process to be followed at the end of the two-year trial period. As suggested, the Governance Document should remain in place during the assessment period and then amended accordingly, should Ofgem take the decision to extend the incentive for the rest of the Price Control period.
- It would be useful for the ESO to submit a draft version of the ESO Report, like the TOs for the ETO Report, to enable better-informed and timely consideration of the continuation of the incentive after year 2 based on the draft reports submitted by April 2022.

Please see Appendix 1, below, containing SPT's responses to the four consultation questions raised by Ofgem, and Appendix 2, attached, containing our detailed comments on the SO:TO Optimisation Governance Document.

We provide comments in this response on the draft RIIO-2 SO:TO Optimisation Governance Document with a view to working with Ofgem to ensure that this document, including its appendices, operates fairly, consistently, transparently, proportionately and cohesively.

However, our comments and this letter are submitted to Ofgem entirely without prejudice to SPT's Licence Consultation Response, SPT's rights, including those under the Electricity Act 1989, and SPT's ongoing appeal of the RIIO-T2 licence modifications to the Competition and Markets Authority. All of SPT's rights are reserved.

Yours sincerely,



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Appendix 1 – Consultation Questions

1. Do you agree with the reporting requirements set in the governance document for the ETOs and the ESO including the details required, the scope of reporting and timing?

We are content with the reporting requirements proposed. However, it is not clear why the TOs must submit a draft report to Ofgem by April 2022, whilst the ESO has no such requirement. It would be helpful for the ESO to submit a draft version of its report, like the TOs, to enable better-informed review of the continuation of the incentive after year 2 to be made following the submission of draft reports by April 2022.

The content of the ETO Report is appropriate, and the table provided in Appendix B of the SO:TO Optimisation Governance Document provides some helpful further detail on the expected report content.

2. Do you agree with the methodology of the ESO's calculation of both the ex-ante and the actual savings in constraint costs?

We are content with the ESO's methodology for calculating the ex-ante and actual savings in constraint costs, which is broadly the same as the methodology they currently use for proposals under STCP 11.4.

However, we do not consider it appropriate that this methodology can be amended without any engagement with TOs. Paragraph 2.3 should be amended to include: "The ESO must engage with the ETOs and the Authority on the proposed amendments."

3. Is there any additional information that could assist the Authority in assessing the consumer benefit or issues of this ODI?

We believe that the ETO and ESO reports will contain the required information to assess the consumer benefit or issues of this ODI. We note that the deadline for submission of the ESO's report is 31st March 2023. However, as the ex-post assessment of constraint cost savings will extend to the end of March 2023, it will be important that provisions are made in the Guidance for the ESO to submit any savings identified, following submission of the ESO's report, to ensure that Ofgem's assessment takes into account all constraint costs savings over the 2-year incentive period.

4. Do you agree that this SOTO Optimisation ODI Governance Document should continue to be in place during the assessment period to avoid any gap in governance if the Authority were to agree to continue to roll out the incentive for the remainder of the PC?

Yes, the SO:TO Optimisation Governance Document should remain in place during the assessment period and then be amended accordingly should Ofgem decide to roll out the incentive for the remainder of the price control period.