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Dear Leonardo

## **Final proposals for electricity System Operator incentives from April 2017**

This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As a TO we are subject to the RIIO-T1 price control framework and must ensure that we develop an economic, efficient and coordinated onshore transmission system.

We welcome the proposals for the incentives framework for NGET in the interim period, from 1 April 2017 to 31 March 2018. In particular we welcome the proposal to develop an SO-TO mechanism to reduce overall system costs for consumers as a pilot from April 2017. This is a positive step that we have been promoting for some time and provides a mechanism to fund TO's to offer services in relation to network outages, that could reduce whole system costs for consumers.

In respect of this proposal we would highlight that where licence condition 4J refers to "SP Transmission Ltd" this should be modified to refer to "SP Transmission plc". We would also request clarification on certain aspects of the intended application of this licence condition, as set out below, to ensure we fulfil our obligations under the SO-TO mechanism.

### **1. Cost recovery for Outage Changes**

Our understanding is that the term "OC", is an allowance for payments to be made by the SO to the TO in respect of "Outage Changes" such as overtime working and early return to service. This mechanism is already available to the SO and TOs through our special licence condition 8B "Services treated as Excluded Services". The procedures to implement this mechanism are contained in the SO-TO code, specifically STCP 11-3.

This procedure has historically been interpreted as being applicable only to planned outages included in the "year ahead" or "week 49" outage plan and not to any subsequent outages added during the year. However, the proposed new Special Condition 4J "SO-TO mechanism" in NGET's licence extends this existing mechanism to apply to outages added after the week 49 outage plan has been finalised.

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Our understanding of this comes from the definition of “Outage Changes” in the new licence condition 4J which states:

“a change notified to a Transmission Owner by the licensee to the Outage Plan on or after Week 49, as updated from time to time in accordance with the STC”

This clearly indicates outages added subsequently to the week 49 programme can be included in the cost recovery mechanism. We welcome this development and would ask Ofgem to confirm our interpretation is correct.

## 2. Outages changes to reduce overall system Costs

STCP 13-1 has also been interpreted historically by the SO and TO’s as applicable only for outage changes required to meet system security issues and not for changes proposed to reduce overall system costs. Recent discussions with the SO indicate they have updated their interpretation of the STCP 11-3 so that outage changes to minimise overall system costs, not just security issues, will now be considered as eligible for cost recovery by the TO. This is based on a revised interpretation of STCP 11-3.

We also welcome and agree with this development and agree it could benefit consumers overall but we would again be grateful for confirmation from Ofgem that we have understood their proposals accurately and the revised interpretation of the STCP 11-3 is appropriate.

## 3. Commercial Operational Services and Joint Works Projects

We understand Commercial Operational Services “COST” and Joint Works Projects “JWt” and are intended to cover changes to projects that require more material investment than those required to achieve outage changes as described above. This could include provision of temporary by-pass or inter-tripping schemes, or other such means to improve system security or reduce overall outage costs. This proposal also develops the existing mechanism under STCP 11-3 which is limited to outage changes.

It is important to recognise that our current Special Condition 8B “Services treated as Excluded Services” limits cost recovery under this mechanism to “Outage Changes” which are defined in 8B.10 paragraph ES5 as:

“The net costs reasonably incurred by the licensee as a result of any outage change as reimbursed by the System Operator. For the purpose of this condition an “outage change” is a change to the outage plan notified to the licensee by the System Operator on or after week 49, as updated from time to time in accordance with the procedures set out in the STC.”

In addition there is a clause in 8B.10 ES7 “Miscellaneous” which states:

“This category consists of the provision of any other service (including the provision of electric lines or electrical plant) that:

- (a) is for the specific benefit of any third party who requests it; and
- (b) is not made available by the licensee as a normal part of its Transmission Business Activities”

Our view is this clause is sufficient to accommodate the proposed additional services we could provide to reduce whole system costs. However, we would be grateful for confirmation from Ofgem that our existing licence is sufficient to recover costs from the SO to fund Commercial Operational Services as defined in the Final Proposals. Otherwise, a separate consultation will be required to implement any changes to the TOs’ licences to ensure that they can recover such costs as part of their allowed revenues.

We would also like to raise the question of whether a third party request from a connected wind farm with single circuit connection, to pay for similar services to reduce an outage that affects them, could also be accommodated through this condition.

#### 4. Deliverability of Commercial Operational Services and Joint Works Projects

We understand Commercial Operational Services (COSt) will need to be developed and delivered within the current financial year 2017-18 to qualify for funding, as this is a pilot scheme and may not be extended. If this is correct we would suggest the opportunity to implement such changes will be minimal. Typically, this type of changes would need to be identified and agreed at the medium or long term outage planning stages to allow revised designs and commercial contracts to be established.

It will be possible in the pilot year to identify such opportunities but we would highlight the mechanism will need to be extended if the overall consumer savings are to be achieved. Similarly, services provided in respect of “Joint Works Projects” may not be able to be implemented in the pilot year, although they can be identified and proposed for future year’s delivery.

It is also typical for major construction projects that outages are spread across multiple outage seasons. Therefore it is possible a COS or JWP service could impact constraint savings beyond the pilot year and across multiple reporting years.

We do welcome the proposals for commercial operational serves and have developed a draft new STCP 11-4 with NGET and SHE Transmission under the NAP working group framework to codify the procedures. However, we would welcome clarity on:

- The treatment of projects that may be identified in the pilot year but delivered in future years.
- The treatment of projects delivering savings over multiple reporting years

We look forward to addressing these questions with you in the near future so as to ensure the intention of the proposals can be implemented.

Yours sincerely



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