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Date
23rd March 2018
Contact / Extension
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Dear David

ESO incentives – Notice of proposed modifications to the special conditions of the electricity transmission licence held by NGET

SP Distribution plc, SP Manweb plc, and SP Transmission plc. (“the network companies”) are the “asset-owner companies” holding Scottish Power’s regulated assets and distribution and transmission licences. Scottish Power operates along divisional lines, and together, the activities of these companies fall within the Energy Networks division “SP Energy Networks” (SPEN). This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As a TO we have a statutory duty to ensure that we develop an economic, efficient and coordinated onshore transmission system.

We welcome the opportunity to comment on Ofgem’s notice to changes to NGET’s special licence conditions to introduce a new reporting and incentives framework for the Electricity System Operator from April 2018. This response is focused on special conditions (SpC) 4J (SO-TO mechanism) and 4I (Requirement to Report on System Transmission Losses) as these are of most relevance to our role as a TO.

On the 5th March, we submitted a response to Ofgem’s consultation on the ESO’s Forward Plan for 2018/19. Within this response, we make our views clear in relation to the detail behind the Forward Plan

SpC 4J SO-TO Mechanism

It is very positive that Ofgem are proposing to continue the SO-TO mechanism that has operated as a pilot during April 2017-18 under the existing BSIS framework. If implemented correctly, this mechanism could lead to reduction in whole system costs. Reduced constraint costs arising from transmission network outages can be achieved by adopting alternative design, construction or delivery options that, although require higher upfront costs, can reduce whole system costs for consumers.

The modifications proposed to remove the quarterly reporting requirements and the incentive mechanism are appropriate. The previous incentive relied on the SO’s ability to forecast future constraint for specific circuits which is highly problematic. The uncertainty in forecasting future constraint costs and the shorter term incentive regime that the SO operated under made it difficult for TO’s to identify and implement, and the SO to promote, solutions. This limited the potential for Commercial Operational Services or Joint Works Projects to be delivered in the current year incentive period that was available. The proposed ESO framework removes these barriers and provides an opportunity for a suitable process to be developed that would deliver such solutions.

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However, it is worth reinforcing that the process will rely on projects being identified and approved in medium or long term planning timescales. It is not clear if the licence in its current format will support this. SPT looks forward to continuing to work with the SO and other TO's, under the Network Access Policy working group, to develop a successful process. It may also be appropriate for the ESO to consider developing a suitable KPI in their Forward plan to support this process in future years.

Within the licence drafting, SPT is referred to as SP Transmission Ltd, however, this should state SP Transmission plc.

Losses Reporting SpC 4I

With respect to Special Condition 4I, it should be noted by Ofgem that as a TO we are required to provide a report annually on System losses under our licence SpC 2K "Electricity Transmission Losses". This condition requires SPT to publish an annual Transmission Losses report and to include in reasonable detail:

- (a) the level of Transmission Losses from the licensee's Transmission System, measured as the difference between the units of electricity metered on entry to the licensee's Transmission System and the units of electricity metered on leaving that system;

This information is only available from the ESO and to be able to fulfil our obligation in the future this data will require to continue to be made available by the ESO. Currently there is no other means to source this data.

Special Condition 4M: Electricity System Operator Reporting and Incentive Arrangements

Section 4M.5 refers to the "FP Consultees". However, it may be interpreted that the "FP Consultees" refers to sub-section 4M.5 (d) only, i.e. the SO would only be required to consult with interested parties and not the Authority and industry. We appreciate this is not the intention of the drafting, and suggest this could be amended to ensure it is clear that the SO should consult with all parties included within section 4M.5

Overall, SPT supports the intentions of these modification proposals to develop a mechanism for the ESO that supports whole system costs over a longer period.

Please do not hesitate to contact me should you have any queries in relation to our response.

Yours sincerely,



Alan Kelly
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RIIO-T2 Team