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Dear Louise,

Call for evidence on ESO performance over the 2018-19 regulatory period

Scottish Hydro Electric Transmission plc (SHE Transmission) welcomes the opportunity to respond to Ofgem's Call for Evidence on Electricity System Operator (ESO) performance over the 2018-19 regulatory period. We continue to have a close relationship with the ESO who is responsible for operating and balancing the GB transmission system and therefore we welcome the opportunity to provide our views and evidence on how the ESO is performing against the seven key principles and how it can maximise consumer benefits across the full range of its activities. Below is a summary of the key points on the ESO's performance over the 2018-19 period, more detailed feedback against the seven key principles is provided in the attached annex.

- SHE Transmission welcome the engagement with the ESO on the Future Energy Scenarios (FES).
- In general, we think that the ESO has provided good communication and engagement, however we would like to see improvements in the transmission connections process, particularly around the length of time it is taking the ESO to relay information to the customer and its engagement with smaller sized customers.
- Although we acknowledge that the move towards whole system thinking is still in its infancy, we believe there is more proactive work which the ESO can do to encourage whole system solutions.
- We welcome the recent changes to the System Operator – Transmission Owner Code (STC) STCP 11.3 (Outage Change Costs) and STCP 11.4 (Enhanced Service Provision) which should lead to better efficiency, cost savings and improved transparency.
- SHE Transmission has been consistently clear that the development of further competition within and between sectors of the GB energy industry must be based on the solid foundation of primary legislation supported by guidance from Parliament. SHE Transmission does not support the expanded role of the NOA proposed through the modifications to standard condition C27.

We acknowledge that the new regulatory and incentives framework for the ESO is new and it is important to ensure the framework is kept under review to ensure it remains fit for purpose particularly as the ESO develops its role into the RIIO-2 regulatory period. However, we would raise our concerns over stakeholder fatigue in relation to the regulatory and incentives framework and the ESO's performance. This is the third response¹ we have made in relation to the ESO performance or the regulatory and incentives framework since it came into effect in April 2018 and the 6 months between the end of October is potentially not a long enough timeframe to assess the ESO's performance on and then to make any necessary improvements in the remaining months of the year.

We have outlined our views on how the ESO is performing in the annex below.

Yours sincerely

Sam Torrance
Networks Regulation

¹ Following our response to the October 2018 Mid Year Call for Evidence on ESO Performance and our response to the November 2018 Call for input on 2019-20 ESO regulatory and incentives framework.

Annex – ESO Performance on the ESO Performance over the 2018-19 regulatory period

Principle 1 - Support market participants to make informed decisions by providing user-friendly, comprehensive, and accurate information

(Ofgem areas of interest: General satisfaction with the ESO's information dissemination and accuracy, the ESO's data systems and the ESO's engagement to date. This includes the BSUoS monthly report, Future Energy Scenarios, Market Outlooks, Electricity Capacity report, webinars and events relating to Ancillary and Balancing services tenders, reporting of trades to the market, publication of forecasts of the carbon intensity of the electricity system, Ops Forum events and daily and monthly summaries of balancing costs).

We continue to welcome the engagement with the ESO on the Future Energy Scenarios (FES), this remains an important part for Electricity Transmission and shapes the way in which we invest in our network. More recently, we welcomed the steps taken by the ESO to widen the scope of the FES to the wider industry and only see this as a positive step as we move towards whole system thinking.

We have not yet witnessed any improvements made in the ESO's performance in relation to the Transmission connections process, an area of concern we highlighted in our Call for Evidence response in October 2018. We are particularly concerned around the length of time it is taking the ESO to relay information to the customer, in a recent example it took the ESO up to six months to relay this information to the customer. We also remain concerned about the transparency of responsibilities in the Transmission connections process and ensuring that there is upfront information available to the generators in advance of a connection application. Again, we would encourage the ESO to establish a working group between ourselves, SHE Transmission, SHEPD and the ESO to try to improve the information available to customers to allow more informed decisions about what to apply for and where. As part of our proposals for RIIO-T2 we have proposed improvements which aim to increase the transparency of responsibilities within the transmission connection process and a more optimal process overall. We would encourage the ESO to engage with TOs in the development of their RIIO-T2 plans.

We would highlight the improvement in communications from the ESO, in particular the number of webinars has notably increased, and the development of guidance notes for example on co-location. However, we would encourage the ESO to review the ease of access to this important information, as currently it is quite difficult to access some of this important information.

Principle 2 - Drive overall efficiency and transparency in balancing, taking into account impacts of ESO actions across time horizons

(Ofgem areas of interest: Forecasting (demand, wind and solar), the ESO's Innovation Strategy, the Trades data platform, C16 Procurement Guidelines, SO IT forum, the ESO's monthly BSUoS report and

the Operability Report. General satisfaction with the ESO's balancing approach, IT systems maintenance and improvements and satisfaction with the level of the ESO's transparency).

This area continues to move and develop as DNOs transition into the role of DSOs. As a Transmission Owner our involvement in this area is limited, however one area we would highlight is the ongoing work under the stability pathfinder project looking at system stability issues due to reducing inertia and fault levels. We have concerns around the ESO's proposed approach that TOs will be among other potential market solutions providers. TOs have a legal and regulatory obligation to develop and maintain a safe, secure and economical system of electricity transmission and that if the ESO will procure solutions from wider markets, there needs to be a framework to stipulate the compliance levels for TOs to work to.

Principle 3 - Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent

(Ofgem areas of interest: The ESO's future of balancing services workstream including progress of System Needs and Product Strategy (SNaPs) and product roadmaps, regional development programmes (RDPs), new providers on-boarding experience, TERRE developments, non-BM access and the Power Responsive Campaign).

We have not seen any real development or movement in the ESO's performance against this principle since the feedback we provided in October 2018. However, we would encourage the ESO to improve its performance across the wider industry.

However, we would note the positive plans proposed by the ESO for the remainder of RIIO-T1 and RIIO-T2 to move towards code managers rather than code administrators. The changes proposed enable the ESO to proactively seek and co-ordinate code changes rather than being re-active and going through a time consuming and inefficient code governance process.

Principle 4 - Promote competition in the wholesale and capacity markets

(Ofgem areas of interest: TNUoS and BSUoS customer seminar, BSUoS and TNUoS billing and reconciliation, code administration satisfaction, Charging Futures, experience of charging processes and publication of charging data).

The ESO has provided an efficient secretariat function by setting up the facilities and website for the Charging Future Forum (CFF) and have been able to project the content and themes of Ofgem's ongoing work in this area. There has been engagement with some larger connections customers in the development of these proposals; however we feel that smaller sized customers have not been represented and have been left out of the debate of what access and charges should look like in the future. This was highlighted to us during our recent engagement on the Scottish Islands. We plan to continue engaging with customers during the development of these policies; however, we believe the

ESO should be more proactive with customers in communicating major policy changes in the industry. As part of our RIIO-T2 initiatives we have proposed an initiative to be advocates for connection customers engaging with them proactively on industry change and horizon scanning any upcoming change with the ambition to make the connections process more accessible to all types of customer including community energy schemes.

We look forward to further improving the coordination of Distribution and Transmission arrangements, in particular in the anticipated Significant Code Review (SCR) into Access Rights and Forward-Looking Charges.

We are also involved in both the CFF and the supporting Charing Delivery Body (for which the ESO is also the secretariat) and understand that the work of both these groups is evolving. From these early days, we have seen areas where coordination between the ESO and Ofgem could be improved. This was demonstrated, for example, when Ofgem's Access and Forward-Looking Task Forces presented their findings on arrangements including the use of securities and the ESO separately also published a consultation highlighting potential problems and seeking views on Transmission securities. Although we agree that securities need reform, in a number of areas which we have communicated to the ESO previously, we believe it is essential for a coordinated approach to any such reform and this should be included within the scope of the Forward-Looking Charges workstream.

Principle 5 - Coordinate across system boundaries to deliver efficient network planning and development

(Ofgem areas of interest: Interactions with DNOs and TOs, network development roadmap consultation, NOA Pathfinding Projects, developing new ways of working with DNOs, Regional Development Programmes (RDPs)).

In our October 2018 response we outlined that we would like the ESO to contact the relevant DNO at the same time it contacts their contracted users, predominantly large generators, in order to allow the DNO to notify their network Users, predominantly small generators, at the same time. Overall, this consistent communication will lead to more consistent outage notifications and should lead to a reduction in outage changes for some customers.

We have been working closely with the ESO on the development of the Alternative Approach for queue management and securities in support of the Orkney Needs Case submission for transmission reinforcement. We welcome this close working and believe this a good success story and we would like to see more of this close working on major topics such as security revision to ensure that the principles envisioned in the CUSC are held for all customers including remote customers.

We would highlight the support received from the ESO during the TNUoS workshops that SHE-Transmission led in May 2019 as a positive for the ESO's performance. We ran these workshops following requests from North of Scotland network users, as an advocate for our connection

customers we co-ordinated with the ESO to ensure our connection customers views were being heard and considered by the ESO and we would welcome any future support from the ESO on this.

We also welcome the early work from the ESO in developing a tool for third parties to use to assess the likely system requirements required in local areas. This work is still very much in its infancy, and more work is still required, but we believe that this tool will be beneficial for third parties.

Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources

(Ofgem areas of interest: ESO's engagement on the ENA Open Networks including Future DSO arrangements, Power Potential, Enhanced Frequency Control Capability (EFCC), TOGA system).

The Transmission Outages and Generation Availability (TOGA) system is to be replaced and the ESO has already held workshops across GB to ensure as many TOGA users attended as possible. The process so far looks positive with a more fit for purpose system hopefully the outcome.

We welcome the work which the ESO has undertaken with the TOs regarding outage changes, in particular the ESO provided an overview of costs and savings in Scotland which has improved transparency.

The revised ESO approach to STCP 11.3 (Outage Change Costs) has resulted in the ESO spending more of the allowed fund resulting in greater constraint cost savings. The ESO is also now sharing the expenditure and savings figures which is improving transparency of their actions. The recent introduction of STCP 11.4 (Enhanced Service Provision), as agreed between ESO and TOs, provides a financial fund for both TOs and ESO to modify how projects are delivered should a more efficient method be found.

The ESOs engagement on the ENA Open Networks project is developing well, particularly in relation to the development of whole-system planning. Currently under development in Workstream 1 is the Transmission impact assessment process which aims to provide assessments to connection customers in a timelier manner. We collaborated with the ESO to enable a system which would improve the connections process through bypassing, where possible, lengthy transmission assessments. This would also reduce the application fees required to be paid for by the customer. We believe this has been a beneficial collaboration which will positively impact a wide range of connections customers.

Principle 7: Facilitate timely, efficient and competitive network investments

(Ofgem areas of interest: Network Options Assessment (NOA) process and engagement, Electricity Ten Year Statement).

SSEN has been consistently clear that the development of further competition within and between sectors of the GB energy industry must be based on the solid foundation of primary legislation supported by guidance from Parliament. The provision of that guidance, alongside clear development

of coherent and consistent regulatory policy in an open and transparent way, is the foundation on which changes to existing licence conditions should be based. SSEN does not support the expanded role of the NOA proposed through the modifications to standard condition C27.

In developing the NOA, the ESO has proposed changes to their existing methodology to reflect Ofgem's 'maximalist approach', making changes which state that when bundling potential packages, each component part of a project no longer needs to meet the competition criteria (in particular the £100m threshold), so long as the value of each of the ESO defined 'bundles' meets the criteria (>£100m) instead. For the splitting of packages, the ESO is proposing to amend the methodology so that it is only the total value of the project that must meet the £100m threshold, rather than the various parts that a project is broken down into.

SSEN is strongly opposed to apparent extension of the competitive criteria from the ESO. This goes beyond Ofgem's current 'Guidance on the Criteria of Competition' and the decision taken within the 'Extending competition in electricity transmission: Decision on criteria, pre-tender and conflict mitigation arrangements' published in November 2016 in which Ofgem states that bundling would 'only apply to projects which already meet the high value threshold in the first place'. In relation to splitting, Ofgem stated that 'Any resulting packages will need to meet the criteria for tendering.' The ESO's proposed NOA5 methodology is clearly going beyond this stated position.

However, we welcome the improvements in the ESO's communication, particularly with DNOS, we believe the more targeted approach to identify key people in DNOs and holding more detailed discussions around their options and obligations in relation to NOA is positive. We look forward to this work developing further as we head towards more whole-system thinking.

We believe that the development of Future Energy Scenarios (FES), the Electricity Ten Year Statement (ETYS), the System Operability Framework and the Network Options Assessment processes by the ESO is the right way of identifying system requirements and developing efficient and economic solutions to these. This also helps market participants to understand these requirements and need for solutions. However, we feel that these processes need to be developed further.