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Date:  
14<sup>th</sup> Feb 2019  
Contact / Extn:  
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Dear Fintan,

### **Consultation on the Electricity System Operator Forward Plan 2019-21**

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.

The first ESO Forward Plan was a significant milestone in the development of the role of the Enhanced SO and is fundamental to the new regulatory and incentive framework for the ESO, from April 2018. It is therefore important that this second plan builds on the lessons learned from the first year of performance and realises the ambition the ESO is hoping to achieve.

The mission, objectives and principles articulated in the Forward Plan do represent a reasoned and balanced approach to meet the needs of the Energy System Transition (EST). However, there are areas and aspects of the detail that can be improved upon, with greater focus and clarity to identify where the ESO's priorities should lie. For example, a key element that appears to be lacking is an ambition to reduce the volume of residual balancing services required, by increasing the capability of the wholesale energy market to meet more of this function. Clear metrics and targets should be established to demonstrate progress towards this end.

Generally, the commitments in the Forward Plan that are identified as exceeding baseline are activities that we would consider as 'business as usual' activities. A balanced scorecard approach with high level metrics against these areas, that demonstrate what performance is now, to provide a benchmark position, would be a much clearer and more accountable basis for demonstrating the effectiveness of the improvement activities being undertaken.

The ESO should include "support activity for the TOs' business plan development" in their Forward Plan for the 2019-20 period. Omission of this highlights a lost opportunity and an example of where the Forward Plan fails to recognise immediate priorities.

Another omission in the Forward Plan is with respect to the existing mechanism that is included in the ESO's licence as SpC 4J: The SO-TO Mechanism. This mechanism provides the opportunity to identify and implement infrastructure solutions that reduce the risk of high constraint costs being levied on consumers. To date, no appropriate projects have been agreed between the ESO and TOs for progression. This is in part due to a lack of clear guidance on how these projects are justified and funded. A metric should be included in the ESO Forward Plan to demonstrate their ambition to identify and promote such solutions effectively.

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Further points of feedback are provided in the appendix below against each of the four questions set. Should you require any further information please do not hesitate to get in touch.

Yours sincerely



**Lynne Bryceland**  
**Transmission Policy and Licence Manager**

## **Appendix 1: SPT's Detailed Responses to the Four Questions**

### **1. Do you have any comments on whether our plans are heading in the right direction to meet current and future market needs?**

The mission, objectives and principles articulated in the Forward Plan do represent a reasoned and balanced approach to meet the needs of the Energy System Transition (EST). However, there are areas and aspects of the detail that can be improved upon with greater focus and clarity on where the ESO's priorities should lie.

What appears to be lacking is an ambition to reduce the volume of residual balancing services required, by increasing the capability of the wholesale energy market to meet more of this function. Clear metrics and targets should be established to demonstrate progress towards this end.

There is also no clear evidence of how costs paid to providers of balancing services will be targeted as an opportunity to reduce overall costs for consumers. The approach seems to be focused on reducing the overall volume of services that are required to be procured. In the evolving electricity system, flexibility is going to be key, and increases in additional balancing services are more likely to be the means by which system needs are met.

### **2. Please give us your view on whether we are targeting the right activities, for example those that will deliver most benefit for consumers?**

There are areas where it is not clear the right activities are being targeted. For example, it is inevitable that under the current Connect and Manage approach, constraints costs are increasing as more and more generation is connecting ahead of the associated increase in the wider network capacity, enabling this energy to flow to centres of demand. The benefit to consumers of the reduction in the intensity of CO<sub>2</sub>, in the background generation mix that the increase in renewable generation is achieving, should be more clearly demonstrated as a counter to the negative perception of increasing constraint costs. Having an objective to reduce short term Balancing Services costs may not be in the interests of current or future consumers.

### **3. We present in our plan, how our activities will meet and exceed baseline expectations between 2019-21 (see page 5 for definition of exceeding baseline expectations), do you have any comments on this?**

The ability to define and demonstrate what the ESO can do to exceed baseline expectations is not easy to achieve. Particularly in such a complex business with fundamental deliverables, which are of such value to GB's economy and society.

Generally, the commitments in the Forward Plan that are identified as exceeding baseline are activities that we would consider as 'business as usual' activities. The Forward Plan exceeds baseline expectations, based on inputs or activities that are over and above what is currently seen by the ESO as being funded in their current regulatory settlement. This is an understandable approach as the need to balance consumer costs with shareholder return is the basis of the

regulatory framework. However, exceeding baseline expectations should be about increasing performance by doing things better or doing better things with the resources that are available to you. The ESO should be able to demonstrate what current performance levels are and how this changes year on year. Exceeding baseline expectations would be an improvement in current performance levels.

#### **4. Do you agree that our metrics will allow us to track our performance as we deliver against our plans?**

We don't consider these metrics, in general, provide an effective measure of the quality of ESO performance. A better approach, as suggested in the previous answer, could be to define higher level metrics based on the 5 aspects of their mission:

1. Improved safety and reliability
2. Improved quality of service
3. Lower bills than would otherwise be the case
4. Reduced environmental damage
5. Benefits for society as a whole

A balanced scorecard approach, with high level metrics against these areas that demonstrate what performance is now to provide a benchmark position, would be a much clearer and more accountable basis for demonstrating the effectiveness of the improvement activities being undertaken. The metrics should be able to demonstrate the current level of system safety and reliability, level of service overall, costs to consumers, environmental impact and levels of benefit for society and the economy. This may be ambitious, but being ambitious is the challenge laid down by Ofgem and consumers for the ESO to achieve.

In respect of the current metrics proposed, we have some comments on areas that reflect our interaction with the ESO as a TO.

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

The proposal under the "Operational insight" section the ESO is committing to "*sharing insight on balancing actions and produce a map of outturn system costs for voltage and thermal constraint costs by region or constraint boundary. In addition, we will build on the Daily Balancing Costs report and MBSS.*"

This is a positive intention. We would be grateful if the ESO could confirm if this would include an annual forecast of circuit constraint costs giving a daily average value for key power corridor circuits in a TOs' licenced area. This information, if it were available, would assist the TOs in developing their RIIO-T2 plans in a manner that takes into account the ESO system operational costs as well as the TO's project delivery costs. If this is not intended as a deliverable in your Forward Plan, can you commit to considering the benefits of doing so, and include this in the Forward Plan as soon as practicable. We would be pleased to provide more information on our requirements and refer to recent bilateral discussions between ourselves and the ESO on this issue.

Principle 2: Drive overall efficiency and transparency in balancing services, taking into account impacts across time horizons

We support the ESO's commitment to producing Balancing Mechanism forecasts. Can the ESO confirm if these would include monthly balancing costs forecasts, as well as annual forecasts, as this would provide information that can inform short term outage placement by TOs.

With respect to HVDC availability, can the ESO provide Scottish constraint costs figures with the HVDC link in service included, and without, so that clarity on how any reduction is achieved becomes evident. We are not convinced a "forecast reduction in balancing spend of £136.4m" is an accurate or representative value, and may misrepresent the position. For example, the availability or otherwise of large scale generation in Scotland will significantly affect constraint values, as you highlight on page 26 of the Forward Plan.

As a specific metric in the ESO Forward Plan, the methodology for calculating this forecast value should be available and supported by an actual outturn constraint value. If this is not achievable, the value should be removed as it does not seem relevant to assess ESO performance.

The commitment to provide such a measure appears to be included under *Metric 9 – Year ahead forecast vs outturn annual BSUoS*. Can the ESO confirm if this is the ESO's intention?

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

We welcome the inclusion of the Regional Development Programme for Dumfries and Galloway, however, it is not clear why the activities are considered as exceeding baseline. The successful implementation of this work is already committed with the new generators connecting in this area and included in their bilateral contract agreements.

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

This is an area where we can contribute. However, the metrics defined are not reflected as customer priorities in our 'business as usual' activities, to deliver connection offers in our area.

As part of our increased stakeholder engagement in this area, our outage planning teams have established twice yearly meetings with every connected customer to explain the potential impact of our year-ahead plans. This is welcomed by our stakeholders but criticised by the ESO as potentially undermining their formal outage notification role.

The metric 14 to reduce variations in post contract offers removes those variations attributed to TO's. We would be delighted to support this initiative but the ESO has historically not been able to provide feedback or evidence of where we may have opportunities for performance in this area.

It would be of benefit to customers going forward if this feedback could be provided in a way that can facilitate improvement in the offer process. The lack of the ESO's ability to collaborate and co-

ordinate with TO's in this area, is evidence of poor performance in itself. If this metric is evidence of a quality offer we would be supportive of adopting this as evidence of our performance and reporting on this to ensure the reporting by the ESO is accurate.

#### Principle 7; Facilitate timely, efficient and competitive network investments

The ESO includes no activities that will support the assessment of TO's RII0-T2 business plans to ensure their network investment plans are able to identify where there may be opportunities to optimise infrastructure investment and reduce Whole System costs for consumers.

The potential for offline build solutions to reduce constraints costs, associated with the shorter outage patterns, is just one example which could be of significant benefit to consumers.

The ESO should therefore include "support activity for the TOs' business plan development" in their Forward Plan for the 2019-20 period.

The ESO rightly recognises the potential value to consumers of reducing transmission network charges as well as balancing services charges. For example page 2 explains a fundamental aspect of their mission is;

*"We lower consumers' bills by contributing to the decrease in Balancing Services charges and Transmission Network Use of System charges (BSUoS and TNUoS, respectively) which are levied on suppliers and transmission-connected generators."*

There are circumstances when these combine to achieve an overall reduction in consumer costs, but may increase in one area while decreasing in another. An example of this is the use of infrastructure solutions that could reduce constraint costs in future years, for example, through reduced outage timescales.

This is a key opportunity for consumers that needs to be unlocked. There is an existing mechanism that is included in the ESO's licence as SpC 4J provides the first steps in identifying and implementing such solutions. To date, no appropriate projects have been agreed between the ESO and TOs for progression. This is, in part, due to a lack of clear guidance on how these projects are justified and funded. A metric should be included in the ESO Forward Plan to demonstrate the ESO's ambition to identify and promote such solutions effectively.

The proposed development of new study tools is welcome but the ESO must also ensure that they fulfil all their existing obligations with respect to modelling and analysis capabilities, within the ESO and across the industry. The ESO's performance in providing essential data and models to the TOs, DNOs and customers, as specified in industry codes, is at risk if not adequately resourced and delivered in collaboration with industry partners. We propose that the ESO address this directly in the Forward Plan by defining metrics based on performance in this area as perceived by customers and partners.