SP ENERGY NETWORKS

Network Planning & Regulation

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Date:
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Dear Charlotte

Consultation on the Electricity System Operator forward plan 2018-19

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 ESO Forward Plan is 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 this plan is accurate and achievable to maximise consumer benefits across the full range of its activities as intended.

There are significant areas where the Forward Plan does align with the 7 Principles set out by the Regulator. However, there is a risk that the plans are over ambitious and the metrics not all appropriate to drive the right behaviours to ensure consumer benefit.

For example, as a TO, SPT is committed to reducing whole system costs by flexibly managing our system access requests in conjunction with the ESO. We have been consistent throughout the RIIO period in highlighting a longer term ESO incentive could unlock solutions that will bring additional benefit for consumers by reducing whole system costs. However, the Forward plan does not build on the SO-TO mechanism, established as a pilot from April 2017 to implement alternative investment solutions to mitigate outage costs in the longer term. This could lead to higher costs for consumers.

This omission is indicative of a Forward Plan that prioritises market solutions at the risk of overlooking traditional asset based solutions. A resilient transmission network will continue to be essential to provide the security of supply essential for the GB economy. It is right to seek to optimise asset

capability and identify innovative whole system market solutions to reduce costs and accommodate the evolving energy system. However, with only one specific action on system security out of twenty listed in the Forward plan Technical Annexe; this suggests there is already a loss of focus on this aspect of the ESO role.

To mitigate this risk and ensure longer term solutions to reduce whole system costs and the focus on system security are maintained by the ESO, strong representation from networks companies should be included in the Performance Panel.

More clarity is required in the Forward Plan on how distribution led and non-networks solutions will be identified incorporated and evaluated in the NOA process. It should be noted the resources required to support an extended NOA process requires increased commitment from TO's, DNO's and other providers as well as the ESO.

It is also unclear how system operability solutions will be funded should they be delivered by regulated parties, or the process for identifying and implementing market based approaches.

It is imperative the ESO Forward plan is aligned with the outcomes of the Open Networks workstream and other industry initiatives and not become the driver for these.

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

Yours sincerely

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Appendix 1: Detailed Responses By ESO role

1. Managing system balancing and operability.

Action 6 "Balancing Cost Management"

- Black Start

The proposed balancing spend metric excludes black start. This may be appropriate but it would be helpful for the ESO to clarify its plans for black start provision. The importance to the future energy system, which will have reduced inertia and lower margins, requires a robust black start capability. As a TO we are committed to supporting the ESO to ensure black start services are available that achieve network restoration in acceptable.

The Black Start Task Group survey conducted by the ESO in 2017 comprised questions based on whether existing wind farms can satisfy all the existing requirements for black start stations. Our recommended approach is more about understanding what else wind farms could deliver in the overall black start process, not necessarily as the primary start-up provider. To this end we are facilitating discussions with interested parties on the technical feasibility of different approaches and what the options might be.

We look forward to seeing the proposed System Operability reports (proposed under Action 17 "Future GB electricity system security") to reflect plans in the area of Restoration Capability, that support this type of approach. Ultimately we expect ESO proposals for black start that open up opportunities for more providers.

- Constraint Costs

The proposed balancing spend cost metric is complex and may not be useful for supporting investment decisions. There is little clarity currently on constraint costs calculations and how specific outage patterns or investment decisions may impact these or help to reduce them. The ESO has been unable to develop a robust constraint forecast that would support alternative investment decisions by a TO or other party over the longer term. Whole system costs could be reduced if this was available and should be included as part of the Forward Plan.

For example, the opportunity to build on the SO-TO mechanism, established as a pilot from April 2017 to implement alternative investment solutions to mitigate outage costs in the longer term, has not been taken. This is a

significant omission in the Forward plan and misses the opportunity that exists to link infrastructure capital costs to constraint costs to reduce whole system costs for consumers in the longer term. All three TO's have been working together on this approach with Ofgem, under the Network Access Policy group The ESO Forward plan should be amended to include development and implementation of this mechanism.

The Forward Plan explains the increase in renewable penetration will lead to an increase in balancing cost spend. For example, due to the need to provide frequency response in low demand periods. This needs to be clearly communicated to consumers to help shift negative perceptions of renewable generation and energy system costs. The goal to reduce balancing services costs needs to account for this and recognise whole systems costs may be reduced even if these increase. Development of a whole system cost metric that includes infrastructure costs in some areas may be beneficial to develop as part of the Forward Plan.

2. Facilitating competitive markets.

It is important the increase in non-build and market based solutions continue to meet system needs and deliver the future low carbon, affordable, secure energy system the GB economy needs. The role of the ESO to meet all three objectives must be maintained particularly in light of the separation from it's TO business. This separation could dilute its knowledge and understanding of the transmission system over time and lead to a predominantly market focus failing to address network operability issues. For this reason a strong networks representation on the Performance Panel is essential.

Action 13: "Whole System – optionality"

The proposal to have a metric to incentivise the number of non-transmission solutions to transmission issues put forward by non-transmission parties is positive and can lead to consumer benefit. The quality of these solutions and their capability to deliver consumer benefit over the longer term and resolve system needs is critical. The methodology of the cost benefit analysis and deliverability of these solutions needs to be clearly established by the ESO and this should be included in the plan as a deliverable.

SPT is committed to delivering whole system solutions across our transmission and distribution businesses. In the Dumfries and Galloway region we have

been working with the ESO to accommodate up to 3GW of renewable generation connecting across that region. Our DNO has been successful in securing IRM funding to facilitate an innovative solution to facilitate connection and control of distribution connected parties in a highly constrained transmission network. We are also developing transmission non-build commercial solutions to support a reduced asset infrastructure design.

The ESO is being incentivised to facilitate the number of solutions like these but it is unclear how the process for DNO's or other parties to propose these solutions in the NOA process will be achieved. This is being considered as part of the Open Networks Industry workstream and the ESO plan should align with the outcome of this work. It is also unclear how the ESO will demonstrate it has an effective cost benefit analysis methodology that will be able to calculate consumer benefit in a way that is able to compare non-build solutions with traditional infrastructure options.

Rather than just the number of solutions being put forward a metric could also be included that reflects the development of the mechanism and process for evaluating the alternative non-build options against traditional infrastructure solutions.

3. Facilitating whole system outcomes.

Action 15: "Connections Agreement management"

This is a positive proposal that could deliver benefits to consumers but does require collaboration with the TO. SPT is keen to support this and consider our TO Connection Agreements do already reflect actual network conditions accurately. However, we recognise the challenge to keep these up to date in the rapidly changing environment and will continue to work with the SO to achieve this. It is disappointing that the ESO has not highlighted this problem as a priority in the past nor brought specific customer feedback to us as a TO on this issue.

Under our Customer Satisfaction Incentive mechanism we developed KPI's to drive positive outcomes specifically in respect of SO-TO connection interactions. One of these KPI's is to prepare an action plan in response to feedback from the ESO as to where customer benefits could be made by us. Over the four years of RIIO-T1 period the ESO has been unable or willing to provide this type of specific feedback.

In contrast we have been responding to our stakeholder feedback to introduce a number of improvements intended to improve customer satisfaction and lead to consumer benefit. For example:

1) Connection Offer Process Improvement
   In November 2017 we hosted the annual "Working Together" meeting involving the NGET customer contracts team, the SPT commercial team and the equivalent team from SHE Transmission. This led to two key priorities being identified. One is to review and improve our respective customer guidance information with a view to preparing a single, clear, consistent document for customers. The second is to establish a working group involving Scottish DNO representatives to review and improve the process for distribution connections impacting the transmission network.

2) Outage communication
   Our customers are telling us they need more and more operational information to manage their connected sites and inform their internal financial messages. This is especially true for connections with non-firm and restricted availability access connections with load management schemes were they can be facing multiple interruptions. Already this has led our outage planning team to start engaging with connected parties on a biannual basis to share our outage plans in more detail and explain the impact and issues on the ground that were driving the need for the outage. To help manage customer expectations we are working on a policy and process as to how much information we are able to provide and where these should be addressed across our two organisations.

3) Outage mitigation for single circuit connections
   Under the auspices of the network access policy group (NAP) we have developed the framework for reducing constraints on planned outages by delivering additional services at a lower cost than the prospective constraint payments. This extends the historical outage change costs process. In response to customer feedback to extend this to single circuit connections (where no constraint benefit can be accrued) we have identified an outage change that the customer could fund to reduce a 6 month outage on their wind farm.

It is disappointing the Forward Plan does not refer to these customer focussed priorities and the ESO should demonstrate how these will be supported going forward.

Action 16: System Access Management

SPT supports the metric to improve system access and reduce cancellations on the day by the ESO. Connected customers will benefit directly in reduced changes to plans and will bring consumer benefits by reducing the additional costs incurred due to short notice changes.

However, other opportunities may exist to improve communication associated with outages. SPT have initiated regular engagement with connected customers in our area to provide this and welcome the support of the ESO with this initiative.

Action 17: Future GB Electricity System Security

SPT support the proposal to focus on identifying emerging and interacting operability challenges. The role of the TO's and other network companies to provide data to the ESO is fundamental. A regional focus is important as operability issues vary across the network. The capability to identify solutions often sits with the network companies and the role of the ESO should be to evaluate and identify the merits of alternative solutions to deliver overall consumer benefit whilst ensuring security of the system and supporting low carbon targets.

As a TO we are committed to working with the ESO to support this and deliver effective solutions. Historically, we have identified and provided multiple traditional and innovative solutions to deal with system operability issues including inter-trips, series and shunt compensation and real time system monitoring.

SPT are already meeting the challenges emerging with high penetration of new generation in relatively weak parts of the transmission network, for example in respect of harmonic distortion. This is a good example of a regional issue and the type of operability problem the ESO would not necessarily be able to identify or solve. As TO we are able to do both. We value the support of the ESO to understand and support the development of an appropriate solution that delivers consumer benefit and resolves the network risk.

This leads to questions on how these types of solution will be funded if new market based approaches are to be sought. It is unclear how a regulated solution can be evaluated against a market based option. Nor is it clear what the right triggers would be that could effectively initiate a timely market based solution.

Further clarity is required from Ofgem and the ESO as to the process that will be followed for the approval, funding and implementation of system security solutions.

4. Supporting Competition in networks

Action 18: NOA Consumer Benefit

SPT supports the proposals to extend the NOA scope to introduce third party non-build solutions as an alternative to traditional infrastructure investments. However we recognise this is at an aspirational stage and further detail is required on how an effective evaluation would work in practice.

The proposals to increase the number of solutions being assessed under the NOA process could also represent a significant increase in the analysis burden.

It is difficult to see how this additional analysis will be deliverable within the existing framework, which already faces challenging timescales to manage the existing workload resourced for both within the ESO and the network companies providing data and solutions.