Scottish & Southern Electricity Networks
TRANSMISSION

POWER CUT? CALL 105

Contact us 0800 300 999

Anna Kulhavy
10 South Colonnade
Canary Wharf
London
E14 4PU

15 March 2023

Dear Anna,

SSEN Transmission response to the Consultation on the RIIO-2 System Operator Transmission Owner (SO:TO) Output Delivery Incentive (ODI).

This response is prepared on behalf of Scottish and Southern Electricity Networks Transmission (SSEN Transmission)[1], the onshore transmission owner (TO) for the North of Scotland. We welcome the opportunity to respond to the SO:TO ODI consultation. We have set out our responses to the consultation questions in Annex 1.

In our response we have highlighted some areas where we would encourage Ofgem to take into consideration when making its decision on the future of the ODI. A summary of the key points raised in our response are detailed below.

__Summary of Key Points:__

- We are in favour of and support Ofgem's preferred option to remove the cap and extend the ODI into years three – five of RIIO-2.
- We do not agree with the outturn weighting used in the ODI calculation of Ofgem's preferred option. We believe that Ofgem have not taken account of an appropriate risk sharing factor between the TOs and consumers.
- We are in favour of the reward calculation consisting of 50% forecast constraints and 50% based on outturn constraints with the 90:10 sharing factor.

We welcome further engagement in this area, and should you wish to discuss any aspect of this response please do not hesitate to get in touch.

Yours sincerely,

Subhan Shahid
Regulation Analyst

[1] Following a minority stake sale which completed in November 2022, SSEN Transmission is now owned 75% by SSE plc and 25% by Ontario Teachers' Pension Plan Board. SSEN Transmission encompass the licenced entity Scottish Hydro Electric Transmission Plc Registered in Scotland No. SC213461

Annex 1: Response to Consultation Questions

Q1: Do you agree that the SO:TO Optimisation ODI has delivered positively for consumers in year 1 of the trial?

Yes, we agree the SO:TO Optimisation ODI has delivered significant consumer benefit during year one of the trial. We also believe it has delivered positively for consumers in the second year of the trial.

Q2: Do you agree that it is in consumers' best interests for the SO:TO Optimisation ODI to continue to operate for the remainder of RIIO-2?

We agree that extending the SO:TO Optimisation ODI for the remainder of RIIO-2 will continue to deliver significant consumer benefit. In the second year of the trial, we have delivered the installation of two temporary 275kV circuit by-passes on the Tealing 275kV network. The bypass allowed us to reduce constraints while significant work was undertaken at the Tealing substation. Through delivering this scheme, the ESO have estimated that the constraint cost savings for consumers totals c£30m, further demonstrating the significant benefit the SO:TO Optimisation ODI scheme delivers for consumers.

We are therefore in support of extending the scheme into years 3-5 of the RIIO-2 price control. We would welcome further clarity from Ofgem as to the regulatory reporting requirements for the extended incentive, as it is not clear whether the same yearly reporting period, dated for the end of March, will apply in the extended years. We welcome engagement on this point, although we are in favour of including the ODI performance in the Regulatory Reporting Pack (RRP).

Q3: Do you agree with our assessment that there are some aspects of the ODI that could be improved to increase the benefits for existing and future consumers?

Yes, we agree. Year one and two of trial has delivered significant savings for consumers in the form of reduced constraint costs. It is in the best interests of consumers to continue the scheme and to make delivering under the scheme as relevant as possible to TOs. Therefore, we are supportive of removing the incentive cap on rewards. We do believe that Ofgem will need to approach any changes to the incentive carefully, so as to maintain the momentum for the ODI and continue to deliver consumer benefit.

We are supportive of there being open access to information the ESO has on constraints eligible for delivery under scheme STCP 11-4. We believe it will allow the TOs to see which schemes we can prioritise to deliver the most consumer saving on, by way of constraint cost savings. As it stands, TOs receive limited information and propose enhanced services based on that; limiting the potential of scheme, when it has already delivered considerable consumer savings.

Q4: Do you agree with our preferred option to use both the forecast and outturn constraint cost savings in the ODI reward calculation from year 3 of RIIO-2?

We welcome engagement on this point and understand Ofgem's rationale that the preferred options will set an appropriate balance between TOs incentives and bringing forward schemes under STCP 11-4, and therefore delivering consumer benefit. We have concerns about using the outturn constraint cost saving in the ODI reward calculation as the realised constraint saving will be subject to exogenous factors. We do not think that it is acceptable for the TOs to assume accountability for reduced constraint savings due to external factors. As the forecast savings are estimated using the best available information at the point in time when we agree to deliver enhanced services, we are in favour of maintaining a larger portion of the ODI reward calculation based on the forecasted constraint cost saving.

Q5: Do you agree with our preferred option to use a 95% weighting on the outturn constraint cost saving in the ODI reward calculation from year 3 of RIIO-2?

No. TOs are unable to quantify the outturn benefit for consumers which reduces the certainty of performance under the incentive (and could protract decision-making). To progress schemes under STCP 11-4, we consider the 'opportunity cost' and risk of diverting resource from other critical system investments. We make decisions on the resources to dedicate to identify and develop potential STCP 11-4 projects based on the potential forecast constraint cost benefit of the project by the NGESO. Where we are unable to guarantee an outturn constraint saving, we would be reluctant to pull resources from priority work where the incentive to do so is not strong enough.

In our network a significant portion of the energy we use is generated from renewable sources such as wind. The intermittence of wind generation means that when the ESO calculates the outturn constraints, dependant on the intensity of the wind, including other factors, determines the level of constraint. As such, we cannot agree to a 95% weighting on outturn constraints as that would in effect mean we are agreeing to deliver schemes at risk with the possibility of not getting a reward that reflects the time and resource required to develop and deliver the enhanced service.

The proposed weighting on outturn constraint savings may create the unintended consequence of incentivising TOs to progress schemes that they believe the ESO will be more likely to use to ensure there is certainty of an incentive reward; while not progressing projects that may have less certainty of being required but if delivered there would be very high consumer benefit.

We are in support of maintaining an incentive that will encourage TOs to deliver schemes over and above BAU by striking a fair balance on the calibration of the reward to account for the TOs risk exposure. In delivering the schemes under STCP 11-4, we are asked to deviate from our normal path on projects and without a clear indication of the incentive value, we have considerable concerns that the risk of moving resources around may be too great, given the implication on other projects.

We are therefore, in favour of the reward calculation consisting of 50% forecast constraints and 50% based on outturn constraints with the 90:10 sharing factor. This approach will continue to provide TOs with an adequate incentive to bring forward schemes under STCP 11-4 and deliver significant consumer benefit.

We have considered the ODI reward calculation in the consultation and have complied a range of scenarios to illustrate how the incentive is calculated using Ofgem's preferred option and what this would mean for the actual reward that TOs receive for delivering enhanced services. We have also included a set of scenarios that illustrate our proposed split on the ODI reward. Our analysis highlights that the proposed changes Ofgem have made to the ODI reward calculation weakens the incentive for TOs to identify and propose the full range of schemes that can deliver significant consumer benefit.

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Ofgem's proposal

Scenario[2]	Forecast Constraints Savings	Outturn Constraints Savings	Ofgem proposal (5% forecast + 95% actual)	Original Incentive Value (10% Forecast)	Ofgem Proposed Incentive (10% Incentive (5% Forecast & 95% Outturn))
1	£10,000,000	£0	£500,000	£1,000,000	£50,000
2	£10,000,000	£500,000	£975,000	£1,000,000	£97,500
3	£10,000,000	£1,500,000	£1,925,000	£1,000,000	£192,500
4	£10,000,000	£5,000,000	£5,250,000	£1,000,000	£525,000
5	£10,000,000	£15,000,000	£14,750,000	£1,000,000	£1,475,000
6	£10,000,000	£20,000,000	£19,500,000	£1,000,000	£1,950,000
7	£10,000,000	£25,000,000	£24,250,000	£1,000,000	£2,425,000

Our proposal

Scenario	Forecast Constraints	Outturn Constraints	SSENT proposal (50% forecast + 50% actual)	SSENT Proposed Incentive Value (10% Incentive (50% Forecast & 50% Outturn))
1	£10,000,000	£0	£5,000,000	£500,000
2	£10,000,000	£500,000	£5,250,000	£525,000
3	£10,000,000	£1,500,000	£5,750,000	£575,000
4	£10,000,000	£5,000,000	£7,500,000	£750,000
5	£10,000,000	£15,000,000	£12,500,000	£1,250,000
6	£10,000,000	£20,000,000	£15,000,000	£1,500,000
7	£10,000,000	£25,000,000	£17,500,000	£1,750,000

Q6: Do you agree with our preferred option to remove the annual financial cap on the ODI reward from year 3 of RIIO-2?

We are supportive and agree with Ofgem's preferred option to remove the financial cap. We believe that it will incentivise the TOs to bring forward multiple schemes to the ESO and continue to deliver even more consumer benefits. In doing so, the ESO and TOs will need to work together to identify high constraint cost schemes that could be brought forward under STCP 11-4 and deliver significant consumer savings. We are also in favour of removing the cap in year two of RIIO-2.

[2] Scenarios 1-4: Outturn constraints are lower than forecasted.
Scenarios 5-7: Outturn constraints are higher than forecasted.