

RIIO-2 Team

Your ref

Ofgem

10 South Colonnade

Our Ref

Canary Wharf

93287

London

Date

E14 4PU

31<sup>st</sup> March 2023

By email: [anna.kulhavy@ofgem.gov.uk](mailto:anna.kulhavy@ofgem.gov.uk)

Contact / Extension

Martin Cammidge

0141 614 6545

Dear RIIO-2 Team,

### SO:TO Optimisation Incentive – Final Incentive Report

This evidence is from SP Transmission (SPT) which holds the transmission licence for the south and central Scotland. SPT is part of SP Energy Networks (SPEN) and the wider Iberdrola group.

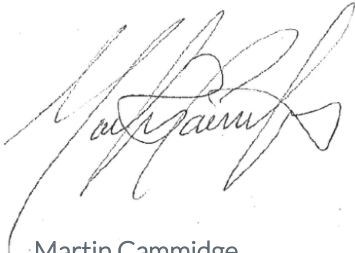
In accordance with the requirement set out in Section 4.7.11 of SPT's Electricity Transmission Licence, and Ofgem's SO:TO Optimisation Governance Document, this report and the associated Annex 1 provides evidence and views from SPT relating to the two-year trial period of the SO:TO Optimisation Incentive for RIIO-T2.

We welcome this further opportunity to provide feedback on the RIIO-T2 SO:TO Optimisation Incentive and to reflect on the benefits delivered for consumers in this period. We also note Ofgem's consultation on the SO:TO Optimisation Incentive, to which SPT responded on 15 March 2023. Based on the evidence collected over the two-year trial period for the SO:TO Optimisation Incentive, SPT remains strongly of the view that the incentive is delivering significant consumer value, reducing constraint costs whilst enabling additional efforts and resources to be dedicated to delivering collaborative solutions with the ESO.

As set out in our consultation response, we strongly support Ofgem's minded-to position to extend the incentive beyond the two-year trial period and believe it will drive even greater benefits as we progress through the RIIO-T2 price control. The solutions proposed under STCP11-4 are delivering and will continue to drive massive consumer savings at very low cost to consumers, at a time when both constraint costs and the cost of energy continue to increase, impacting all GB consumers.

We look forward to working with the ESO to further develop solutions to reduce constraint costs for GB consumers. Please don't hesitate to get in touch if you would like to discuss any of the evidence in this report and the associated Annex 1.

Yours sincerely,



Martin Cammidge

Operational Planning Manager

## SO:TO Optimisation Incentive – Final Report

### Introduction

This Final Report details SPT's findings from the incentive trial for RIIO-T2. We believe the trial provides compelling evidence of the benefits and consumer value that the incentive is driving, whilst reflecting on what has or has not worked well during the trial. The associated Annex 1 details the specific solutions that SPT has identified and proposed since the incentive took effect on 1st April 2021.

The SO:TO Optimisation Incentive trial for RIIO-T2 has led to SPT delivering six solutions under STCP11-4 while continuing development of several others for delivery in 2023 onwards. The incentive is delivering significant additional consumer benefit at very low cost, as well as driving SPT to develop our processes to identify STCP11-4 solutions. We therefore fully support the extension of the SO:TO Optimisation Incentive for the remainder of RIIO-T2, enabling the continued identification of additional Whole System solutions to mitigate constraint costs for GB consumers.

### Benefits

During the two-year trial, six solutions have been delivered by SPT under STCP11-4 as a result of the SO:TO Optimisation Incentive, at a total cost of £211,165. The ESO's estimated constraint cost savings for these six solutions totals £25.79m.

Table 1 below outlines the estimated costs and benefits of these STCP11-4 solutions. For more detail on individual projects, please refer to the accompanying spreadsheet at Annex 1. For monitoring and calculating the incentive, SPT also provide information through the annual reporting process in line with licence condition B15 of the Electricity Transmission Licence Standard Conditions. Note, the figures below are confirmed by the ESO for the schemes delivered in year 1 of the trial incentive period but remain forecasts for the schemes delivered in year 2. These forecasts will be updated following final ESO analysis.

*Table 1: Summary of the solutions delivered by SPT under STCP11-4 during the incentive trial period.*

STCP 11.4 reference Number	Circuit affected	Date enhancement delivered by SPT	STCP 11.4 Costs Estimate/Final (£)	ESO constraint costs saving forecast (£)
STCP 11.4 - 2020 - 01	Tongland - Dumfries	02/03/2021	£24,165	£1,904,000
STCP 11.4-2021-02	Cockenzie - Eccles no2	31/03/2021	£0	£0
STCP 11.4-2021-04	Windyhill - Neilston	22/11/2021	£17,000	£1,084,000
STCP 11.4-2021-05	Hunterston East - Neilston	21/03/2022	£20,000	£1,900,000
STCP 11.4-2022-01	Tongland - Dumfries (Year 2)	01/04/2022	£0	£1,904,000
STCP 11.4-2021-03	WHVDC Run Back Scheme	11/11/2022	£150,000	£19,000,000

STCP 11.4-2022-02	SCOTEX Circuits Dynamic Weather Based Enhancements	27/02/2023	Carried to 2023	Carried to 2023
		Total:	£211,165	£25,792,000

In addition to the significant constraint cost savings to GB consumers noted above, the incentive continues to drive wider benefits to processes and outage planning approaches. Given that there is cost associated with identifying potential solutions under STCP11-4, the available incentive reward for successfully delivered solutions is enabling process change within SPT's outage planning and network planning functions to identify and develop potential solutions. For example:

- Additional surveys beyond business as usual planning procedures have been completed to identify potential SO:TO Optimisation solutions. For instance, for STCP 11.4-2022-02 on the Strathaven – Harker 400kV circuits, additional OHL surveys were carried out to determine the validity of the circuits under National Grid Transmission's MORE model. This allows them to be included in joint TO-TO enhancements across the B6 boundary, thereby enabling an enhanced rating on the circuit during outage works in all seasons.
- SPT has performed an in-depth review of all circuit and plant thermal ratings on our network to pave the way for a new Temperature Adjusted Ratings System to be delivered in 2023. This system continues to be developed in light of Ofgem's signals that the incentive will be extended for the remainder of R110-T2 and will provide a broad uplift in thermal capacity across SPT's network during periods of lower than seasonal average temperatures, typically observed during periods of high loading on the transmission network.
- SPT has developed deeper studies of outage plans. Previously, we conducted routine thermal assessment on the network prior to an outage. In the second year of the incentive trial we are developing processes to stress-test the network to identify points of thermal constraint and potential enhancements or bypasses to alleviate them in conjunction with the ESO national planning & commercial teams.

SPT is continuing to formalise ways of working between the wide set of industry experts from across the business that are required to identify, design and implement optimisation schemes successfully.

The SO:TO Optimisation Incentive is driving SPT to develop and improve existing internal processes, dedicate additional resource to the identification and development of these proposals and fund the associated costs. A new governance group has been proposed within SPT to support quicker delivery of SO:TO Optimisation schemes through SPT's internal governance and deliver benefit to consumers faster.

### Operation of the incentive

Ofgem has requested that the TOs identify any unexpected consequences, inefficiencies, or issues with the SO:TO Optimisation Incentive, as well as how they could be addressed. Overall, we believe the incentive is driving the right behaviour from TOs, as evidenced by the significant consumer value delivered in SPT's licence area through the solutions proposed under STCP11-4.

We welcome Ofgem's position set out in the SO:TO Governance Document for solutions that ran over both years of the trial period, that the incentive in each year is based on the proportion of constraint cost savings the solution provides in that year. We support this approach and believe it remains appropriate for years 3-5 of the incentive. We would appreciate a further update to the Guidance

Document that a scheme that runs over multiple years will have its benefit apportioned between those years, based on the constraint cost savings in each regulatory year.

For STCP-11.4-2021-03 the final constraint forecast provided by the ESO differs from forecasts provided in August and October 2022. As part of the final analysis that's still to be completed on Year 2 schemes we would like to discuss this further with the ESO to better understand the constraint calculation methodology and confirm the basis for the forecast reflected in the ODI.

The quality of engagement from the ESO has been strong and collaborative on this incentive, and we are pleased overall with the way in which it is operating so far.

As we progress into year 3 of the incentive, we do not believe further Incentive Reports should be required, but rather that the incentive should be monitored and reported on in line with SPT's other incentives, via the annual RRP process. However, should any queries with the incentive arise, we stand ready to engage with Ofgem and the ESO to continue the collaborative basis on which the incentive trial has progressed.

### **Future value of the ODI**

Looking ahead to years 3-5 of RIIO-T2, there is scope for STCP11-4 solutions to continue to deliver massive consumer savings at low cost. The processes that SPT are developing as a result of the trial incentive will support the future identification of these solutions, and the continuation of the incentive would enable SPT to maintain the increased resource and focus on the development of these solutions. Using the incentive reward available through the SO:TO Optimisation Incentive, SPT aims to deliver the greatest possible constraint cost savings, alongside the ESO.

We welcome Ofgem's minded-to position to remove the cap on incentive rewards to enable further scheme development and potentially greater constraint cost savings to be made. We also note Ofgem's consultation position not to remove the cap on rewards for year two of the trial incentive period. Whilst we recognise that this year is almost complete, solutions have been developed and delivered under the scheme that exceed the initial cap on incentive rewards in order to maximise consumer benefit. We believe it is fair that this benefit should be shared between consumers and the TOs, aligned with the principles of the RIIO framework, but under the strongly consumer-weighted 90:10 sharing factor. We remain in favour of the proposal to remove the cap on incentive reward for year two of the incentive.

SPT is in ongoing discussions with the ESO to identify and progress STCP11-4 solutions for delivery in the 2023/24 regulatory year to reduce constraint costs for GB consumers. Whilst we cannot say with confidence which solutions are likely to be formally requested at this stage, we look forward to sharing our findings with Ofgem through the ongoing reporting as part of the RRP.