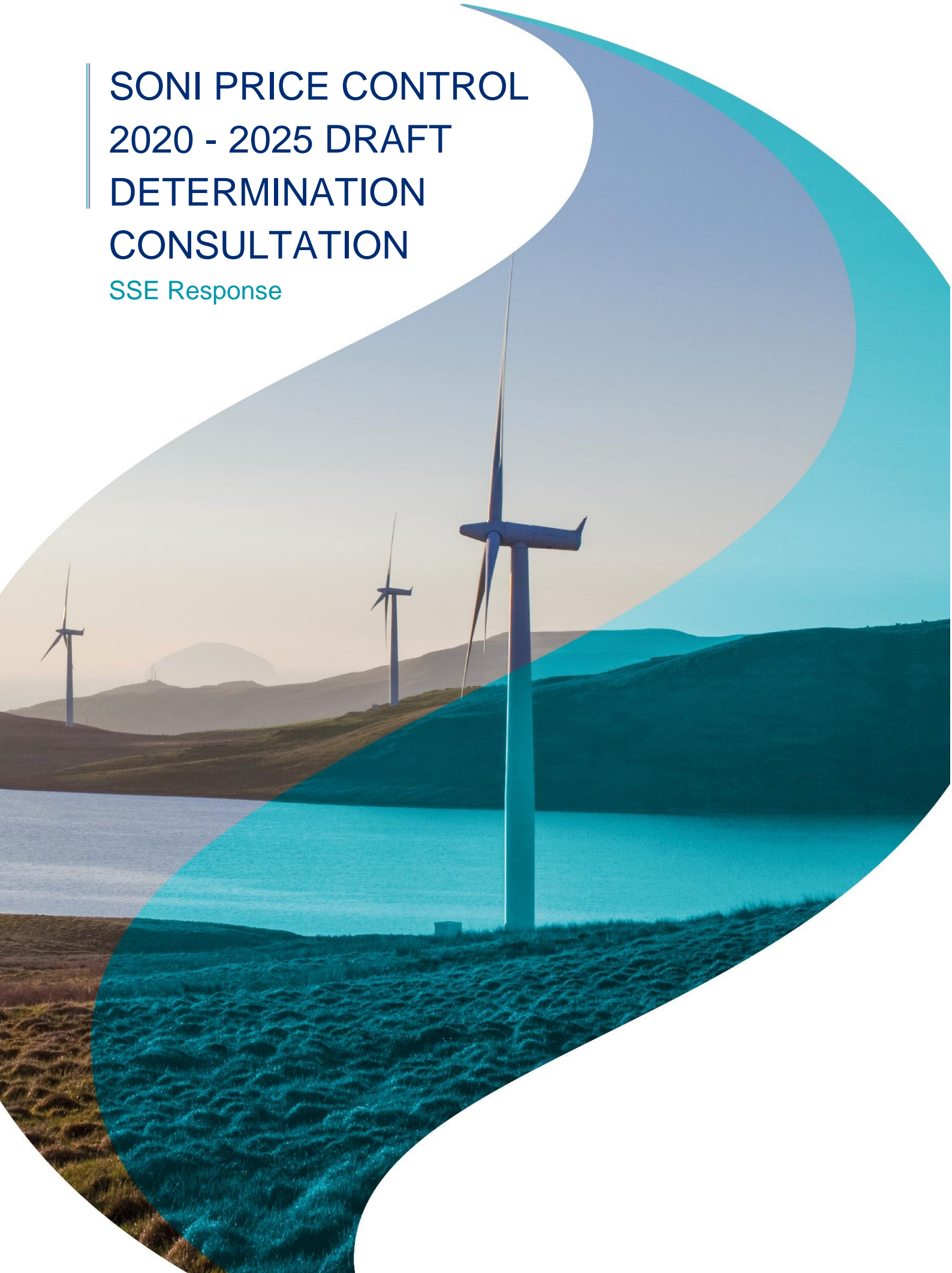


SONI PRICE CONTROL
2020 - 2025 DRAFT
DETERMINATION
CONSULTATION

SSE Response



INTRODUCTION

SSE welcomes the opportunity to comment on the draft determination on the SONI price control for 2020-2025 and commends the ambition from SONI to provide an electricity system that can support the UK's ambitious decarbonisation targets, as well as the increased renewable targets that are being considered by DfE.

This response does not attempt to comment on all aspects of this draft determination, however we would like to focus on those areas that impact on us as current and potentially future customers of SONI, as well as the potential impacts on consumers generally. This response is focused on Operation and Planning of the grid as well as Incentives on SONI.

SONI (in conjunction with EirGrid) has made significant progress in improving how the grid is operated in Ireland. This is obvious from the work that has been carried out in respect of the facilitation of renewables and the DS3 project, which has tried to meet the challenges of operating the grid whilst delivering government policy to reduce carbon emission and increase renewable generation in Northern Ireland.

SSE would like to see greater emphasis on the requirement to minimise dispatch down for renewable generation particularly in line with the requirements set out in the EU's Clean Energy Package. In 2019 NI experienced dispatch down levels of over 11%¹, it is also worth noting this has increased significantly into 2020; this is significantly higher than the required level of no more than 5% dispatch down set out in the Electricity regulation.

This SONI price control is an opportunity to address this high level of dispatch down of renewables that, at present, represents a commercial risk to existing projects as well as having the potential to undermine the developments necessary to meet strategic objectives set out in any future energy policy for Northern Ireland.

OPERATION AND PLANNING

SSE is of the view that there is significant potential for SONI to develop and innovate how the grid is operated and expanded such that customers and consumers benefit. Whilst we are supportive of the additional resources that have been proposed by the UR, it is disappointing that some of these initiatives are currently deemed to lack sufficient detail to support full funding at this stage. This is particularly important with respect to initiatives that impact on the all-island wholesale market.

SONI have proposed a number of key projects that we would highlight as being necessary for the improvement of system operation, including:

- Control centre tools
- DS3+
- Secondary Trading (Capacity)

¹ <http://www.eirgridgroup.com/site-files/library/EirGrid/2020-Qtrly-Wind-Dispatch-Down-Report.pdf>

In our opinion these projects have the potential to add value to the operation of the system. These projects are all-island in nature we are concerned that if the price control cannot deliver sufficient resources to provide for these projects, customers and consumers in NI will be placed at a disadvantage. It is essential that SONI can participate in the development of these projects such that they work for the island as a whole. SSE is of the view that where a lack of information has been provided it is imperative that the UR and SONI work together to ensure that the relevant projects can be adequately resourced.

Another area of concern is that of constraints on the system; increasing constraints can act as a disincentive to future investment, but it also harms existing investment on the system. To put this in perspective the current levels of dispatch down in renewables has been increasing steadily for a number of years, from 1.4% in 2011 to over 11% in 2019. The increasing levels of dispatch down (and particularly in NI) demonstrates a deviation from the economic solution delivered by the market which in turn signifies a loss of efficiency and therefore a loss to consumers. Over the same period the market as a whole has seen the cost of imperfections has increased from €110m in 2010/11 to €301m in 2020/21. On this basis SSE questions the success of the current price control in ensuring that the network has been developed to meet the needs of the system and better reflect the market outcomes.

SSE supports the proposals to change how infrastructure projects are funded and approved but would encourage both UR and SONI to work together to speed up the approval process to facilitate faster develop of necessary grid infrastructure

INCENTIVES

SSE agrees that SONI should be incentivised to produce better outcomes for customers. To this end SSE supports the *objective* of incentivising SONI to reduce the level of dispatch down for renewable generation that will ultimately lead to an increase in renewable generation required to meet NI's future decarbonisation strategy. Given the increasing levels of dispatch down of renewable generation in Northern Ireland through-out the current price control it is clear that incentives applied to date are not delivering the necessary efficiencies that would deliver a reduction in the level of dispatch down of renewable generation.

On the basis of the proposals set out in the draft determination it is not clear however that the new incentive mechanism is likely to lead to a change in behaviour. Given the significant levels of dispatch down seen to date SONI requires an incentive regime that is actually going to deliver for consumers. Incentives (including penalties), need to be clear and easy to understand. Any incentive regime implemented should to be targeted to ensure that policy objectives can be delivered for SONI in particular this should include, amongst other things, a reduction of dispatch down of renewable generation, which is both a cost to consumers and a requirement under the clean energy package.

It is our view that the incentive mechanism proposed in the draft determination overly focuses on the ability of SONI to deliver outputs, rather than being targeted at delivering effective outcomes for customers via more efficient operation of the network. To be effective incentives need to be both measurable and attainable, SSE does not feel that the incentivisation approach proposed in the draft determination will lead to a measurably better outcomes for consumers.

SSE agrees with NIRIG proposals to target key areas such as renewable dispatch down (in line with the requirements of the Clean Energy Package), SNSP and RES-E. Properly targeted incentives of this type are essential if the price control is to lead to measurable improvements and reverse the recent and sustained trend towards a less efficient system with consequently higher costs for consumers.

In addition to the operation of the network, SSE is of the view that further grid investment will be required to ensure that customers can benefit from increases in efficient operation of the grid and therefore reduce constraint costs currently borne by consumers.

We are encouraged by the development of the transmission network pre-construction cost process that was implemented in the current price control period. However, we would encourage further incentives on SONI to improve this process, and both UR and SONI to work together to improve the approvals process.

Given that system operation impacts on the wholesale market across the whole island SSE is of the view that this requires significant co-ordination between SONI and EirGrid. It would appear only rational that the UR and CRU work together to ensure that the TSO are incentivised appropriately and consistently to work together for the benefit of all customers and consumers on the island of Ireland. The UR should also be conscious of the impact on consumers that diverging incentive regimes (including penalties for poor performance) may have on the market, as well as the impact this may have on the ability to meet any future energy policy requirements.