

10/02/2022

## **National Grid ESO response to Ofgem's call for evidence for Electricity Distribution Business Plans for RIIO-2**

Dear Sir/Madam,

We welcome the opportunity to respond to your call for evidence for Electricity Distribution Business Plans for RIIO-2.

National Grid ESO is the electricity system operator for Great Britain (GB). We move electricity around the country second by second to ensure that the right amount of electricity is where it's needed, when it's needed – always keeping supply and demand in perfect balance. As GB transitions towards a low-carbon future, our mission is to enable the sustainable transformation of the energy system and ensure the delivery of reliable, affordable energy for all consumers. The ESO holds a unique position at the heart of the nation's energy system. We use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers.

We welcome the complete publication of the Distribution Network Operator (DNO) final business plans and the Distribution System Operation (DSO) strategies. The transition to DSO will significantly affect traditional roles and responsibilities within the industry. This includes both the local DNOs as well as Distributed Energy Resource (DER) service providers who are critical to the development of flexibility markets. The transition will also impact the ESO, and we need to ensure that our roles and responsibilities develop **in co-ordination** with DSO.

Following the publication of the final business plans, we have met with each DNO bilaterally and have been involved in feedback discussions surrounding areas of alignment and addressing any concerns. However, we have seen common themes throughout these discussions such as the need for **consistency** across plans with **tangible outcomes or deliverables** for consumers.

### **Distribution System Operation (DSO) strategies**

We strongly believe that the implementation of consistent and fair frameworks under the network price controls is crucial to deliver efficient, whole system outcomes for consumers. Therefore, **alignment** between the DSO activities and proposals are key in supporting the delivery of a low carbon energy system. This is critical for the success of DSO, and in allowing ESO/DSO coordination. We welcome engagement with Ofgem and other relevant stakeholders on this matter. Furthermore, we welcome the use of ENA Open Networks as one of these vehicles for co-ordination. With differing ambitions in the DSO strategies, we believe it is critical these DSO functions are carried out in a consistent manner with common ways of working across GB not only for customers and stakeholders but also the ESO.

We note the DNOs' commitments around their DSO strategy largely encompass data sharing with ESO and industry stakeholders. We believe further detail and clarity is needed to decipher the benefits of this and how precisely this data sharing would be carried out. Interoperability between data and market platforms is also a key concern. There is a need for consistency amongst the DNO's activities and functions to ensure alignment with the ESO and stakeholders.

It is helpful in DSO strategies such as Northern Powergrid's to see specific deliverables similar to those included in the ESO business plan. Initiatives such as the SP Energy Network's DER service checker for the ESO will provide the ESO with information on distribution connected service providers. This could provide valuable information and co-ordination of data, noting the importance of close development with the ESO to ensure new tools work for us in a consistent manner.

## **Alignment with ESO RIIO-2 second business plan**

The ESO will be publishing a draft second RIIO-2 business plan in April 2022. In supporting the DSO transition, this will focus on the areas of transmission to distribution operational visibility (including DER) and service coordination. We will continue our work with DNOs through Regional Development Programmes and other DSO policy areas. Service coordination and primacy are key actions from the BEIS and Ofgem's Smart Systems and Flexibility Plan (SSFP) which need to be progressed and is important to understand the future relationships in procurement of flexibility services between ESO and DSOs. We believe that in RIIO-ED2 timescales, there may be a need for control room system changes to support the implementation of real time co-ordination of these rules, particularly for primacy. It is not always clear that DNOs have recognised this requirement fully. We recognise that this is an area of significant development and therefore uncertainty.

## **Regulatory framework**

It is vital DSOs are appropriately funded and incentivised to work collaboratively with the ESO and others to deliver the actions under the SSFP, such as primacy as described above.

It is important that all network companies have clarity on funding for network changes, especially those necessary to deliver the changes required to comply with the Electricity System Restoration Standard (ESRS). Given the uncertain nature of these requirements, we propose that a reopener mechanism is put in place for the distribution network companies; similar to that provided for the electricity transmission network companies; with opportunities to apply for an adjustment annually.

We note the various proposals around incentives, we would recommend that the DSO incentive framework should be designed to be as simple as possible, with standardisation across different DNOs for ease of evaluation. If Performance Panels are set up for each DNO, thought should be given as to how to ensure that the evaluation process is consistent, and whether there is common membership across the Performance Panels.

In contrast to the ESO's evaluative incentive scheme, there are multiple DNOs, which will carry out DSO activities in different regions of the country. The framework should be designed to take account of these regional differences, without introducing unnecessary complexity and whilst maintaining standardisation.

It is important to define what is a "baseline" expectation for DSO, and what level of performance is deserving of a reward.

There are some areas of proposed metrics where there is an interaction between DSO and ESO operations, such as network co-ordination between ESO and DSO, constraint data, dispatch of flexibility services, and the procurement of ESO services through Distribution Market Platforms. As the evaluation frameworks develop, we would encourage further discussions with DNOs and Ofgem on how these measures will work, how they fit with the ESO's activities, and how the ESO needs to be involved in their development and implementation.

We welcome the opportunity to further discuss the points raised within this response. Should you require further information or clarity on any of the points outlined in this paper then please contact Charon Balrey in the first instance at [Charon.Balrey@nationalgrideso.com](mailto:Charon.Balrey@nationalgrideso.com). Our response is not confidential.

Yours sincerely

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