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National Grid ESO response to Ofgem's RIIO-ED2 Draft Determinations.

Dear Sir or Madam,

We welcome the opportunity to respond to your RIIO-ED2 Draft Determinations consultation.

National Grid ESO is the electricity system operator for Great Britain. 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 Great Britain 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. We welcome the publication of RIIO-ED2 Draft Determinations by Ofgem. RIIO-ED2 is a crucial period (2023-2028) for the energy system; not only coinciding in part with the ESO's RIIO-2 second business plan (BP2) (2023-2025), but also set amongst a backdrop of significant industry change. This includes the launch of the Future System Operator; the outcomes of the 'Future of Local Energy Institutions and Governance' call for input and anticipated progress on BEIS' Review of Electricity Market Arrangements (REMA).

Whilst we broadly agree with the majority of Ofgem's positions in this consultation, we wish to put forward the following points for further consideration:

Key points of our response:

- We wish to emphasise the need for DSO activities to be funded sufficiently to carry out whole electricity system activities which the ESO has prioritised as part of its draft RIIO-2 BP2 submission, and emphasised further, as a result of stakeholder feedback, in the final RIIO-BP2 submission (to be submitted on 31 August 2022). This is particularly important in areas such as service coordination and distributed energy resource (DER) visibility. As such we have responded to specific questions as part of this consultation which relate to DSO.
- We wish to underline the importance of consistency and alignment in ED2 plans to ensure that the ESO can effectively co-ordinate with all six DNOs as their DSO functions develop. We note and support Ofgem's work in this area including the recent 'Future of Local Energy Institutions and Governance' call for input to ensure whole system collaboration and coordination.
- We note the intention to carry out an innovation project to modernise DNO regulatory reporting and to involve Transmission and Gas Distribution network companies, and the ESO throughout the process to align the regulatory reporting process across all sectors. We look forward to seeing more detail on how this will develop throughout the multi-year, multi-stage process. In principle we welcome the ambition to utilise modern technologies to unlock value by reducing the regulatory burden on DNOs whilst enabling more effective and efficient assessment of price control re-openers and future Business Plans.
- Regarding Ofgem's incentive framework, in principle we agree with the design of the DSO incentive framework, predominantly in relation to the mixture of mechanistic and evaluative elements. This builds on learning from the ESO incentive framework, in particular setting expectations across three roles to be assessed against.
- We welcome the potential use of the DSO reopener to support the outcomes of the 'Future of Local Energy Institutions and Governance' call for input. We encourage clarity on this at the earliest possibility, particularly in line with development of the FSO.
- We believe that annual reporting is practical at this stage given the scope of the DSO activities compared to the potential regulatory burden. However more frequent feedback could be encouraged

through informal discussions. We agree that there should be a single Performance Panel to assess performance for consistency. It will be important that baseline expectations of performance are clearly set out and well understood by the Panel to ensure fair comparisons that account for regional differences.

- Whilst we have no comment on the outturn performance metrics, we believe that it makes sense to include some metrics, either through a standalone assessment or to help inform the Panel. Given that these are new activities it may be difficult to judge what the benchmark should be set at, so it would be useful to include some mechanism to address this if it becomes apparent that the metrics are not appropriate.
- We note that a decision on Customer Load Active System Services (CLASS) has been delayed until outcomes are determined from Ofgem's recent consultation on the topic. We welcome further clarity, particularly if Ofgem continue with its minded to position, on the treatment of perceived or real conflicts of interest between the same organisation (existing DNOs) becoming a service provider to the ESO and also a neutral market facilitator.

Please find the answers to specific consultation questions appended to this letter. Should you require further information or clarity on any of the points outlined in this paper then please contact Andy Wainwright in the first instance at andy.wainwright@nationalgrideso.com.

Yours sincerely

Julian Leslie

Appendix – Consultation Question Responses

Overview 10. Increasing competition

Overview-Q9. Do you agree with our proposed position on early and late competition?

We agree with Ofgem's stance regarding early competition, i.e., once the Early Competition Model is sufficiently developed in the Electricity Transmission sector, Ofgem will consider whether it is in consumers' interests for the model to be applied to the Electricity Distribution sector.

Overview 12. Access and Forward-looking Charges Significant Code Review

Overview-Q11. Do you agree with our proposal to not introduce a specific uncertainty mechanism to manage the impact of the Access SCR (and address it through the LRE mechanisms instead)? Please explain why.

We agree with Ofgem's proposal to not introduce a specific uncertainty mechanism (UM) to manage the impact of the Access SCR for the reasons set out. In particular, the challenge of assessing whether the investment would have gone ahead in a world without the Access SCR reforms. We also note the large range of potential impacts calculated by the DNOs, both as absolute numbers and as a proportion of their base allowances. Our recommendation would be should these be included in a way outside the LRE process, that there is work to move towards a more consistent methodology. We would recommend the methodology and any numbers are consulted on, to provide greater transparency, ensure consistency and enable whole systems work to be reflected in the overall RIIO process.

Core 4. Supporting a smarter, more flexible, digitally enabled energy system

Core-Q24. Do you agree with our proposed design of the DSO incentive?

Yes, in principle we believe that the design of the DSO incentive looks sensible with a mixture of mechanistic and evaluative elements, building in learning from the ESO incentive framework, in particular setting expectations across three roles to be assessed against. It appears that the weightings of the metrics are also sensible. Annual reporting is sensible at this stage too given the scope of the DSO activities compared to the potential regulatory burden. More frequent feedback could be provided through informal discussions.

We agree that there should be a single Panel to assess performance to ensure consistency. It will be important that baseline expectations of performance are clearly set out and well understood by the Panel to ensure fair comparisons.

Core-Q25. What are your views on the outturn performance metrics and RRE we are proposing to include in the DSO incentive? If you do not support their inclusion, please outline which alternative outturn performance metric(s) or RRE you think should be included in the framework instead.

Whilst we have no comment on the outturn performance metrics, we believe that it makes sense to include some metrics, either through a standalone assessment or to help inform the Panel. Given that these are new activities it may be difficult to judge what the benchmark should be set at so it would be useful to include some mechanism to address this if it becomes apparent that the metrics are not appropriate.

Furthermore, we welcome the inclusion of operational data sharing in the regularly reported evidence (RRE) and encourage further discussions with DNOs and Ofgem to determine the data sets, method of sharing and a schedule of information that is shared with or required from the ESO (for example with ICCP links).

Core-Q26. Do you agree with our proposal for the DSO re-opener?

We agree that a re-opener is wise as the newness of the activities may make it challenging to understand the costs associated with delivering them. As well as the ability to change costs it would be sensible to also have the ability to change incentives where learnings need to be incorporated as the transition to DSO develops.

Core-Q27. Do you agree with our proposal to introduce a new whole system strategic planning Licence Obligation?

As stated in our response to Ofgem's call for input on 'Future of Local Energy Institutions and Governance', we believe it is critically important to approach the delivery of net zero at the subnational level, as at the national level, from a whole system perspective to ensure holistic coordination of activities at least cost.

Core 5. Meet the needs of consumers and network users

Core-Q42. Do you agree with our proposal to launch a wider review of the Connections GSoP (that is, beyond updating the payment amounts for inflation and incorporating standards for DG customers)?

We welcome the proposal to review the Connections GSoP and would encourage working with transmission industry parties such as the ESO and TOs to ensure that any changes to the GSoP align with the ESO's work on wholesale connections reform, which will be set out in the ESO's final RIIO-2 BP2 submission (31 August 2022). This will be particularly relevant in areas which will look to incorporate CUSC changes impacting DNOs and associated DER services.

Core-Q43. Do you have any views on what else could be done to help speed up connections to the distribution network and or develop a standard for the overall (ie, end to end) time to connect?

There is an opportunity to work together across the industry to ensure improvements and/or changes to connections processes at Distribution and Transmission are done holistically due to the overlap and interdependencies between the two networks. We therefore believe that if there is to be a focus by one or more of the DNOs to improve the connections process that this should be considered as part of the ESO's proposed wholesale connections reform.

We do not support the proposal to introduce a standard for overall time to connect. Such a standard could have a detrimental impact on the electricity network, by pushing connections to connect within a timescale whilst the required network reinforcements to enable the connection could have longer lead times. This could lead to a customer having an incorrect expectation that would in turn have a detrimental impact on the customer's business plans.

Core 6. Maintain a safe, resilient and reliable network

Core-Q58. Do you agree with our proposed approach to the ESR re-opener?

The ESO agrees with the proposed approach for the re-opener to allow DNOs' allowances to be adjusted where the ESO requires DNOs to undertake additional activities to ensure that the ESRS can be met. In our final RIIO-BP2 submission, we will be aligning our need for ICCP links to enhance operational visibility of distributed energy resources (DER) under ESR and hope this re-opener can support all DNOs to implement these data links.