

Steven Becker / Shashi van de Graaff
Ofgem
9 Millbank
London
SW1P 3GE

26 January 2018

Dear Steven, Shashi,

Future Arrangements for the Electricity System Operator: Informal Consultation on ESO Licence Drafting


Scottish and Southern Electricity Networks (SSEN) welcomes the opportunity to respond to Ofgem's Future Arrangements for the Electricity System Operator: Informal consultation on ESO Licence Drafting.

This response covers the views of SSEN which comprises three UK Network Operators: Scottish Hydro Electric Transmission plc, Scottish Hydro Electric Power Distribution plc, and Southern Electric Power Distribution plc. SSEN forms part of the FTSE-50 energy company, SSE.

We support Ofgem's decision to instil clear legal and regulatory separation of the Electricity System Operator (ESO) within the National Grid Group. Given its remit across the whole of GB, it is important to ensure that the ESO is sufficiently independent to allow it to adapt to the ongoing changing nature of the electricity industry, particularly with the DNO transition towards a new DSO role and with the Extending Competition in Transmission (ECIT) project. The legal and regulatory separation of the SO will also support Ofgem with its ambition to make the new ESO company more clearly accountable to its customers and stakeholders. Separately, we believe there are also benefits in creating a more level playing field across the TOs.

We support Ofgem's approach of aligning the National Grid Electricity Transmission plc's (NGET) licence with the two Scottish Transmission Owners wherever possible.

However, we note that Ofgem has not included Special Licence Condition 2J - Network Access Policy (NAP) within Chapter 2 of the consultation, although Ofgem has specified within Appendix 2 that a modified version of this condition will be included within the NGESO

Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ  www.ssen.co.uk

Scottish and Southern Electricity Networks is a trading name of: Scottish and Southern Energy Power Distribution Limited Registered in Scotland No. SC213459; Scottish Hydro Electric Transmission plc Registered in Scotland No. SC213461; Scottish Hydro Electric Power Distribution plc Registered in Scotland No. SC213460; (all having their Registered Offices at Inveralmond House 200 Dunkeld Road Perth PH1 3AQ); and Southern Electric Power Distribution plc Registered in England & Wales No. 04094290 having their Registered Office at No. 1 Forbury Place 43 Forbury Road Reading RG1 3JH which are members of the SSE Group www.ssen.co.uk

licence. As National Grid currently has a NAP which covers them as a single SO/TO entity, we would strongly recommend that the ESO has its own unique NAP as it will have new responsibilities in its new role. We acknowledge that the STC and STCPs steer the whole system and outage planning process to the best outcome for the consumer and stakeholders, this is not explicitly stated within the STCPs. It is for this reason the NAP was put in place to compliment the STC and STCPs.

We would also recommend that Ofgem undertakes a review of this legal and regulatory separation of the SO within the National Grid group at the end of the RIIO-T1 price control. We agree with Ofgem that the period from April 2018 to March 2021 provides a window to try new approaches to regulating and incentivising the ESO which are more aligned with its future aims. However, we recommend that Ofgem carries out a review of this regulatory and legal arrangement in 2020/21 to ensure the development of a single, consolidated regulatory scheme for the ESO under the RIIO-2 framework.

Please do not hesitate to get in touch should you have any questions regarding our response.

Yours sincerely,

Sam Torrance
Networks Regulation, Transmission

General Questions

- 1) *Do you agree that the licence changes we are proposing are sufficient for ensuring effective separation between the ESO and all other National Grid Group transmission and competitive businesses?*

The proposal to have a more independent SO is welcomed. It is our view that regardless of any expanded role for the current SO it was necessary to make the body more independent. This is because of the existing joint responsibility to be SO, EMR Delivery Body and an organisation with commercial interests. In theory this allows a single organisation to strongly influence all aspects of the market i.e. system services, the capacity market and the wholesale market and at scale across the GB.

We agree that the proposed licence changes are sufficient for ensuring effective separation between the ESO and all other National Grid Group transmission and competitive businesses. However, we would recommend that Ofgem should keep the proposal of a fully independent SO under review pending the successful progress and consequences of the proposed changes, possibly after a period of 12 months to ensure the development of a single, consolidated regulatory scheme for the ESO under the RIIO-2 framework.

- 2)
a) *Do you agree with the Guiding Principles that we have set out?*

Yes, we generally agree with the four overarching guiding principles.

As a guiding principle, we would support Ofgem's position to not re-open the price control settlement to facilitate this. However, we think it is ambitious to expect no additional costs as a consequence of this separation.

- b) *Are there any further principles that we should consider?*

No, not at this time.

Standard Licence Conditions

- 3) *Do you think that our proposals for Independent Directors will provide sufficient separation?*

Yes, we agree with Ofgem's proposal.

Special Licence Conditions

- 4)

- a) *Do you think that the ESO should have a licence condition which restricts the activities it can undertake?*

Yes, but we recommend that such a condition is carefully drafted to ensure that customers are not prevented from potential savings due to the limitation of the SO's remit.

- b) *If so, what activities should be restricted?*

N/A

- 5) *Do you think allowing NGET to acquire OFTO business is beyond the scope of the separation project and therefore should not be considered at this stage?*

We agree that allowing NGET to acquire OFTO business is beyond the scope of the separation project. We believe that such a decision would constitute a substantial policy change and would therefore need to be consulted on separately. We would recommend that such a decision should be considered during a wider review of the OFTO regime. We recommend that Ofgem ensures that any changes that are made to NGET's licence are consistent with the Scottish TO's licence to ensure a level playing field.

- 6) *Do you think a modified version of Special Conditions 2B and 2H are necessary for NGET?*

We agree with Ofgem's proposal to amend the wording of special conditions 2B (Restriction on the use of certain information) and 2H (appointment of a Compliance Officer) to reflect the licence conditions that are currently used in the Scottish TO licences. We agree that these conditions have a wider reach than just vertical integration and the wording has the effect of ensuring the licensee treats information as confidential.

- 7) *Do you think that Special Condition 2C should apply to NGET in its current form?*

We believe that Ofgem's proposal to retain Special Condition 2C appears to be the cautious approach. In line with Ofgem's guiding principle to align NGET's licence with the Scottish TO's licence, we believe that NGET's licence should not impose greater restrictions than exist in the Scottish TO's licence.

- 8) *Do you think that allowing NGET to acquire OFTO business is beyond the scope of the separation project?*

Please see our response to question 5.

- 9) *Do you think Special Condition 2I should apply to NGET and/or the ESO?*

We believe that Special Condition 2I (Independence of and appointment of managing director of the Transmission Business) should apply to both NGET and the ESO. We agree with Ofgem's view on applying an amended 2I for the ESO reflecting the ESO and its activities. We also believe that 2I should apply to NGET as there are other parts of the National Grid Group that have interests in other parts of the energy market and it is therefore important that NGET maintains full managerial and operational independence of its Transmission Business.

10) *Do you think an amended version of Special Condition 2O, as described in this document, will provide sufficient safeguards regarding the separation of the ESO from other National Grid Group plc companies?*

Yes.

11) *Do you think an amended version of Special Condition 2O for NGET is required for business separation requirements and compliance obligations?*

Yes.

12) *Do you think that Special Condition 3D should be included in NGET's licence only?*

Yes.

13) *Do you agree with our proposal to keep Special Condition 3F in NGET licence only? This includes updating the EDR guidance so that the reward is calculated solely on TO activities.*

Yes.

14) *Do you agree with our proposal for amending Special Condition 3H (Network Innovation Allowance), to assign 0.5% of NGET revenue to the NGET licence and the remaining 0.2% of NGET revenue to the NGESO licence?*

Yes, we agree with Ofgem's proposal for amending Special Condition 3H and the proposed split seems pragmatic.

15)

a) *Do you think both the NGESO and NGET should participate in the Network Innovation Competition going forward?*



Yes, we agree that both the NGESO and NGET should participate in the NIC as both can innovate and make consumer savings in different ways.

b) How should the licence drafting of Special Condition 3I be amended to effect this?

We suggest that NGET's TO licence should be amended to reflect the Scottish TOs licence.

It seems reasonable to assume that the ESO's 3I Special condition would be similar to the existing 3I condition for NGET and deal with the transfer of sums to other licensees as directed by the Authority.