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By electronic copy only to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

Dear Shashi and Steven

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

Thank you for the opportunity to respond to the above consultation. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

We see significant value in delivering the future arrangements for the ESO. More specifically, as Distribution Network Operators (DNOs) are evolving towards becoming Distribution System Operators (DSOs), these arrangements for the ESO will facilitate the delivery of benefits by driving whole system outcomes and ensuring a level playing field for all participants in the electricity system.

In August 2017, Ofgem published the "Future Arrangements for the Electricity System Operator: Response to Consultation on SO Separation" document. The document provided indications on how the separation arrangements would work across the various areas, such as:

- Governance;
- Information Ring-Fencing;
- Employee separation, incentivisation and transfer;
- Physical separation;
- Shared services; and
- Identity.

This informal consultation document explains in more detail the guiding principles for the aforementioned future separation arrangements. However, we notice that the current licence drafts are incomplete, such as in Special Condition 2A. This is more prevalent in specific licence conditions that relate directly to the separation arrangements, such as Special Condition 2O.

We are mindful that a licence is a live document that works in its entirety through the interaction of the standard and special conditions. Additionally, in specific areas Ofgem has refrained from

articulating a clear proposal. Such an example is Special Condition 2O in relation to the “open question” regarding National Grid’s One SO model.

In light of the above, we have found it difficult to contribute as fully as we would otherwise have done, given the incompleteness of the current drafting. Hence, we would consider it appropriate for Ofgem to provide stakeholders with the opportunity to review a fully drafted licence for the ESO in the future, before concluding the separation process.

Also, in relation to Special Condition 3H, it would be have been clearer to substantiate the proposed split in NIA by listing those projects currently undertaken and the relevant expenditure across the two entities.

Furthermore, Ofgem has indicated it will undertake a review in 2020-2021. It would be useful for stakeholders to understand the scope of the review in terms of separation arrangements, and particularly how this is intended to fit in with the RIIO-T2 timeframe.

Lastly, we would appreciate more clarity around the timeline of the next steps in the process and of any contingency arrangements in case of delays in the implementation of the separation arrangements past 2019. If you have any queries please do not hesitate to contact me in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Hope', with a stylized flourish at the end.

James Hope  
Head of Regulation & Regulatory Finance  
UK Power Networks

Copy Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks