

Nathan MacWhinnie
Systems and Networks
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

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Dear Nathan,


Consultation on licence conditions and Guidance for network operators to support an efficient, coordinated and economical Whole System (WS)

Scottish and Southern Electricity Networks (SSEN) welcomes the opportunity to respond to the above consultation.

We recognise the opportunities that a more Whole System approach to system planning and operation offer and we are actively engaged in the ENA's collaborative Open Networks Project, which is looking to solve some of the more practical challenges that come about with this way of working. We are also actively engaged in the RIIO-2 work on Whole System, which is working to establish the regulatory framework necessary to drive and embed Whole System practices and give all interested parties the scope and certainty necessary to participate in this evolving market model.

In many ways, as an operator of both the Electricity Transmission network and Electricity Distribution network, we are already taking steps to move towards a Whole System approach by thinking more innovatively about what is required and how this can be delivered with optimum benefits for both us and the users of our networks. However, in the absence of frameworks for the identification of Whole System requirements, solution development and implementation, and a lack of clarity around how solutions will be financed or how the 'fair value' of solutions should be shared between relevant parties, the current approach is not sustainable.

We therefore welcome steps to start to develop this clear framework and we agree that (i) engagement, consultation and coordination; and (ii) information sharing and data provision are two important pre-requisites in developing a more Whole System approach. We also welcome the process of starting to embed this in RIIO-1. This recognises the opportunities for Whole System thinking that are already being identified and taken forward.

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However, we do not support the licence condition as currently drafted.

The licence condition requires electricity distribution and transmission licensees to *‘take all appropriate steps to achieve an efficient, coordinated and economical Whole System’* and in so doing it *‘must take all appropriate steps including’*:

- *‘identifying and considering any potential impacts on the system that could arise from the licensee’s actions, actions of other Distribution Licensees or Transmission Licensees or the actions of other persons connected to the system’*; and
- *‘considering any potential alternative actions that may be identified by or available to any Stakeholder’*.

Confidence of compliance

Firstly, it is difficult to see how a licensee could ever be certain or confident that it has complied with these requirements. The open-ended / limitless nature of the condition is extremely unhelpful and it would require significant new resources to process all the options and additional requests that parties could bring forward. With no way of ‘filtering out’ actions, this has the potential to tie up and waste resources, rather than establish efficiencies.

Similarly, it is not clear whether activities such as ‘pathfinding’ would be considered as ‘taking steps’ to achieve an efficient, coordinated and economical Whole System. There is a lot of ‘pathfinding’ required to identify Whole System activities. Would this meet the condition or is compliance contingent on actual outcomes?

Deliverability

Secondly, it is not realistic to expect obligations around (i) engagement, consultation and coordination and (ii) information sharing and data provision to be sufficient to support an obligation on electricity Distribution and Transmission licensees to achieve an efficient, coordinated and economical Whole System. We accept that engagement and information sharing are part of the solution, but to embed Whole System practices, parties must have clarity around how their actions will be assessed and decisions made, where accountability and responsibility sit for the Whole System solution, how the ‘fair value’ of that solution is allocated between the parties that benefit and so on. We therefore do not think it is appropriate to establish a licence condition in advance of this framework that obliges electricity Distribution and Transmission licensees to take all appropriate steps to achieve that Whole System.

Controllability

Thirdly, it is important to recognise that whilst placing this obligation on electricity Distribution and Transmission licensees to take all appropriate steps to achieve the Whole System, actions

taken may be contingent on parties that are not subject to the same obligations or drivers. The licence condition, and any enforcement thereof, needs to be cognisant of this.

Consistency

Finally, we are mindful of the work ongoing in preparation for RIIO-2. In its Sector-Specific consultation published in December, Ofgem provided clarity on its proposed narrow scope for Whole System, i.e. focusing on the four network sectors (gas and electricity Transmission and Distribution) plus the ESO and GSO. This appears to be at odds with the scope of the proposed Guidance for the licence condition which suggests that Stakeholders might also include parties with interests in transport or heating. The RIIO-2 Sector Specific consultation also considers what mechanisms may be required to provide companies with the necessary incentives and support to enable Whole System solutions. Again, this seems to be at odds with licensees being in a position to achieve an efficient, coordinated and economical Whole System in nearer timescales.

We have responded to the specific questions asked in the accompanying annex. We hope this clearly sets out our position. However, should you require any further information or wish to arrange a meeting to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

Gillian Hilton
Networks Regulation

ANNEX

1. Do you agree with the proposal to clarify Whole System responsibilities through licence and supporting Guidance? Where possible, please provide evidence and examples to support your views. In particular, please describe:

- (a) The potential benefits you might expect to result from these proposals;**
- (b) If there are any material costs or issues for you in relation to these proposals.**

We recognise that there is scope within the current RIIO-1 periods to make coordinated progress on Whole System thinking and this may, at least in part, be best driven through licence obligations and Guidance.

We also agree that: (i) engagement, consultation and coordination with licensees and stakeholders; and (ii) information sharing and data provision are two important pre-requisites of moving towards a more whole system approach to network planning and operation – and it would be of value to develop ways and means of establishing how this is best done over the remainder of RIIO-1.

However, we do not agree with the introduction of the proposed licence condition and Guidance in the absence of a Whole System framework. The achievement of an efficient, coordinated and economical Whole System is dependent on a complete Whole System framework that establishes how Whole System solutions are assessed and decisions are made, how ‘fair value’, outputs and benefits are allocated between parties, and where risks and accountabilities lie. We understand this is what Ofgem’s RIIO-2 Sector Specific consultation is seeking input on and we are in the process of developing our response to this. For the avoidance of doubt, the licence condition and supporting Guidance, as currently drafted, do not clarify Whole System responsibilities.

Notwithstanding the above, there would undoubtedly be additional costs in responding to this licence condition. For example, there are considerable resource implications in carrying out each of the following:

- taking ‘all appropriate steps’ to identify and consider ‘any potential impacts on the system that could arise from the licensee’s actions, actions of other Distribution Licensees or Transmission Licensees or the actions of other persons connected to the system’;
- taking ‘all appropriate steps’ to consider ‘any potential alternative actions that may be identified by or available to any Stakeholder’; and
- taking ‘all appropriate steps’ to collect and make available information that is considered useful.

There may be other areas within the proposals that attract material costs and provisions would need to be made.

- 2. Do you agree with the proposed scope and content of these licence conditions and Guidance? Please provide any specific comments you have on the attached draft, including illustrative examples, and where possible, please provide reasons and evidence to support your response, in particular:**
- (a) Are there other examples or areas of activity which you consider should be highlighted, or do you see the need for further clarity in any area?**
 - (b) Do you consider these would be beneficial and proportionate? Are there any aspects which should not be included?**

As per our response to Q1, we agree that (i) engagement, consultation and coordination with licensees and stakeholders and (ii) information sharing and data provision are two important pre-requisites of moving towards a more whole system approach to network planning and operation. However, on their own, we do not believe these requirements are sufficient to enable licensees to meet a licence obligation to achieve an efficient, coordinated and economical Whole System.

For example, what happens if – through engagement and information sharing – a Transmission Owner (TO) identifies a third party service-type solution that removes the need for reinforcement at both Transmission and Distribution? Who decides that the TO has taken all appropriate steps to identify the third party solution? Who pays for the solution, i.e. how are the costs (and benefits) appropriately allocated / ‘fairly valued’ between TNUoS and DUoS? Do both the TO and the DNO claim this service solution as delivering their outputs? Who is responsible for maintaining this service solution? What happens if the solution fails – who takes on this new risk? Where does the accountability and responsibility sit, bearing in mind that third parties who are not regulated may have other drivers, for example, market signals? What happens if the solution is in another sector that is outside of the regulated networks’ and Ofgem’s area of expertise? How do parties have confidence over the costs and benefits?

These are all areas that highlight the need for a clear framework in advance of a licence condition obligating network operators to ‘take all appropriate steps to achieve an efficient, coordinated and economical Whole System’. We understand this is what Ofgem’s RIIO-2 Sector Specific consultation is seeking input on and we are in the process of developing our response to this. We believe a workable position can be reached by the start of RIIO-2, which would be the time to introduce a general obligation on Whole System.

Notwithstanding the above, we have a number of specific concerns relating to the proposed drafting:

- It is not clear what will constitute taking ‘all appropriate steps’ or considering ‘any potential impacts’ or ‘alternative actions’. These limitless terms are extremely unhelpful in framing the requirements of the licence condition to licensees and make it extremely difficult to demonstrate compliance.

- Separately, we would be concerned that a licence requirement to, for example, consider ‘any potential alternative actions that may be identified by or available to any Stakeholder’ could trigger a significant resourcing requirement to meet this obligation without any filter to identify impractical or unrealistic requests.
- The Guidance appears to widen the scope of the licence condition and lends little in terms of adding clarity on what constitutes compliance.

The licence condition (and consultation) is silent on the intended timescales should such a condition be implemented. This is unhelpful in understanding Ofgem’s intentions.

3. These proposals require licensees to engage and coordinate with Stakeholders. This recognises that a range of parties may have an interest in different aspects of the system, and the licensees should seek to engage with those with an interest in a given situation. Do you agree with this approach?

We agree with the principle of engaging and coordinating with Stakeholders; stakeholder engagement is central to what we do. We agree that the range of parties able to offer solutions to network issues is widening and networks’ engagement programmes need to adapt to reflect this. We believe we are already doing this through initiatives such as our Social Constrained Managed Zones.

However, as set out above, we do not believe it is appropriate to create an obligation on licensees to consider any potential alternative actions that may be identified by or available to any Stakeholder. This has the potential to place significant resource requirements on network operators without any ‘filter’ to ensure that this required response is reasonable.

Instead, we believe this engagement needs to be based on a clear Whole System framework. This is particularly important where multiple parties / energy vectors have the potential to be involved. For example, it will be important to set out how Whole System requirements are identified and how the solutions are assessed. Non-regulated parties will need to have clarity on what the requirements of the solution are in order to allow them to develop investment models that include appropriate overheads for engagement and coordination.

Regardless of a ‘filter’ on these requests, the requirement to engage and coordinate with a wider set of Stakeholders is not without cost – both in terms of time and resource. Provisions would need to be made to account for this.

- 4. Do you consider any changes or clarifications are needed in relation to industry code objectives, notably the Distribution Code and the Grid Code, to support the delivery of Whole System outcomes? Specifically,**
- (a) Do you see the need for further change or clarification to the code objectives themselves, or their interpretation, e.g. through introduction of a specific relevant objective in relation to Whole System actions?**

(b) Have you identified any interactions of these provisions with wider aspects of industry arrangements which should be considered in developing them?

We note that there are other codes, such as the Connection and Use of System Code and Charging codes that can significantly influence connection activities and operational behaviours.

We believe it is important that all relevant codes have coherent Whole System objectives to ensure that network companies can effectively facilitate Whole System outcomes.

5. Do you believe further, specific guidance in any area, and in particular in relation to efficient connections and constraint management (e.g. in preparedness for electric vehicles or increasing distributed generation) would be beneficial? Please provide reasons and, where possible, evidence to support your answer.

As set out elsewhere in this response, we believe the focus should be on establishing a robust Whole System framework, prior to setting out further guidance in other areas.

6. For which relevant datasets or information do you consider the need for availability and accessibility is greatest, in order to deliver Whole System benefits? Do you consider there to be any significant barriers to sharing these? Please provide specific suggestions for what you consider to be effective sharing arrangements, including required enablers and governance, such as the development of any industry standards?

We recognise that data sharing needs to be looked at in order to achieve consistent assumptions, models and input data in the assessment of Whole System issues.

Importantly, the data exchanged needs to be fit-for-purpose. For example, if the issue is about system stability under low short circuit conditions, in exploring the possibilities for a Whole System approach it would be necessary to obtain plant models and data and parameters as well as operating regimes, which – in some cases - may be commercially sensitive.

By way of an example of the types of issues that may stifle the necessary sharing of data, some data is available to the ESO that cannot be passed onto parties that are not party to the SO-TO Code (STC). As such, in this instance, DNOs would not be in a position to properly assess Whole System needs and solutions.

From a TO perspective, the challenges in terms of the data that is available at the moment often relate to the inability to 'breakdown' historic data in order to understand the interactions between the resources within a GSP and any trends in the expected behaviours of users.

We believe the STC data confidentiality arrangements between the ESO and TOs (for data that can be shared) work relatively well. We believe these or similar arrangements could be made

to cover network owners so that it was possible to apply consistent assumptions across network ownership boundaries when assessing Whole System issues.

- 7. Do you agree with the proposal to apply these provisions to all electricity distribution licence holders, including IDNOs, and onshore TOs, and to exclude the ESO, offshore TOs and interconnectors? Where possible, please provide reasons and evidence to support your response.**

As per the proposal, we agree that any provisions in this area should apply to all. However, we do not agree with the provisions, as currently set out. These need further consideration.