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11<sup>th</sup> February 2019

Dear Nathan,

**National Grid ESO response to Consultation on licence conditions and Guidance for network operators to support an efficient, coordinated, and economical Whole System**

Thank you for the opportunity to respond to the consultation on licence conditions and guidance for network operators to support an efficient, coordinated, and economical whole system. This response is provided on behalf of National Grid in its role as Electricity System Operator.

From April 2019, the ESO will be a new standalone business within National Grid, legally separate from all other parts of the National Grid Group. The ESO will have its own Board, and staff will be physically separate from all other parts of National Grid. The independence afforded by these new arrangements will support the right environment to deliver benefits for consumers from whole system activities as we transition to a more decentralised, decarbonised electricity system.

As ESO, we already have complementary provisions to those now being proposed to apply to electricity network operators. Collectively, these provisions should ensure that all parties are clear on the role they need to play and participate fully in delivering benefits through a whole system approach.

We are already testing a range of whole system initiatives with industry through targeted collaborations and via the ENA's Open Networks project. These are informing the processes necessary to deliver a systematic approach to whole system investment, planning and operation, as well as testing what is possible within current arrangements, for example in relation to transfer of funds between parties to deliver whole system outcomes.

We look forward to continuing work with industry to develop further these areas; to ensure continued efficient, safe, and secure system operation, and build on our and other parties' respective capabilities.

If you would like to discuss any of the points raised in the consultation response, please contact either myself or Ian Pashley ([ian.pashley@nationalgrid.com](mailto:ian.pashley@nationalgrid.com)).

Yours sincerely

Julian Leslie  
Head of Networks, National Grid ESO

## **Responses to Specific Questions**

### **Section 2: Objectives**

**Question 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?

**A:** We agree that it is appropriate to capture, through licence and supporting guidance, equivalent whole system responsibilities for network operators that are already captured within Standard Condition C16 of National Grid's Electricity Transmission Licence.

We note the broad scope of work already underway, through the ENA's Open Networks project and beyond, to develop whole system solutions to the network investment, planning and operational challenges that we collectively face as we transition to a low carbon electricity system. Clarification of whole system responsibilities should support the delivery of efficient network and operability solutions to whole system needs, which should in turn support efficient system operation.

For this to be successful, it will be important to ensure that any system need is met by options assessed to be of most value to consumers, irrespective of the network owner. To facilitate this, each party should be appropriately funded, licenced and incentivised to identify, develop and deliver those solutions for consideration; and also to provide the modelling tools and techniques needed to ensure the options are properly assessed. To ensure the ongoing suitability of operability-based solutions, it will be necessary to monitor spend on them and compare that spend with asset-based alternatives.

It will also be important to ensure that clarification of responsibilities is accompanied by clear routes to funding whole system solutions, with appropriate incentives to deliver; so that network operators and other stakeholders can be confident of the business case supporting the delivery of their solutions, and consumers can take comfort in the fact that their bills will reflect their efficient selection and delivery. Given that near-term solutions will need to make best use of existing provisions further guidance may be useful here. In the longer-term such solutions will need firm foundation in RIIO-2 provisions.

### **Section 3: Draft licence conditions and guidance**

**Question 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?

**A:** We consider the scope to be reasonable, in that it augments the provisions already applicable to Licensees with regard to being efficient, economic and coordinated; and that it complements the whole system provisions already applicable to the ESO.

We also think consideration should be given to both current and future activities of affected Licensees to ensure that the use of data and information transferred for the purposes of efficient whole system design and operation is only used for those purposes. For example, should a network organisation be involved in the provision of flexibility services

to another party, then further licence provisions may be needed to adequately ensure there is no adverse impact on competition in the market.

**Question 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?

**A:** We agree that it will be important to engage meaningfully with Stakeholders, providing clarity regarding network issues and promoting open discussion on how those requirements might be met. We consider it important that the engagement is proportionate to the network need, both to promote efficient process and to ensure Stakeholders see value in participation. Such engagement should not be overly burdensome for Stakeholders, but be sufficiently clear to enable them to get involved. It should also be noted that there will also be a cost associated with getting involved – more so if options are sought from stakeholders – and it will be necessary to consider how this could be funded – for example whether this be on expectation of contract award (i.e. at Stakeholders' risk), or through some other means.

We also consider it important that engagement with Stakeholders regarding whole system investment, planning and operation activities is signposted sufficiently far in advance so as not to restrict the type of solutions that they might offer. Equally, it is important that, where operational solutions are identified as being economic, regular reassessment is undertaken to understand whether they remain the most efficient option when compared with an asset-based alternative.

**Question 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, eg 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?

**A:** There may be merit in making more explicit the fact that industry codes, and any proposed changes to them, should support the delivery of whole system outcomes. For example, the NETS SQSS specifically relates to transmission planning and operating standards, so consideration should be given to this and the interfacing arrangements with DNO codes to ensure there are no unintended conflicts, to ensure efficient whole system planning and operation.

However, we would expect the need for any provisions to be considered in the broader context of the European Network Codes, and also Ofgem's recently-announced Energy Codes Review, which may be a useful forum to discuss new approaches to ensuring future alignment of industry code objectives.

We also note that, whilst there is a strong network focus for whole system investment, planning and operation, it is also important that proposed changes to market-based codes also give due consideration to their networks impact on a whole system basis.

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

**A:** We would be keen to ensure a consistent approach across networks with regard to issues such as preparedness for electric vehicles being adopted at scale, however others are perhaps better placed to comment on whether further specific guidance would be beneficial. More generally, we note the recent launch of Ofgem's Electricity Network Access Project, which will review important aspects of the transmission and distribution charging regimes, including the definition and choice of access rights for transmission and distribution users, as well as distribution network use of system charges, amongst other things. These elements are fundamental building blocks to driving efficient whole system outcomes and we are supportive of their review on a whole system basis.

**Question 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?

**A:** For a Party to be able to identify network issues on a whole system basis, it requires access to sufficient data to describe and model the behaviour of key interfaces with their network. Increasingly, that means not only in relation to network assets, but also to the users of those networks and the impact their commercial behaviour may have. Where the exchange of such data is already facilitated by industry frameworks, it is important to ensure its breadth and the scope for its use remain appropriate as the industry develops. Where such data is subject to commercial restrictions or confidentiality provisions, work may be required to enable its broader use by those with a legitimate reason for doing so.

We look forward to continuing work through Open Networks and engaging with the Energy Data Taskforce to ensure the right data and information is available to support delivery of whole system benefits. We note that this is will require clear roles and responsibilities for the use of data, and will likely require funding to further develop and maintain the IT systems necessary to deliver a robust means of exchanging, storing and using such data.

#### **Section 4: Scope of application**

**Question 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.

**A:** As the ESO is already subject to similar provisions through previous changes to Standard Condition C16 of its licence, we agree that the intended scope of application should allow industry to capture the majority of circumstances where whole system benefit can be derived.

We are keen to ensure that exclusion of offshore TOs and interconnectors doesn't have any unintended consequences. Accordingly, it may be worth periodic review to ensure this remains the case.