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Dear Nathan

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 proposed new licence conditions and Guidance in order to provide clarity on Ofgem expectations in the performance of our existing duties.

Electricity North West Limited is the Distribution Network Operator for the service area that serves 2.4 million customers in urban Manchester, Lancashire and rural Cumbria to the Scottish Border through our grid supply points. To perform this role effectively and to ensure an efficient, co-ordinated and economical system, interactions between electricity distribution and transmission is already an integral part of our way of working, and there are established processes in place to facilitate the flow of information and system planning. The work that has been undertaken to date, and continues via the Open Networks project, has identified further improvements and developments that can be made to system co-ordination and collaboration in order to provide increased consumer benefits. As we continue the transition to Distribution System Operator, Electricity North West continues to be fully involved in the Open Networks project and committed to unlocking these benefits.

Electricity North West presently liaises with National Grid and customers/connectees on a regular basis and the Open Networks project team have already mapped the DNO, SO and TO interfaces and collaboration as defined in the Grid Code. Examples of current interactions include the data exchanges required within the licence (weeks 24 and 42), innovative capacity management approach (Statement of Works enhancements through the Appendix G process) and operational meetings to ensure network security through the coordination of outages (meetings including Joint Technical Planning Meetings, and Access and Operation Liaison meetings).

Building on the business as usual liaison, Electricity North West is the first DNO to develop and publish our Distribution Future Electricity Scenarios¹ which details our view of the North West's future electricity requirements. We've also shared our regional insights to help with our stakeholder's planning, encouraging further collaboration and inspiring new flexible approaches.

Since April 2018 we have sought flexible services in nine locations across the North West region. These have been promoted through our own website, directly to local stakeholders as well as being publicised on nationwide platforms like Open Utility's Piclo Flex platform.

¹ <https://www.enwl.co.uk/get-connected/network-information/dfes/>

We recognise that this is a nascent market and we are encouraging our customers and stakeholders, through multiple channels e.g. ICE events, innovation and community energy newsletters etc, to contact us about their potential flexibility.

Our largest flexible services request for up to 20MW for a location within Greater Manchester has recently closed and was aimed at mitigating the need for extensive reinforcement which supports our commitment to openly test the market.

Further flexible service calls are planned prior to the end of the current financial year and into the next coming year for areas across the North West, however with a likely concentration in and around Greater Manchester as it is experiencing a period of significant growth driven by redevelopment activity.

Whilst these flexibility calls seek the most efficient outcome for our customers, work within the Open Networks project continues to identify the gaps between the present undertakings and those required to deliver a Whole System such as standardisation of scenario planning and flexibility provision and we continue to participate in these crucial developments.

One example of collaboration to facilitate Whole System outcomes is the work that the DNOs and the TSO are undertaking to facilitate the recent change to the Rate of Change of Frequency settings (ROCOF) on generation under 5MW. This important change, overseen by Electricity North West's Engineering and Technical Director, as Chair of the Distribution Code, will result in significant savings to consumers by reducing the level of expenditure incurred on Balancing Services.

In regards to the proposed licence condition we consider that given the scale and developing maturity of activity being undertaken to date that the existing provisions within the Electricity Act and Distribution Licence are sufficiently clear that an additional licence condition is not necessary and creates regulatory complexity where it is not required. We do however acknowledge that other stakeholders may feel it is appropriate to create such a new licence condition and therefore have commented on the proposed wording within our detailed question response.

We welcome the Guidance document (Guidance to electricity Network Licensees – Whole System outcomes) and particularly the definition of Whole Systems (for the purposes of the current regulatory period) which has been proposed by Ofgem within the consultation. However we believe that some aspects of the Guidance are ambiguous at present and comment in more detail within our answers to your specific questions.

We would add that whilst the desire for Whole System decision making is clear, and Ofgem is taking steps within the Guidance to provide greater clarity on the expectations and the role each network party plays in delivering Whole System outcomes, we believe a Whole System CBA is core to DSO/TO/TSO decision making and it is hard to see how efficient whole system decisions can be taken in the absence of an agreed CBA. This should be a natural next step for Open Networks to develop. Electricity North West sees a Whole System CBA as a key enabler to Whole System outcomes.

As always, I hope you find our comments helpful, and should you wish to discuss any of this content further, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, reading "Paul Auckland". The signature is fluid and cursive, with the first name "Paul" and last name "Auckland" clearly distinguishable.

Paul Auckland

Head of Economic Regulation

Annex 1 – Detailed response to consultation questions

Question 1: Do you agree with the proposal to clarify Whole System responsibilities through licence and supporting Guidance?

We welcome the Guidance to electricity Network Licensees – Whole System Outcomes (the Guidance document) which has been proposed. We do however feel that there are areas within the Guidance document which would benefit from more clarity and we therefore provide more detailed comments within question 2 and the supporting Annex 2.

We recognise that in this particular case the creation of a Guidance document is appropriate, however also acknowledge that such Guidance documents are generally easier to revise than Licence changes. We would therefore suggest that consideration be given to the governance around revision of the Guidance.

As explained in our covering letter we consider that existing provisions are sufficiently clear and that an additional licence condition specific to Whole System outcomes is not necessary and creates regulatory complexity where it is not required.

Question 2: Do you agree with the proposed scope and content of these licence conditions and Guidance?

Whilst we have explained in our covering letter and in our response to question 1, we believe that a specific licence condition is unnecessary given existing obligations sufficiently cover this area; in addition the continuing engagement throughout the Open Networks project and the DNO/TO/TSO initiatives are demonstrating the behaviours expected of licensees responsible for whole system outcomes.

However we also acknowledge that some stakeholders may feel this is necessary and therefore have commented on the scope and content of the licence within this response and our supporting Annex 2.

Scope of Licence

We agree with the sentiment of a Licence Condition to support an efficient, coordinated and economical Whole System as a way of promoting a truly nationwide and all encompassing approach to deliver the best outcomes for GB customers.

The scope of the proposed whole system licence condition includes:

- Steps for developing a Whole System
- How to meet the obligation to develop a Whole System, and
- How to use data for the purposes of a Whole System

Although we agree with the high-level scope, we consider that clarity and further definition is required to describe the requirements and associated actions in a more meaningful and measurable manner. Specific comments are detailed within Annex 2.

Scope of Guidance document

Whilst the Guidance document covers three main aspects:

- Planning and coordinating for efficient Whole System outcomes
- Implementing Whole System actions
- Information sharing and data provision

these three differ from the scope of the licence condition, whereas the licence condition requires companies to engage, consult, coordinate and ensure data sharing whilst the Guidance document brings in the requirement to implement actions. Whilst we consider that this is appropriate to be covered within the Guidance document, it does bring questions on the alignment between the two.

We also see that there is blurring and elements of repetition between the sections of the Guidance document which could be eliminated. There are also sections of the Guidance which are unclear and in need of clarity. These are detailed further within Annex 2.

Saying this, our overall review of the Guidance recognises good alignment with the Licence Condition and the additional clarity that it brings on what is required to comply with the Whole Systems Licence Condition and its' delivery. The document usefully informs the intent of the Licence Condition and this explanation of the reasoning helps us understand what is expected. We appreciate the latitude that is allowed for interpretation of what is necessary for compliance, as it is acknowledged that the requirements for whole system approaches will evolve with the application of new technical methods, availability of additional data, and as the Stakeholder community develops.

We consider that the Guidance could be usefully updated on a regular basis to ensure a consistent interpretation of what is required to remain compliant with the Whole Systems Licence Condition.

Depending on whether the Guidance is a stand-alone document, or is referenced within a Licence Condition will depend on the level of change control that may be considered appropriate.

Clarification that funding transfers may be appropriate is welcomed. These could be necessary if we are to implement solutions for the benefit of another part of the Whole System, whilst remaining compliant with our obligation to “develop and maintain” our own network in an “efficient, coordinated and economical” manner.

We also appreciate the clarification that Whole Systems benefits can be used as justification for bringing forward new investment, i.e. investment ahead of need.

Finally, we would appreciate further consistency between the Guidance and Licence condition; in particular the Guidance refers in several places to “planning and operating” networks, whilst the Licence Condition refers to “developing and maintaining”.

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?

In principle we agree with the requirement to engage and coordinate with licensees and Stakeholders and that such an approach could be tailored to target only those with an interest in a given situation. However in some circumstances this could be overly burdensome and we seek further clarity in the Guidance to understand what would be judged as appropriate. As an example we would expect that for an LV overload caused by the clustering and combined charging of EVs we would fully expect to consult with all customers affected by the problem, including any customers supplied via another licensees network as well as any other interested parties; but this would still be a manageable number to engage with. On the other hand for an overload on a 132kV asset the new requirements could be interpreted as the licensee would be expected to engage, consult and co-ordinate with every Stakeholder as there is no proportionate or reasonableness expectation in the licence condition drafting, whereas there are proportionality paragraphs in the Guidance document. This ambiguity is unhelpful and we propose (see comments in Annex 2) that the phrase ‘appropriate steps’ is replaced throughout the draft licence condition with ‘reasonable steps’.

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?

We believe that the existing codes and their objectives are sufficient with no changes required to support Whole System outcomes. These are managed through joint working groups where cross network impacts are already considered.

We are aware of and are participating in the Energy Codes Review recently announced. We understand from the workshop held on the 4th February that one of the options presented by BEIS/Ofgem is looking at taking a different approach; moving away from codes. Specifically, this option refers to introducing a strategic oversight function such as an Energy Security Board (based on an Australian model) which amongst other areas would be responsible for providing whole of system oversight for energy security and reliability to drive better outcomes for consumers. We will await more detail on the package of reforms as part of the BEIS/Ofgem February Energy Codes Review consultation, as there may be areas that fall out of this that will inform any changes required to support delivery of Whole Systems.

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?

No, at this stage there is no further guidance required in relation to constraint management. The scope of the 2019 Open Network project programme is planning to create a common understanding of the network requirements and the standards for procuring and dispatching flexible services to manage network constraints. We would welcome Ofgem's involvement in the Open Networks project so that it can share its expectations in terms of agreeing a minimum standard format.

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?

We recognise that better access to data will be essential in driving competition and realising efficiencies that will arise from the new services that will be driven by existing and new markets. Although we have increased the information we publicise, for example our DFES and Flexible Services requests for proposal, and are planning to do more, we expect that additional Whole System benefits will arise from sharing more data, more frequently and with more parties. Data will be increasingly more valuable to existing stakeholders including TO, TSO, IDNOs, and generators; but also new participants offering network services.

Although the requirement of the draft guidance to share data is agreeable, it is considered necessary to further define what data is included and how it is shared.

The datasets which need to be available and accessible to deliver Whole System outcomes can be split into the categories into which we already transfer data; namely the operational timeframe and the planning and access timeframe. However, the necessary data should stretch into networks rather than focussing just at the interfaces and should be more detailed including non-technical and commercial parameters. Timescales for the sharing of planning and access data will need to be shorter than they are at the moment to efficiently realise Whole System benefits. More real time data will be necessary for the efficient integration of smart solutions such as demand side management, 'vehicle to grid' and energy storage.

Customer confidentiality, as required by our Licence Conditions, is considered to be a barrier to sharing commercially sensitive information; for example, we would be unable to share energy consumption data for all points within our network because some correspond to individual customers. Anonymising or aggregating data may impact its usefulness. However, we do not foresee any barriers to sharing the technical information for our network assets.

We welcome the Open Networks workstreams and the work of the Energy Data Taskforce, established by BEIS, Ofgem and Innovate UK, which are exploring Whole Systems data requirements and how it will be governed. These projects are necessary to identify gaps in the present arrangements and identify what is necessary to support an evolving future.

The data sets necessary to enable Whole System outcomes are not yet fully defined so require further investigation to establish if we already have the information required and whether the existing data is adequate. As an example, it could be identified that harmonic voltages need to be consistently monitored and the information usefully shared so that customers with STATCOMs can consider offering mitigating actions.

It is expected that Whole System benefits will only be maximised if open standard specifications are adopted to provide integration and compatibility via a consistent methodology applied across Licensees and to encourage a more competitive supply chain. Agreed standards of measurement, data, interfaces and communications are likely to be necessary to fully exploit the variety of flexible services available in the distribution system. Data formats and effective sharing arrangements, including the necessary enablers and governance, can be informed by the outputs of the Open Networks and the Energy Data Taskforce projects. Results of these projects can help inform new standards for common architectures and data formats necessary to ensure interoperability, whilst maintaining data protection and applying adequate security measures to avoid cyber threats. How data is hosted and who manages/controls the data also needs to be decided although this is likely to be predicated by the format of the 'Future DSO World'.

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

We are in agreement that these changes should include IDNOs as well as electricity Distribution and Transmission licensees.

Whilst we recognise that there may be limited benefits in applying the proposed licence conditions and Guidance to offshore transmission owners' and interconnectors' licences, we have in the past experienced difficulties in gaining access to metering data from an offshore transmission owner which could have had potential of imposing additional costs onto customers. We would therefore suggest that extending this proposal to offshore TOs be reviewed at a later date.

Annex 2 – Supporting comments to Question 2

Draft licence condition

| Paragraph reference | Revision proposed | Rationale |
|---------------------|---|---|
| Para 1, 2 and 3 | Change “appropriate” to “reasonable” | The phrase ‘appropriate steps’ is used in several places through the licence condition e.g. Paragraphs 1, 2a), and 3 whilst the Guidance note highlights that licensees should be proportionate in the approach to engagement, consultation, co-ordination and particularly the sharing of data. We would propose a change of the phrase ‘appropriate steps’ to be ‘reasonable steps’ in order to be consistent with the Guidance note. |
| Para 1 | Deletion of “including meeting the reasonable requirements of Parties Connected to its network” | We note that this paragraph indistinctly refers to licensees “meeting the reasonable requirements of Parties Connected to its network”. Although our networks are there for the benefit of our customers, they are developed and operated to be compliant with the applicable standards and statutory requirements. |
| Para 2 a) i | Insert “relevant” before the word Distribution | Not all licensees will be relevant depending on geographical proximity. |
| Para 2 a) ii | Insert “Whole” in front of “system” Insert “ where known” in front of “other persons” Change “actions of other Distribution Licensees or Transmission Licensees or the actions of other persons connected to the system” to “Parties Connected” | Ties in to the definition to be clearer. The actions may not always be known to the network licensee. Ties in to the definition to be clearer. |
| Para 3 b) | Remove “collect” | Point b of paragraph 3 requires Licensees to “collect” data whilst the extent of the information is not defined in detail. Collect is an active term and could empower Licensees, for example enforcing service providers such as generators to install monitoring. However, ‘collect’ could infer that Licensees are responsible for actively retrieving a wide range of data not necessarily required by the Licensee but useful in the operation of the Whole System. |
| Para 3 b) ii | Remove 3 b) ii | This unnecessarily repeats the facilitate competition obligation as licensees already operate under the over-arching obligation on facilitation of competition under the Electricity Act. |
| Para 4 | Remove this paragraph | Whilst there is a good level of maturity of engagement between Distribution and Transmission Licensees, the Guidance document requires companies to establish processes and systems which may not be at the same level of maturity or take time to establish. We would suggest that this link from the Licence condition to the Guidance is removed to allow companies a reasonable period of time to develop such processes that they may be fully compliant with the Guidance document and therefore the Licence condition. |

Draft Guidance document

Although we agree with the overall messages presented in the Guidance, some points are confused as they are duplicated using slightly different perspectives in different parts of the document.

There are elements of duplication across the three main sections in the Guidance document with no or little cross reference to the draft licence conditions. For example the points raised in section 2.2 are covered in more detail in section 2.7. Similarly, the points raised in section 2.10 and 3.12 are elaborated in section 3.4, and the main point of section 3.3 is addressed in 3.7. The main point of section 4.5 is repetition of the comprehensive requirements defined in 4.8.

It would have been helpful if the Guidance document was set out in the same structure as the Whole System licence conditions with the sections and paragraphs cross reference where applicable. This would help the reader more easily understand the overall obligations of the relevant section with supporting examples to illustrate the expectations of the paragraphs and sub-paragraphs.

Section 3 - Implementing Whole System actions in the Guidance document looks odd as there is no explicit cross over to draft licence conditions; so we propose it is subsumed into (the currently drafted) Section 2 - Planning and Coordinating for efficient Whole System and/or Section 4 - Information Sharing and Data provision in order to bring to life the expected actions required in the relevant licence condition clauses.

Naturally the Guidance document focuses on the processes and actions between network licensees, including the TSO to deliver Whole System outcomes but there should be a greater focus on Stakeholders; this is evident in the Illustrative Example section where there is no reference to Stakeholders or 'Customers'/'Parties Connected' to the network.

Below are specific comments on the Guidance document:

| Paragraph reference | Revision proposed | Rationale |
|----------------------------|---|--|
| 1.7 | Replace 'energy' with 'electricity'. | It's unhelpful to the reader to interchange words where a word has more than one meaning and so as the document is only for electricity licensees the text should only refer to 'electricity system', not energy system otherwise misinterpretation can occur. |
| 1.16 | Insert "material" before "impacted by a decision" | |
| 1.16 | Unclear Stakeholder section | This paragraph casts the net far and wide in its interpretation of stakeholders and the examples hinder rather than help the reader. It might be better to move the examples to the Illustrative Examples section to allow a clearer definition to be drafted. |
| 2.11 | Move this paragraph | This paragraph should be either included in Section 3 (Implementing Whole System actions) or included in the Illustrative Examples section as these are more relevant under either these headings rather than under Section 2 (Planning & Coordinating for efficient Whole System outcomes). |

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|-------------------------------|---|---|
| Section 3 | Reference to NOA changed | Although National Grid are the only Licensee that currently publishes its' NOA, Electricity North West and probably other Licensees undertake similar processes internally as reflected by our undertaking of request for Flexible Services. It is suggested that reference to NOA in the Guidance could be usefully widened to seek mutual engagement when any Licensee undertakes a process similar to National Grid's NOA. |
| 3.1 | Each licensee should constructively participate in and drive forward industry-wide processes that support coordinated assessment and implementation of the most efficient solutions to meet collective needs across the system. | <p>Changed from:</p> <p>Each licensee should constructively participate in and drive forward industry-wide processes that ensure optimised use, dispatch and monitoring of resources connected across the system, and coordinated assessments of the most efficient solution to meeting collective needs across the system.</p> <p>Monitoring of resources connected may not be possible or proportionate.</p> |
| 3.2 | Clarity needed | Whole System efficiency principles are referred to in this section, but specific principles are not shown elsewhere in the document – it is unclear what this is referring to |
| 3.4 | including processes undertaken in meeting the requirements of Parties Connected to networks | <p>Changed from:</p> <p>including in meeting the requirements of Parties Connected to networks</p> |
| 3.10 | Licensees should seek to assess and adopt operational and investment solutions across their activities with consideration of Whole System impacts, in particular by using flexible resources and installing new assets efficiently. | Licensees don't control the overall use of flexible services and therefore cant optimise their use. However, licensees can use flexible services within their network development |
| 4.1 | Remove the word "accurately" | This has the requirement for "licensees collect the necessary data accurately" If data is coming from a third party, there should be the base assumption that this information is accurate, and no onus on the recipient to check its accuracy |
| 4.8 2 nd bullet | Correct typo of "using" | |
| 4.8 4 th bullet | Legally robust IT | This needs clarification as to the requirement |
| 4.12 | | Data anonymisation and aggregation feels a disproportionate obligation |
| Illustrative examples | Expand to include examples that refer to Stakeholders. | The illustrative examples within the Guidance document have been drafted with the expectation of a licensee to licensee engagement as there is no reference to Stakeholders and so we would welcome some further clarification on expectations relating to Stakeholders within the illustrative examples. |
| General | Re-structure the sections | The Guidance document would read more clearly if the order established in the draft licence condition was replicated in the Guidance document ie a Section 2 (Planning & Co-ordination) and Section 3 (Information sharing & Data provision) only with the information contained in Section 4 (Implementing Whole System actions) subsumed with the appropriate sections. |

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|---------|--|--|
| General | System and network are used interchangeably. | The drafting needs to be clearer on what is meant and/or required when the words network and system are used. |
| General | Best Practice | We would suggest that Best Practice Guides are developed to inform the several places where “best practice” is referred to in the Guidance. |
| General | Strength of requirement | <p>According to the Guidance, compliance is predicated on coordination which is defined as “the act of making all the people involved in a plan or activity work together in an organized way”. It is not considered within the authority of the Licensee to “make” stakeholders work together in an organised way. Therefore it is suggested that “seeking coordination” would be a fairer judgement of compliance with the licensees’ duties.</p> <p>Network solutions will need to be available in timescales matching the needs of the network and therefore it is not appropriate to spend excessive amounts of time waiting for stakeholder responses and for them to participate in a coordinated manner. Additional acknowledgement of timely participation and coordination would ensure that individual parties do not delay or stall Whole System considerations and the ultimate implementation.</p> <p>It is suggested that the management of conflicts and arbitration when Whole Systems actions cannot be agreed, require further elaboration in the Guidance.</p> |