



Stathis Mokkas
Electricity System Framework
Ofgem
9 Millbank
London
SW1P 3GE

electricitySoreform@ofgem.gov.uk

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Future arrangements for the electricity system operator: its role and structure

Dear Stathis,

SmartestEnergy welcomes the opportunity to respond to your consultation on Future arrangements for the electricity system operator: its role and structure.

SmartestEnergy is an aggregator of embedded generation in the wholesale market, an aggregator of demand and frequency services and a supplier in the electricity retail market serving large corporate and group organisations.

Please note that our response is not confidential.

We answer the questions below in the order in which they appear in the consultation document.

Question 2.1: What are your views on our proposed objectives for the SO (set out in paragraph 2.1)?

We certainly agree that one of the most important roles of the System Operator is to facilitate a cost-effective electricity system as a whole. Indeed, to this end, we are not sure that the proposals, as currently expressed, go far enough. In order for the whole system to be cost effective the system operator needs to oversee the optimal use of, and charging arrangements for, both transmission and distribution. The lack of



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SmartestEnergy Ltd, Dashwood House, 69 Old Broad Street, London EC2M 1QS
www.smartestenergy.com

Registered in England & Wales: No. 3994598



this, coupled with the recent increase in embedded generation, has led to the current conflict in the industry over embedded benefits.

We are of the view that National Grid should take on the role of nationwide SO, leaving the DNOs the core responsibility of managing their wires. This split would be similar to the one created at the formation of BETTA where the Scottish companies reverted to asset owners and National Grid took on the role of TSO and ensuring that revenues were collected and redistributed to the asset owners. In this instance, however, because of the required local knowledge, DNOs may need to continue to operate their systems, but the responsibility for calculating use of system charges and recovering monies would be transferred to National Grid.

It is also very important that there is proper market access to the services the DSOs will require in the future. Consistency and clarity in this regard could be provided through National Grid.

Question 2.2: What are your views on our expectations for how the SO should seek to achieve these objectives?

The document talks of the System Operator "facilitating a whole system view – working with other network companies to ensure that there is a whole system view on network planning and operation, to ensure end-to-end system resilience and that the most efficient overall solutions are taken forward." Again, we do not feel that this goes far enough. Whilst there are separate charging and governance arrangements it will not be possible for the System Operator to bring about efficiencies from a whole system view. Conflicts/contradictions will inevitably arise between SO and DNOs without a common governance arrangement and there will be nothing preventing industry change to continue separately under the DCUSA. The document talks further about "driving a mind-set and/or cultural shift within the SO." However, it would be unfair to expect the SO to initiate change in areas where it does not have control. The SO needs to be given this control.

Question 2.3: Do you agree with our proposals for what licence changes are needed to support these objectives?

We agree that, by and large, little change to the licence to achieve Ofgem's objectives, save for the separation itself, will be necessary. However, we believe that Ofgem and BEIS need to put more thought into the licensing arrangements which will be necessary to ensure that the cross TSO/DSO efficiencies are realised. Merely expressing "expectations" of greater co-ordination is not a solid enough arrangement.

Question 2.4: What are your views on the extent to which we should set specific or general obligations for the SO?



We are of the view that obligations should be general and more “principles-based”. Specific obligations run the risk of micro-management and focusing on the wrong areas. Ofgem may think that National Grid's forecasting needs to improve but at the end of the day Parties need to take their own view. That is how companies distinguish themselves, by creating a competitive edge. The market was not privatised for suppliers to blindly follow National Grid's forecasts.

Question 3.1: Do you agree that greater separation between NG's SO functions and the rest of the group is needed?

We are not convinced that the issues of a conflict of interest are particularly serious. However, we certainly believe greater separation is important and will help to create focus on the role which is desperately needed to wit a system operator who is facilitating the optimal use of both transmission and distribution networks through nationwide charging. We can also see that it is important for the SO to be independent, and to be seen to be independent, when assessing different investment options and competitive tenders.

Question 3.2: What are your views on the additional separation measures we are proposing?

The proposed measures of financial, employee and information ring-fencing seem comprehensive and sensible.

Question 3.3: What are your views on our proposed approach for implementing these changes?

April 2019 is a suitable target date for the full legal separation and that, in practice, separation could be achieved earlier.

Question 4.1: What are your thoughts on our proposed approach for implementing the proposed changes set out in this consultation?

Consulting on detailed licence changes later in the year should be feasible. However, as we state above we believe that Ofgem and BEIS need to put more thought into the licensing arrangements which will be necessary to ensure that cross TSO/DSO efficiencies are realised and it would be preferable for this to be done even if it means a slight delay to the currently proposed timescale for consulting on licence changes.

Question 4.2: What further evidence should we consider in finalising our impact assessment of the proposals on the SO's roles and level of independence?





As Ofgem have already identified, it is important to be consistent with the joint BEIS/Ofgem consultation on the Smart, Flexible Energy System. The structure and responsibility of DNO's should be considered alongside that of National Grid.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

Colin Prestwich

smartestenergy

Head of Regulatory Affairs
SmartestEnergy Limited.

T: 01473 234107
M: 07764 949374



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