

The Office of Gas and Electricity Markets  
10 South Colonnade  
Canary Wharf  
London E14 4PU

Friday 10<sup>th</sup> May 2019

Dear Mr Thompson,

### **Call for evidence on ESO performance over the 2018-19 regulatory period**

Our members appreciate the opportunity to respond to this call for evidence on ESO performance over the 2018-2019 regulatory period. This response represents a summary of the most salient areas of our members' experience interacting with the ESO. Whilst we recognise the strong contribution made in some areas, such as its involvement in ENA's Open Networks Project, our members believe there are opportunities elsewhere for the ESO to improve its performance, such as in engagement and consultation with industry partners.

We have organised our views on key areas of concern below as much as possible in accordance with principles one, five and six.

#### **Principle 1: Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information**

In our experience the ESO refers regularly to its potential role in non-load planning. However, there has not yet been adequate engagement on this issue. Their central role in system planning has given networks an accurate view of asset requirements over the long term, and they are currently the parties best placed to manage this.

If the ESO envisages an expansion of its role in system planning, then it is critical that it provides the economic data required to justify decision making. In particular, we would anticipate data around forecast generation constraint costs.

#### **Principle 5: Coordinate across system boundaries to deliver efficient network planning and development**

The ESO published its *Network Development Roadmap* in July 2018<sup>1</sup>. In this document the ESO proposes to develop its own network planning tools to deliver greater value for consumers. There is a risk here that the ESO does not build on what is working well and fails to recognise the skills, statutory duties and licence obligations on other industry parties. In addition to this, there is a risk that the ESO neglects areas of existing responsibility, such as dynamic modelling, that should be carried out under business as usual. In light of this, the ESO ought to regard its ambition not as expanding and its responsibilities into new areas but as harnessing the collective capabilities of the industry to deliver the best outcomes for consumers as efficiently as possible. Similarly, the publication of an 'ambitious' *Forward Plan*<sup>2</sup> does not necessarily achieve optimal outcomes in day-to-day activities.

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<sup>1</sup> <https://www.nationalgrideso.com/document/119521/download>

<sup>2</sup> <https://www.nationalgrideso.com/document/140736/download>

We caution against the expansion of the NOA in advance of any agreed policy. Our understanding of the NOA process is that it results in the ESO making recommendations to the transmission owners relating to potential areas for investment, its timing, and the possible solution. We believe that at distribution level we as DNOs are better placed to make these decisions and we are concerned that any expansion of the NOA's current remit to distribution voltages could be inappropriate ahead of ongoing work to establish the future world and the transition to DSOs.

### **Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources**

We have concerns that the ESO at it currently stands does not possess the necessary agility or expertise to facilitate a whole system approach. The timing of this is significant as we move into the RIIO2 period. Given Ofgem's indication that whole systems planning will increasingly take centre stage, there is a need for a clear way forward.

A whole system approach entails the full considerations of all available options, including services provided commercially or by a DSO. In this regard, the ESO is behind the curve in an area where DNOs have been planning and innovating for years. Networks are already planning investments that will address major challenges while the ESO's thinking is still developing. Notwithstanding the fact that the ESO has acknowledged this no clear way forward has emerged. There is therefore a significant risk that networks will end up in a situation where they are effectively waiting for the ESO whilst the chance passes to start fixing network issues with short-term impacts.

On the issue of tertiary windings, networks have the impression that the ESO is dictating to the industry rather than engaging, and that it appears to be motivated primarily by commercial interests. 60 connections of up to 50MW each have been issued, of which 41 have been accepted to date. This means that up to 3GW of capacity has been removed from distribution networks to date and this could increase to up to 35GW if 50MW tertiary connections are accepted on all UK SGTs. The ESO has engaged inadequately with DNOs prior to accepting these types of connection. Neither has it considered fully the impact on distribution networks, nor given sufficient thought to the overall cost of transmission vs. distribution connections. The ESO has admitted the impact on distribution networks was not considered in detail – in part because it does not have sufficient visibility at distribution level – and was not therefore factored into cost-benefit analyses.

Where the ESO has taken a whole system approach, working with DNOs to address transmission issues through measures such as Appendix G trials and RoCoF settings, we have some concerns about the challenging timescales set by the ESO for DNOs to deliver these solutions and with neither the level of transparency that would be expected nor a robust commercial and regulatory framework throughout the system. There is a risk this places DNOs in a difficult position with regards to their ability to enforce terms with customers, compliance with ESO requirements and recovery of costs.

We also suggest that based on our experience of working with ESO on flexible connections, and alternative approaches to address regionally specific issues, the ESO could be bolder, more willing to take chances and more proactive in whole system connection solutions. This is particularly applicable when it comes to changing industry codes or undertaking certain work on a trial basis in specific locations or circumstances. This would help the DSO and whole system vision to evolve.

It is important with any whole system solution that the ESO places emphasis on ‘protecting consumers from undue costs’ as per their obligations. This should include customers connected at all levels and ensure that costs are minimised for all, not just transmission customers, in order to fit with the whole system approach.

We support a more coordinated approach to the design and operation of transmission and distribution networks, in accordance with the overarching objective of a whole system approach to planning in the electricity sector. Work to establish how this can best be achieved and managed is ongoing, and we do not want the ESO to adopt this role ahead of the proper process for discussing and agreeing policy – not least because, as detailed above, the ESO may not be best placed to consider the wider impacts of whole system operation.

Lastly, the ESO has made a very strong contribution to the ENA-facilitated Open Networks Project. ENA and members have been impressed with the leading role the ESO has taken in the chairing both of products and of work streams. We would like to take this opportunity to acknowledge the technical input and the collaborative approach that the ESO has adopted throughout.

As always, we are very willing to discuss these issues further and would welcome an opportunity to share our members’ experience and expertise with Ofgem.

Yours sincerely,

**John Spurgeon**  
**Head of Regulation, Energy Networks Association**