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Ofgem Forward Work Programme Consultation 2020-2022

We welcome the opportunity to respond to your Forward Work Programme Consultation 2020-2022.

National Grid Electricity System Operator (NGESO) became a legally separate entity on 1 April 2019. As the ESO we use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers. We are pleased to take this opportunity to respond to your Forward Work Programme consultation in our capacity as the GB Electricity System Operator (ESO) and highlight below some of the key areas of focus within your consultation that we consider particularly relevant as the ESO.

Our mission is to enable the transformation to a sustainable energy system and ensure the delivery of reliable, affordable energy for all consumers. We support Ofgem's focus on the three strategic objectives that underpin the Forward Work Programme and welcome the similarities this creates between Ofgem's priorities and the ESO's strategic goals, detailed within our recently refreshed Towards 2030¹ publication; a whole electricity system that can operate carbon free, a whole system strategy that supports net zero by 2050 and competition everywhere. We recognise that to achieve this, we must continually evolve to ensure we can provide security of supply in a fast-changing world in a way that is both sustainable and affordable. We welcome your ongoing scrutiny, challenge and support and look forward to working closely with Ofgem in the future to support the goals detailed within this consultation.

Finalise the RII02 price control for the ESO.

Supported by a new, bespoke, regulatory model we are rising to the challenges of change within the industry, developing new capabilities and creating a clear vision for how we can facilitate the transition to a zero-carbon power system. The new price control is critical to our success as the ESO and we strongly believe it should encourage ambition, innovation and the ability to take appropriate risk on behalf of the industry. We will continue our ongoing, and regular, engagement with Ofgem to finalise our RII02 Business Plan, ensuring that this supports the delivery of our proposed activities to generate net benefits of £2 billion for consumers over the five-year RII02-2 period.

Conduct a strategic review of how system operation is undertaken.

We note Ofgem's intention to conduct a strategic review of how system operation is undertaken and whether further change is needed. We regularly review our operating model to ensure we fulfil our role of delivering a safe, reliable and efficient electricity system. As part of this we continue to liaise with all relevant groups and organizations, including Ofgem, making sure we are best prepared for the RII02-2 period and set up to achieve our ambition of operating the GB electricity system carbon free by 2025.

Whole electricity licence drafting and approach to DSO.

We support your ambition to continue the development of policy approaches to distribution system operation (DSO) and how this can play a role in delivering a net zero carbon economy. This directly aligns to our mission as the ESO to support a whole system strategy that supports net zero by 2050. As Distribution Network Owners transition towards Distribution System Operation, the whole electricity system becomes fundamentally different in its nature and the ESO must adapt the way it works with industry to ensure efficient outcomes. We strongly believe, that in this changing landscape, a focus on whole system solutions need to be considered to maximise consumer value and we therefore welcome Ofgem's focus on this for the 2020-22 period. As the ESO, we also recognise the need to support network organisations and the wider industry in

¹ <https://www.nationalgrideso.com/document/161996/download>

the transition to DSO to ensure an efficient design and operation of the whole electricity system and we welcome Ofgem's support in the development of this policy.

Of particular interest to us is the implementation of whole electricity licencing requirements, planned for July 2020. Progress in this area should promote collaboration between TOs, DNOs and the ESO that supports the delivery of whole electricity system solutions. We consider it essential that appropriate funding mechanisms exist to support the efficient delivery of solutions recommended for implementation through such whole system work.

Work with Crown Estate and the ESO on coordinated solutions for linking offshore windfarms to onshore grids

We welcome your plans to work with the ESO and the Crown Estate to develop coordinated solutions for transmission networks and we detailed this work within our own RIIO-2 Business Plan. In line with the 'Ofgem decarbonisation programme action plan' we will be setting out the scope of how we will be engaging with stakeholders, including Ofgem, to develop arrangements that facilitate the timely delivery of an efficient offshore grid that will support the 2050 net zero target. Ahead of this we will continue our dialogue with Ofgem on this to jointly lead in the emerging development and pressing requirement of this strategy.

Access and Forward-looking charges SCR and Targeted Charging Review (TCR)

We welcome Ofgem's continued focus on the Access SCR and TCR throughout 2020-22. This focus aligns with our priorities as the ESO as we work towards implementation of these changes. Three CUSC modifications have been raised for the TCR, and we have proactively been engaging with DNOs, Elexon and industry to create a delivery plan for the TCR. This engagement will continue into 2020-21 through bilateral meetings and through webinars and workgroups. We have highlighted within our Forward Plan that we will proactively support the industry on the impact of these changes through publications and guidance and will introduce new e-learning, particularly focusing on the new TNUoS methodologies introduced through TCR. We welcome Ofgem's position to oversee these changes across the industry.

Decarbonising Heat and Transport

We support the intention within the Forward Work Programme to develop thinking on the regulation of heat networks – a regulated framework provides certainty to investors, assists with decarbonisation and energy security, whilst also protecting consumers. Feedback from industry indicates that, from a financial perspective, the long-term investment timescales, low return and high-risk nature of heat networks means they are at a disadvantage to individually more expensive technologies such as heat pumps. Heat networks offer an initially disruptive, but in the long term a lower cost route to decarbonisation than individual building level technologies. In your recently published Decarbonisation Action Plan, we acknowledge that greater energy efficiency in heat networks is a low regret option for Ofgem. We believe that any proposed market framework for heat networks should include a provision for enabling the transition to zero carbon primary energy sources.

Approach to supporting decarbonisation

The ESO produces the Future Energy Scenarios (FES) annually. The FES 2020 scenarios will be based around a new framework with a stronger focus on net zero. We recognise your focus within your work programme to increase the pace and cost effectiveness of the transition to net zero and we would welcome the opportunity to work with Ofgem to support in enabling this transition. As well as providing three different pathways within FES in which we could meet net zero (one of which meets the target before 2050) we are also investigating what the different costs of these pathways could be. We consult widely with stakeholders meaning there is opportunity to share learning and support events with Ofgem.

We are also creating a series of further insights in our Bridging the Gap work. These focus on areas from our scenarios where we believe extra information or narrative is of benefit to us and our stakeholders. One of these is on the topic of consumer engagement. We would welcome Ofgem's feedback and engagement on our Bridging the Gap work so we can understand how we may be able to support the transition.

Regulate and assess ESO costs and plans for Black Start.

We acknowledge Ofgem's continued focus on the regulation of Black Start to ensure appropriate protection for consumers. As the ESO, we are working towards our mission of 'Competition Everywhere'. As detailed in our Forward Plan, throughout the 2020-22 period, we will deliver competitively tendered Black Start contracts from Q2 2020 allowing non-traditional providers to participate in tenders. We will work closely with stakeholders to give them visibility of the opportunities available and this competition will place downward pressures on prices. Additionally, to improve our transparency within the market, we plan to continue our

engagement with the industry through the provision of information on Black Start costs through our Monthly Balancing Services Summary (MBSS) report.

We welcome the opportunity to further discuss the points raised within this response. Should you require any further information or would like clarity on any of the points outlined in this paper then please contact Kelly Larkin in the first instance at kelly.larkin@nationalgrideso.com.

Yours sincerely,

Kayte O'Neill
Head of Strategy and Regulation