

1st October 2020

National Grid ESO response to RIIO-ED2 Sector Specific Methodology Consultation

Dear James,

We welcome the opportunity to respond to your RIIO-ED2 Sector Specific Methodology Consultation.

National Grid ESO is the Electricity System Operator for Great Britain. We move electricity around the country second by second to ensure that the right amount of electricity is where it's needed, when it's needed – always keeping supply and demand in perfect balance. As Great Britain transitions towards a low-carbon future, our mission is to enable the sustainable transformation of the energy system and ensure the delivery of reliable, affordable energy for all consumers. We use our unique perspective and independent position to facilitate market-based solutions which deliver value for consumers.

Ensuring consistent and fair frameworks are implemented for network price controls is crucial to deliver efficient, whole system outcomes for consumers. Alignment between relevant Distribution Network Operator (DNO) activities and those of other regulated entities will support the delivery of a low carbon energy system, a foundation of the UK's commitment to net zero emissions by 2050. We are therefore pleased that both Distribution System Operator (DSO) and whole system are recognised as two areas of prominence.

In responding to this consultation, we have focused on the areas of greater relevance to the ESO. Our detailed response is appended to this letter, and our key messages are set out below.

DSO Transition:

- We support Ofgem's proposed three DSO roles and associated principles. It is critical that DSO roles and responsibilities are clearly defined to facilitate planning and operational co-ordination with the ESO. The proposal of three similar roles to the ESO roles is a helpful start but further definition is needed.
- The ESO needs to be actively involved in the development of DSO roles and principles to ensure aligned, consistent and co-ordinated outcomes which will deliver efficient and secure whole system outcomes for the consumer.
- The DSO transition will require additional IT investment by DNOs to improve visibility and control of Distributed Generation (DG). These developments need to align with associated ESO IT investment work to improve visibility and control of DG as well as delivering processes to facilitate greater operational co-ordination between DSO and ESO. We have commented further on these requirements in our response to Ofgem's recent Call for Evidence on the visibility of distributed generation, and believe this to be a critical area in the successful transition to DSO.

Increasing Competition:

- We agree with Ofgem's proposal to use models of competition where it is in the interest of consumers, and that early competition could produce benefit by revealing new or innovative solutions to network needs.

Whole System:

- Appropriate funding routes and obligations need to be in place to facilitate distribution solutions for transmission system needs. A consistent funding approach is required to ensure fair cost recovery across all TO and DNO participants.
- We agree that the innovation stimulus can help develop innovative whole system solutions and that this is particularly relevant when considering solutions across different energy sectors.

Modernising Energy Data:

- We agree that the introduction of cross-sector licence obligations will support the digitalization of the energy system, and maximise data value for consumers, DNOs and wider stakeholders.

Net Zero and Innovation:

- We support Ofgem's proposal for a Strategic Innovation Fund (SIF) to encourage more collaborative, cross-sector initiatives focused on key whole system challenges and look forward to working with Ofgem to agree the strategic focus areas and process for SIF with our network partners.
- We support Network Innovation Allowance (NIA) projects in RIIO-2 being focused on the energy system transition or supporting vulnerable consumers, provided the NIA framework is consistent for DNOs, ESO and other regulated entities.

Access SCR:

- We agree that Ofgem's access Significant Code Review (SCR) has the potential to impact the RIIO-ED2 baselines and agree with the potential impacts identified by Ofgem.
- We agree that both the minded to position and final decision of this SCR should inform the baseline positions for business plan submissions, though we note there is still significant detail to be developed including roles and responsibilities.

Customer satisfaction:

- We agree that DNOs should continue to be incentivised for their customer satisfaction, however we also feel that the current proposals are very focused on the consumer experience and on the 'here and now'. As the requirement to work more effectively across the industry grows, due to the net zero targets and whole system thinking, the need for the DNOs to engage across boundaries and proactively manage their stakeholder relationships becomes increasingly important. We therefore believe there would be merit in exploring stakeholder satisfaction more broadly and in respect of the transition to the future.

We welcome the opportunity to further discuss the points raised in this response. Should you require further information please contact Laurence Barrett in the first instance at laurence.barrett@nationalgrideso.com.

Yours sincerely

Craig Dyke

Head of Strategy & Regulation, Electricity System Operator