

Steven McMahon
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Commonwealth House
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3 April 2020

Dear Steven

Statutory consultation on licence obligations to ensure coordination and cooperation in the efficient and economical operation of the electricity system

Scottish and Southern Electricity Networks (SSEN) welcomes the opportunity to respond to the above consultation.

As highlighted within our response to Ofgem's consultation¹ in February 2019, we recognise and support the opportunities that a whole system approach to system planning, construction and operation. We are continuing to engage with Ofgem to develop a whole system framework for RIIO-2 which remain in early development (for example, Ofgem's Co-ordinated Adjustment Mechanism). Our experience in the north of Scotland, particularly in relation to Orkney and most notably Shetland is probably the most advanced example of whole system working in GB led by SSEN. The Shetland Islands have been the testbed for a network-led collaborative transmission and distribution approach to a contribution-based shared use of a transmission asset, which offers significant benefit to consumers compared to alternative solutions². The arrangements also incorporate local energy management systems, including ANM and demand-side management and response. Collaboration with the community and wider stakeholders has been central throughout.

Whilst we appreciate the steps Ofgem is taking to introduce a principles-based licence condition to provide a structure for effective coordination and cooperation, we continue to believe that the introduction of the proposed licence conditions and Guidance in the absence of a whole system framework is unhelpful. It is unlikely that these proposed amendments alone will lead to or enable an immediate stream of whole system solutions being implemented across the transmission and distribution networks, especially as these licence conditions do not take account of the opportunities afforded by market-based solutions and the necessary transfer of costs and revenues. More certainty through the regulatory framework is required in order to drive and embed whole system practices, rather than just principles, allowing all interested parties the scope to participate. It is also important that Ofgem recognises and manages the differing timescales associated with RIIO-T2 and RIIO-ED2.

¹ Consultation on licence conditions and guidance for network operators to support an efficient, coordinated, and economical Whole System – December 2018

² <https://www.ofgem.gov.uk/publications-and-updates/decision-scottish-hydro-electric-power-distribution-s-proposals-contribute-towards-proposed-electricity-transmission-links-shetland-western-isles-and-orkney>

SSEN would also welcome further clarity from Ofgem in several areas.

- **Ofgem's proposed definition of 'total system' is inconsistent with that being used to develop whole system approaches under the ENA's Open Networks Project.**

The ENA is making considerable effort to recommend a set of definitions for whole system, which should be used when discussing or making significant decisions which may impact development, or operation of energy systems, and which have a direct interaction with the gas or electricity networks in GB. The defined term 'total system' as per D17.10 and definition used by the Open Networks Project do not align and this has the potential to cause further confusion. We suggest this is updated to state 'Whole Electricity System' (which is also consistent with the Guidance document).

We appreciate the removal of the term 'stakeholder' from Ofgem's proposed licence obligations. However, we would welcome further clarification from Ofgem to how far the proposed definition of 'transmission user' extends. Currently, the proposed (transmission) modifications state:

'a person producing electricity that is being conveyed by means of that transmission owner's system or a customer who owns or who occupies premises that are connected to that transmission owner's system.'

The proposed drafting is ambiguous. As a transmission licensee, SHE Transmission has directly connected consumers (including generators, Distribution Networks, large demand etc). The current drafting (and associated guidance) does not provide any clarity whether this also extends to those indirectly connected via a distribution network i.e. through BEGA or BELLA connections or domestic premises connected to the distribution network. We consider that the definition should focus solely on those directly connected to the transmission network to avoid confusion between who a user should contact to consider any actions proposed under D17.3. Assuming the proposal advances the efficient and economical operation of the network, the respective distribution and transmission licensee will be required to cooperate to determine whether the proposed action meets the logic test (as per condition D17.4) ensuring that no proposal falls between the gap as a result of uncertainty.

- **Further clarity is required in relation to whole electricity system outcomes that do not negatively affect the operation of the network.**

Ofgem's condition also requires distribution and transmission owners to assess opportunities for whole electricity system outcomes that do not negatively affect the operation of the network and is in the interest of the efficient and economical operation of the electricity system. We agree with the intent of this requirement. However, we believe Ofgem's guidance should be updated to incorporate a situation whereby one network is negatively impacted (e.g. increasing operational risk) as a result of a whole system action but said action remains overall beneficial for consumers. In such cases it must be clear on what basis a whole system solution should be progressed e.g. only after costs are transferred to those receiving the benefits. Further guidance on how a network owner defines 'negatively impacted' is also required e.g. to clarify whether this includes the risk profile of operating our network if there is more flexibility, or the cost of the network or the time it takes to deliver?

The licence condition imposes a requirement for network owners to ‘*aim to achieve optimal efficiency across the total system*’ (D.17.1 and 7A.1). This obligation, linked with the requirement to assess whole electricity system outcomes that do not negatively affect the operation of the network, inherently suggests that the optimal decision for the total system may not be made. We suggest that the requirement is changed to ‘*aim to achieve increased efficiency across the whole electric system*’. The effect of which will ensure that if one network is negatively impacted (as outlined above) it will not prevent a whole electricity system outcome from being achieved.

- **Industry requires common methodology across the industry to ensure that all licensees are transacting in the same way to ensure consistent and appropriate outcomes for consumers.**

The guidance document states that it is up to the network licensees to determine the most appropriate remuneration transfer mechanism for instances where, for example, one licensee undertakes work in order to benefit another. This requires a common methodology across the industry to ensure that all licensees are transacting in the same way to ensure consistent and appropriate outcomes for consumers, it also requires appropriate regulatory mechanisms. As noted above, we are engaging with Ofgem on development of a Coordinated Adjustment Mechanism (CAM) for RIIO-2 and anticipate that the approach adopted for a transfer of revenues or costs, and any adjustment of outputs will likely to be extended by industry to encompass those opportunities that do not meet the trigger threshold. We note recent delays in taking this forward and would encourage Ofgem to progress the development of the CAM with industry as soon as possible.

- **Publication of a Coordination Register in the event of no proposals**

To comply with the Whole Electricity System Licence Condition, the electricity distribution and transmission owners must publish a Coordination Register. The Coordination Register must include details of all proposals received during a relevant period from system users which advance the efficient and economical operation of the network. We would welcome clarity from Ofgem if this requirement still stands where a network owner has received no suitable proposals from system users?

- **Minor drafting queries**

Finally, Ofgem’s proposed drafting set out at D17.10 include a set of defined terms. Such defined terms should be capitalised within the licence, so it is immediately obvious to the reader that the term has a definition contained elsewhere. By way of an example, we note the defined terms are capitalised under 7A.10.

Should you require any further information or wish to discuss this response further, please do not hesitate to contact me.

Yours sincerely,

Steven Findlay

Regulation Manager

SSEN

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