

Hannah Kirk-Wilson
National Grid ESO,
Faraday House,
Warwick Technology Park,
Warwick CV34 6DA

15 February 2021

Dear Hannah,

Scottish and Southern Electric Power Distribution (SSEPD) response to the ESO Early Competition in Electricity Transmission Phase 3 consultation

Scottish Hydro Electric Power Distribution plc. and Southern Electric Power Distribution plc. welcome the opportunity to respond to the Electricity System Operators (ESO) Early Competition in Electricity Transmission Phase 3 consultation.

We recognise the primary focus of this consultation is on the electricity transmission sector, with a high-level thought piece included on the applicability for electricity distribution. This focuses on:

- What role the ESO could play in supporting early competition in electricity distribution;
- The application of the proposed process and roles to distribution needs;
- Views on which parties may be best placed to perform required roles; and
- Views on potential additional roles and which parties may be best placed to perform them

This response is only on electricity distribution aspects of the consultation and is limited to the three questions in Chapter 7 (Early Competition in Distribution - Potential ESO role in ED2 early competition) of the consultation. For the avoidance of doubt our sister company Scottish Hydro Electric Transmission Plc. have provided a separate response to this consultation.

In appendix one we provide specific responses to the three questions in Chapter 7. We recognise the importance of the work being undertaken by the ESO to explore early competition models for distribution on behalf of Ofgem and welcome the opportunities the ESO have provided for our sector to engage throughout the entire consultation. Nevertheless, we ask the ESO to clearly acknowledge when reporting consultation findings publicly to Ofgem that coverage of the distribution sector has been narrow and principles focused. Topics not covered in Chapter 7, but covered elsewhere within the consultation, should not be regarded as having been consulted on in the context of the distribution sector. A full and separate consultation should be undertaken for the distribution sector, including Distribution Network Operator (DNO) involvement, at an appropriate time when Ofgem seeks to further develop early competition models for electricity distribution.

The decision on whether early competition is in consumer interest sits with Ofgem, as the ESO acknowledge; and we are content with the broader distribution assumptions made by the ESO for the purpose of this consultation. In October 2020 we shared [our views](#) on the applicability of early and late competition in the distribution sector through our response to Ofgem's RIIO-ED2 Sector Specific Methodology Consultation. Whilst we acknowledge the purview of the ESO's consultation we do however

ask the ESO to set out quantitatively the net consumer benefits the early competition model consulted on is likely to bring through an impact assessment. It is important the ESO demonstrates the model is not creating net costs to consumers rather than net benefits. Further we ask the ESO to extend this examination of impacts to cover operability and performance of the wider network. We note the absence of safety and security of supply impacts in the wider consultation, which is concerning.

In considering the material set out in Chapter 7 of this consultation and the three associated questions; combined with our long-standing industry presence and experience we are of the view there is no role for the ESO in supporting early competition in electricity distribution currently. We believe that the DNOs are better placed to take on any roles which the ESO could adopt within electricity transmission. The distribution sector is inherently distinct from transmission; with differences in network topology; operating and design standards; and customer requirements, including delivery of assets in much quicker timescales. We believe any extension of the ESO's role into electricity distribution would require a significant capability and resource uplift, which would not be in consumer's interests; bringing limited differential added value; and would likely create significant confusion and burden for stakeholders and consumers, including slowing down the delivery of infrastructure to meet legally binding Net Zero targets.

Finally, we proposed the early competition model is subject to the Utilities Contracts Regulations 2016. This is necessary to ensure that all entities, including the Procurement Body and third-party bidders are held to the same obligations and undertake a fair and transparent processes in the execution of works, the supply of products or the provision of service.

Thank you for the opportunity to respond to this consultation and the ESO's ongoing constructive engagement with SSEPD, and the wider distribution sector. Please do not hesitate to contact me should you wish to discuss any of the points in our response further.

Yours sincerely,

Chris Harris

Regulation Manager – Scottish and Southern Electric Power Distribution

Appendix One – Response to questions in Chapter 7 (Early Competition in Distribution - Potential ESO role in ED2 early competition)

1. Is there any issue with the high-level early competition process being developed that means it could not be used for distribution sector needs? If yes, please specify the issue(s) and why they make the process unsuitable.

We have considered the end-to-end process model outlined in chapter 7, as developed for electricity transmission. As a high-level end-to-end process, the steps outlined could in principle work for electricity distribution, however there is significant detail within each of the steps that still need to be fully considered and consulted upon; so, we cannot acknowledge its absolute applicability.

The ESO's consultation document correctly recognises some of the issues, from stakeholder feedback, which would need to be considered if adapting the end-to-end process for electricity distribution. We ask the ESO to note the following points for consideration in a future sector specific consultation:

- Timing of the steps and the complete end-to-end process will need to be inherently designed to be considerably shorter for the electricity distribution sector in acknowledgement of shorter project lead and consenting times;
- There may be benefit in merging the two Invitation to Tender (ITT) stages and the Preferred Bidder (PB) stage into a single more efficient step. We feel this may be necessary to ensure timely project delivery to meet consumer needs. We do not in principle see why the safeguards and robustness of these three stages could not be delivered in a single step, subject to consultation. Distribution projects are typically lower value and can have more certain need cases. This does not mean there may not be changing needs and regrets associated with poor investment decisions; however, we believe these could be minimised in a robust single step process;
- The cumulative additional cost of the end-to-end process steps needs to be balanced against the lower relative value of electricity distribution projects. It is possible that additional costs of running a competition process could form a significant portion of overall project cost and thus be a detriment to realisable consumer savings from the investments. Some streamlining of the steps, as suggested in the previous point may support this. Nevertheless, competition for competitions sake should not be introduced, especially if it dilutes savings consumers can achieve and increases regulatory burden and industry complexity;
- The project identification process is, as the ESO acknowledge, different in the electricity distribution sector. We would go further by noting there are subtle differences between DNOs in how this process is undertaken, albeit using similar high-level steps. This is often a reflection of the different inherent network topology each company operates and the geographic differences in the areas served. Any process should recognise this and not seek to standardise what already benefits consumers in each region; and
- The end-to-end process needs to be reviewed in the round to ensure it retains an overall ability to deliver impartial competitive events for a range of distribution needs, and customer requirements. It should be noted that customer requirements can be significantly different

between distribution and transmission and the overall process must be designed not to create additional obstacles or burdens for those who we need to serve

We ask the ESO to recognise these are all points which have not been consulted upon for distribution and would require a separate sector specific consultation before introducing early competition into the sector.

2. Which party is best placed to perform each of the roles at distribution level? Where a third party is chosen please specify who you think this could be and why?

The ESO has correctly identified in table 1 in Chapter 7 of the consultation the core fundamental roles which are required to run an early competition process. However, we note the terms of reference and specifications for these roles still require further definition in the context of the electricity distribution sector and should be consulted upon separately.

Where the ‘DNO/DSO’ has been identified as the potential delivery body, except for ‘approver’, the responsibility should sit with the DNO/DSO. We believe this best aligns with the established capabilities, processes and infrastructure necessary, that DNO/DSO already have in place, to undertake these roles efficiently. The role of ‘approver’ we think naturally sits with Ofgem for the avoidance of doubt.

We are of the view there is no role for the ESO in supporting early competition in electricity distribution currently. We believe that the DNOs are better placed to take on any roles which the ESO could adopt within electricity transmission. The distribution sector is inherently distinct from transmission; with differences in network topology; operating and design standards; and customer requirements, including delivery of assets in much quicker timescales. We believe any extension of the ESO’s role into electricity distribution would require a significant capability and resource uplift, which would not be in consumer’s interests; bringing limited differential added value; and would likely create significant confusion and burden for stakeholders and consumers, including slowing down the delivery of infrastructure to meet legally binding Net Zero targets. Further we do not believe there are suitable ‘other’ third parties (aside from the ESO) who could take on a role.

We recognise the potential for perceived conflicts of interest within some roles if undertaken by the DNO/DSO. However, we believe these can be mitigated through adjustments to the license and requirements on companies to demonstrate appropriate and robust business separation processes and measures. We do not believe this is materially different to requirements which already exist for SSE Plc.

Finally, we would like to bring to the ESO attention the assumption for ED2 made on page 7 in Chapter 7 that there are “*Higher volume / lower value of projects at distribution level*” is only partially accurate. We do not believe there is necessary a higher volume of projects in electricity distribution compared to transmission which could meet an early competition threshold.

3. Should any of the additional roles be created as specific roles? If yes, please set out who you think is best placed to perform the role and why?

We are not convinced on the requirement for any of the additional roles cited to be undertaken by any entity other than DNO/DSO; except for an ‘auditor’, which could be required on a periodic basis from an experienced third party. In the context of electricity distribution, the terms of reference and specifications for these roles would require further definition and would need to be consulted upon separately.

We do not believe the roles would provide substantive added value to consumers if undertaken by a third party, or the ESO; and would introduce greater complexity, and add additional time to projects at the expense of efficient delivery to meet consumer and Net Zero requirements.

Whilst we understand the argument for a potential third party to undertake roles related to project consolidation or whole system review. We believe existing licence obligations and business plan submission requirements in these areas already embed the responsibility on DNO/DSOs, and others to work collaboratively across the sector and beyond to identify efficient solutions.