



Flexible Generation Group
Gables Lodge
62 Kenilworth Road
Leamington Spa
CV32 6JX

Telephone: 01926 336127
www.flexgengroup.com

Julian Leslie
Head of Networks
Electricity System Operator
Faraday House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

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Dear Julian

Enabling the DSO transition

The Flexible Generation Group (FGG) represents the owners of and investors in small scale, flexible generation, storage, and grid support technologies. These assets are a major component of the future infrastructure of the grid and are being built to address the challenges brought about by the decommissioning of old, conventional power stations, the decarbonisation of electricity production, and the transition to net zero carbon.

With assets connected to the DNOs, FGG fully supports the development of local energy markets and active management of the DNOs' systems. We have been disappointed by how slow progress has been and the regime we are all moving towards remains unclear, so we welcome the ESO's move to be an enabler in this process. However, we are disappointed to not see the ESO take more of a leadership role, which we believe is necessary if change is to be achieved in a timely manner.

1. Do you support our proposed principles and approach to the DSO transition?

FGG would like to see a far more ambitious and detailed set of targets for the transition. A lot of the actions outlined in the document seem to already be in place, such as regional development plans, rather than looking to achieve far more in the near term. There is also a need to set out in detail what is needed, not just that the various organisations will talk to each other.

We have been disappointed by the very slow progress under the Open Networks Project and we would like to see the ESO taking more of a lead. In particular, the ESO could ensure that the DSOs do not become a single buyer for regional service providers as this is unlikely to improve transparency and competition. The ESO should also be looking to lead how reporting and transparency can be delivered, for example raising changes to the relevant codes to require that the DSOs report on their systems in a consistent manner on the BMRS, or a similar platform.

The ESO is a signatory to all energy codes and we would like to see them proposing a series of changes that would better integrate the embedded assets within the wholesale market. For example, the DSOs should be providing data on generation within their regions, ideally by fuel type.

Without more detailed data, in line with recommendations of the Energy Data Taskforce and part of delivering the Smart Systems and Flexibility, it seems unlikely that the transition to a lower carbon electricity network will be delivered in the most efficient manner. Not all data has to be single point data, but knowing all the solar generation in Cornwall each half hour, for example, would be useful.

It is always difficult to strike a balance between allowing parties to be innovative, bring forward new ideas, and providing coordinated solutions. FGG has long suggested that the coordination of things like systems development will cut costs substantially for smaller parties. We will have to develop systems to talk to all the DSOs where our assets are located and the ESO, this cannot be efficient. We would therefore like to see someone, ESO or Ofgem organise a market that is easy for smaller parties to access.

2. Do you agree with our proposed high level vision? Do you have any comments on our proposed high level vision? Do you believe that there are any further co-ordinating functions between ESO and DSO that we should be considering? Do you have any comments on the draft vision for each of the 10 co-ordinating functions as described in Annex 1? What additional activities do you believe the ESO needs to undertake to facilitate our 2025 vision?

As noted above we feel that the vision is too high level and the role of the ESO could be extended to lead the market developments that achieving net zero is going to need. While the DSOs may see this as a “power grab”, but without a lead party or delivery body it seems likely that the costs of the transformation needed will be higher than it needs to be. In the same way Ofgem has put Elexon in charge of delivering market wide HH settlement, a body is needed to lead on delivering the energy transformation. If this not going to be the role of the ESO then Ofgem must step into that role.

In terms to the more detailed proposals FGG would like to see, we believe that the ESO and DSOs need to consider:

- Creating one platform where parties can sell services, even if the services differ. This will allow parties to move between the markets without multiple on-boarding activities, etc. FGG are happy to sell services to both the DSOs and ESO, but surely it would be useful for the ESO to know when a site has contracted with their host DNO and vice versa? This may form part of the interoperability work that the ESO mentioned, but to set this as a clear goal to have one platform would be useful.
- Services must be designed to allow for revenue stacking. The ESO needs to also be able to identify where arrangements between embedded assets and the DNOs are a barrier to service provision and where they are not. For example, some active network management agreements should not be a barrier to providing services, where others may be.
- Contract terms should also be aligned, so that the obligations are similar irrelevant of which monopoly the party is contracting with. The DNOs have been working on contract terms that they will all use and we see no reason why the ESO would not also use aligned terms.
- There should be one data platform where all industry data is published. This could be an expansion of the BMRS and then a supporting data portal (possibly building on the one the ESO has created) could be created with the source data. Despatched services should also be placed on this single platform, albeit with pages representing each region.
- All coordination must be transparent and ideally not lead to duplication, for example should the DNOs not contribute to the FES rather than do their own reports? Presenting one report, with all the related data in one format on one platform will make it easier for parties to see market wide developments.

- Communications between the DSO and ESO in relation to a specific plant must include that plant in those conversations so that there is good understanding by all parties around any issues arising. FGG has concerns that their activities could be limited by the DSO and ESO agreeing to not activate a plant if they have say a system issue. There must be no deals behind closed doors and all actions must be justified and transparent.
- The ESO as the code administrator for three codes should raise a change proposal to allow smaller parties to raise changes with the agreement of the relevant Panel. This would be in line with the BSC and help smaller parties be part of the change process.
- FGG welcome the proposals around the automated despatch, improvements in modelling, etc. However, it will be important that all of these systems are trialled before they are launched. Recent issues with the ESOs IT does give us cause for concern. We therefore believe the ESO and DSOs may need an IT user group to agree to be part of testing new IT before deployment. There is a commitment to work with the DNOs, but it is not clear that the market is also seen as part of the solution.

3. Do you support our proposed next steps? Is there anything more you believe we should be doing to facilitate the DSO transition?

FGG have outline some further detailed actions that we believe are needed to achieve the transition to active DSOs. We note that the ESO says it has no ambition to be a DSO, but it is buying a DNO, so it can lead the transition as it will be sitting on both sides of these new relationships. FGG believe that the best value for customers will be achieved if there is some clearer leadership and transparency in the transition to new market arrangements.

If you would like to discuss any of the issues raised in this letter please get in touch.

Yours sincerely



PP Mark Draper
Chairman