

Mr Julian Leslie  
Head of Networks  
National Grid ESO

20<sup>th</sup> May 2021

**RE: Sembcorp Energy UK response to the ESO Strategy on enabling the DSO Transition**

Dear Julian,

Many thanks for the opportunity to share our feedback on ESO Strategy on enabling the DSO Transition.

**Context of response**

Sembcorp Energy UK (SEUK), a wholly-owned subsidiary of Sembcorp Industries, is a leading provider of sustainable solutions supporting the UK's transition to Net Zero. With a 968MW portfolio of energy generation and battery storage in operation, our expertise helps major energy users and suppliers improve their efficiency, profitability, and sustainability, while supporting the growth of renewables and strengthening the UK's electricity system. At Wilton International in Teesside, we supply private wire electricity, world-scale utilities, and specialist services to energy-intensive industrial businesses on the site, providing energy resilience, security, and cost advantages. These services are complemented by our fleet of fast-acting, decentralised power stations and battery storage sites situated throughout England and Wales. Monitored and controlled from our central operations facility in Solihull, these flexible assets deliver electricity to the national grid, helping to balance the UK energy system and ensure reliable power for homes and businesses.

**Sembcorp's feedback**

1. The ESO's principles to enable the DSO transition.

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

Yes, we agree with the proposed principles. We would in particular comment on the reference to consistent and aligned approaches to DSO and flexibility markets. We would encourage the ESO to ensure that the clear roles and responsibilities for DSO explicitly exclude the possibility for the DSO to act as an intermediary i.e. as the body selling flexibility services from distributed energy resources to the ESO. We believe that this should be brought out more explicitly in the ESO's strategy on enabling the DSO transition.



## 2. Our proposed 2025 vision

- Do you agree with our proposed high-level vision? Do you have any comments on our proposed high-level vision?

We support the identification of the three common areas in which the ESO and DNOs need to coordinate. This is a good structure that helps set out clear workstreams and actions.

From the Network Development point of view, we strongly support the use of common formats of data. This is key for open and comparable data sets, which will help providers understand and plan investment in the right places and with the right technologies.

With regards to Markets – and the reference to voltage control markets being established across all DNO regions – we would raise our concern around the inevitable conflict of interest between distribution-connected flexibility providers and DNOs, should Ofgem decide to allow CLASS to continue to participate in competitive markets as a DRS8 service. We appreciate that this issue is under Ofgem’s domain, however we do encourage the ESO and the DNOs to discuss and assess this issue in the context of this workstream: we believe that all parties involved would find that CLASS participation in competitive markets carries hidden and distortive costs. An in-depth assessment of the issue in this workstream could support and guide Ofgem towards excluding CLASS from balancing services to safeguard effective and fair competition and avoid conflicts of interest.

Furthermore, we would point out that this strategy should also more explicitly take into account the discussions across several modification proposals looking at the balance between market solutions and any last-resort emergency solutions.

Finally, with regards to Operations, we support an increased liaison between the ESO and DSO’s control centres. The interaction, however, must exclude the development of a potential function of DNOs acting as intermediary between distributed energy resources and the ESO.

- Do you believe that there are any further co-ordinating functions between ESO and DSO that we should be considering?

In the long-term, we would suggest that greater coordination and development of a single platform and automated dispatch of services would be beneficial for a truly integrated and efficient system.

- Do you have any comments on the draft vision for each of the 10 co-ordinating functions as described in Annex 1?

Overall, we support the identified coordinating functions. The intention to publish more accurate, standardised, and accessible information is welcome as it would help DER service providers understand how the system needs at transmission and distribution level evolve over time. We believe that this is fundamental for a successful development of coordinate markets for flexibility services.



In Function 1 – Long term energy scenarios, it is suggested that DSO could use the national Future Energy Scenarios (FES) as a basis for their Distribution Future Energy Scenarios (DFES). Sembcorp would welcome alignment between joined up scenarios and combined future planning. However, it is currently uncertain that DSO will have the information needed to inform future visions, as Distribution projects generally have a faster development timeline than Transmission. It is important that the ESO understands the sources that DSO use in their DFES and can interpret them correctly. There should also be clear and transparent communication between the FES, DFES and industry, to ensure the scenarios do not become limiting factors in evolving the energy systems. The ESO has been clear that the FES are not forecasts or predictions, but potential paths and do not function as guidance documents. We believe the DFES should play a similar role.

We have concerns where the Strategy indicates in Function 2 - System Development that “DSOs may also be able to provide distribution solutions for transmission system needs through the NOA and pathfinder projects”. Although the ESO acknowledges “perceived conflict of interest in these activities”, we would stress from our own experience in participating in pathfinder projects, that the relevant DNO’s network constraints were put forward as a limit for our participating in the pathfinder project, ultimately interfering with our tender submission.

Furthermore, the DNOs would be able to access publications like the NOA before any other market participant to identify commercial opportunities for solutions to transmission system need. We therefore don’t see how the DNOs can legitimately provide solutions for transmission system needs via commercial contracts, while maintaining their role as neutral market facilitators.

We would expect the distribution equivalent of NOA to be transparent and open to as many industry participants as possible, in much the same way NOA considers non-transmission asset-based solutions when addressing future system issues.

We support the vision for Function 5 – Service Procurement. The ESO and DSO should ensure a clear and stable development of rules concerning stackability and, conversely, exclusivity clauses as soon as practicable. We believe that these signals need to be consistent as they will determine investment decisions for flexibility providers. Synchronised procurement rounds will definitely help define and clarify which services can or cannot be stacked.

With regards to Function 6 – Charging and Access, we would warn the ESO and DSO of the risks stemming from greater alignment between TNUoS and DUoS charging methodologies: there must be a recognition of the differences between distribution- and transmission-connected assets. A mere alignment for the sake of simplification of charging arrangement would not be able to take any differences into account, and as such would not be beneficial. It is vital that developments in charging and access are proportional. It is also important to avoid greater administrative costs of more complex charging mechanisms outweighing consumer benefits. Ultimately, consumers need to be able to understand and act upon signals received through charging. Engaging smaller distribution-connected consumers with stronger charging signals may require changes to supplier business models and therefore major reforms.





Strengthening and aligning transmission and distribution charges should be handled carefully to give the retail market time to position itself to allow consumers to receive the greatest benefit.

As for Function 8 – Service Dispatch, we would ask for a level playing field between BM and non-BM providers with regards to the possibility to stack services. While we recognise that the BM is expected to be the market with a large number of providers, and support wider access to the BM, we would point out that there will still be key providers outside the BM, which will continue to contribute effectively to security of supply. Ensuring a level playing field and equal access to services is key to maintain the diversity and security that the ESO and DSO value.

We welcome the opportunity to discuss our feedback further. Should you have any questions or require further information, please do not hesitate to contact us.

Kind regards,

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Regulatory Affairs Manager  
Sembcorp Energy UK

