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Sent by email to: [WholeElectricitySystem@nationalgrideso.com](mailto:WholeElectricitySystem@nationalgrideso.com)

Dear Andrew

## **Enabling the DSO transition – A consultation on the ESO’s approach to Distribution System Operation**

Thank you for the opportunity to provide feedback on the ESO’s approach to enabling the DSO transition. We welcome the ESO setting out its strategic vision for DSO and how this relates to other industry initiatives such as the Open Networks Project (ONP). This document is a useful starting point. At a high level, we support many of the principles in the proposed vision.

However, there are some areas where we disagree with the approach. We do not support the ESO proposals in areas where it envisages allowing DSOs to provide commercial solutions for transmission system needs and where it also suggests DSOs would at the same time help the ESO assess third party DER proposals to provide solutions. The ESO acknowledges the conflicts of interest and revenue flow issues this creates. Like the ADE, we do not see how DNOs/DSOs can work commercially with the ESO and remain neutral market facilitators.

Several components of the proposed coordinating functions are not sufficiently defined to take a view on whether they are a good solution not. The paper refers to ESO and wider industry projects that are in a state of flux and/or have not been clearly articulated to market participants. For example, the ESO has only started talking to market participants this week about its next steps on the Regional Development Programmes.

Several other industry initiatives, especially outputs from Open Networks like the Whole Systems CBA and common flexibility contract, whilst implemented, are at an early stage and needing further development. In their current form these would not deliver the outcomes needed for a DSO transition that would support the investment in flexibility needed to help the UK meet its net zero ambitions.

We are pleased that the ESO plans further consultation on its vision and we look forward to engaging further on this subject.

Please find our responses to the consultation questions below. We are happy for this response to be published.

## Consultation Questions

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

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

We support the high-level principles listed on page 5 of the consultation.

Elements that we believe are missing include:

- the ESO working with DSOs to deliver neutral market facilitation,
- the ESO sharing its ESO's experience in mitigating or avoiding conflicts of interest and separating SO from TO functions; and
- the ESO sharing its experience in opening balancing service markets to increased participation, including aggregated demand response.

### **2. The ESO's proposed 2025 vision**

#### Do you agree with our proposed high-level vision?

We agree in principle with the co-ordination relationship described in Figure 1 – i.e. the named topics for the 10-coordinating functions and where they sit between the three ESO roles and three roles for DSO in Ofgem's DSO model.

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

The proposed high-level vision is split into the areas of development, markets, and operations. Below, we summarise our view on how these are described by the ESO at high-level.

#### **Development**

We agree with the vision for 2025. As the ESO recognises, this does not represent a significant change to current processes, largely incorporating planned developments e.g. the DNO's DFES and LTDS, and CMP298 to embed updated Statement of Works processes.

We agree with the high-level description of the co-ordinating functions.

## **Markets**

This page does not add much detail on the ESO's vision for coordinated markets or how it will be achieved. We comment later in our response on the more detailed proposals under the 10-coordinating functions in Annex 1.

### Regional Development Programmes

The ESO needs to share and consult on vision and proposed timing for RDPs and regional constraint management services in detail with stakeholders. The ESO's own 2025 Markets Roadmap only sets out timing for individual geographic RDPs.

We have concerns that the RDPs are Active Network Management programmes 'on steroids' and that therefore they raise the same concerns stakeholders have about ANM undermining the development of flexibility markets.

(See also our comments on RDPs in the section on the 10 co-ordinating functions.)

## **Operation**

We support the development of consistent approaches.

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

No, the 10 co-ordinating functions cover the main areas.

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

## **Long term energy scenarios**

We support the proposed approach, which reflects the changes we are already observing. As a service provider we agree that more standardisation across the documents mentioned would make them more accessible.

## **System development**

### DNO/DSO provision of services to the ESO

We have serious concerns about DNOs/DSOs providing commercial services to the ESO, especially in markets where this means DNOs would be competing with commercial flexibility providers. Like the ADE, we do not see how DNOs/DSOs can work commercially with the ESO and remain neutral market facilitators.

We believe DNOs must not be allowed to participate in the ESO's balancing service markets and set out our reasoning on this in our response to Ofgem's minded-to consultation on CLASS. We said we felt CLASS would distort DNOs' ability to act efficiently and impartially both in the provision of their regulated network services (e.g. connections) to flexibility providers and the neutral facilitation of flexibility markets. We

said we felt the costs of using CLASS had not been properly quantified leading to inefficient outcomes for consumers.

In the case of DSOs potentially being allowed to provide distribution solutions for transmission system needs through the NOA and pathfinder projects, this creates similar issues to CLASS. **This consultation adds a new concern because the ESO proposes it would also ask DSOs to assess third party proposals at the same time.** The consultation acknowledges the conflict of interests around these points and the issues around the associated revenue flows. However, **the consultation document does not present a solution in any detail.**

We also ask that the ESO consider the contents of the NERA report that accompanied Energy UK's response to the CLASS consultation. We believe the NERA report's recommendations are also relevant to DSO involvement in NOA and pathfinder projects. NERA found that Ofgem has not sufficiently considered "hidden costs" of the DNOs' provision of CLASS or that balancing service procurement may not be efficient. NERA found a number of hidden costs associated with the provision of CLASS, which may have led and could lead to the ESO procuring CLASS when it is not economically efficient to do so. We agreed with NERA's assessment. The Open Networks Whole Energy System CBA (WS4, P1) does not capture these costs.

**We believe that the ESO needs to demonstrate in practical detail how real and perceived conflicts of interest would be mitigated in the cases mentioned under System Development before progressing further.** The ESO needs to explain exactly how the different roles would be delineated and a level playing field ensured and consult on those proposals.

I have looked at what the latest Open Networks Conflict of Interest and Unintended Consequences (COI and UIC) Register says on mitigations in this area. The Register only references the fact that Ofgem is due to respond on its CLASS minded-to consultation. The COI and UIC Register does not propose any mitigations around the separation of activities and/or revenues within the DNO and/or DSO.

#### DSO NOA and Network Development Plans

Without appropriate safeguards in place (e.g. at least strict separation/delineation of functions) there is a risk that DNOs/DSOs could 'bake-in' assumptions that favour their own preferred solutions e.g. for reinforcement or other network-solutions over the procurement of third-party flexibility services.

When we responded to the ESO's Early Competition Plan Phase 3 consultation in February 2021 we raised the risk that bias in network development could arise when DNOs play a role in network planning. I am attaching our response as it is very relevant to the system development and long-term energy scenario co-ordinating functions.

## **Customer connections**

There is a lack of detail on what this could mean for DER customer in practice. The proposals around stakeholder engagement seem sensible.

**Dedicated DER account management function** – this is an excellent proposal. Whilst we ESO connection team members have been very helpful when we have approached them in the past with transmission related DER issues, it would be an improvement to have named team or account manager.

**Regional Development Programmes (RDPs)** – we must qualify our support for this activity because the ESO's initial views on how these could be developed into business-as-usual were only shared in the last few days. Whilst we support market-based solutions, we have concerns about the way the RDPs build on Active Network Management (ANM) schemes.

Centrica and other market participants have raised concerns about the interaction between DNO ANM and flexibility markets to Ofgem and Open Networks. (These concerns include the potential for ANM to undermine DNO flexibility market development and ANM blocking DER assets accessing ESO market.) At the request of Ofgem, these stakeholder concerns are being discussed in Open Networks WS1A but have not been resolved.

The ESO needs to share and consult on its vision and proposed timing for RDPs and regional constraint management services in detail with stakeholders. The ESOs own 2025 Markets Roadmap only sets out timing for individual geographic RDPs.

We would like to see the ESO produce an overview for stakeholders of its learnings from the current RDPs.

The ESO also needs to ensure that its proposals align with its own broader principles for flexibility markets and the developments in Open Networks WS1A, including the Common Contract Evolution Paper (P4) on future standardisation.

We look forward to further engagement with the ESO in this area.

**Statement of works** - We hope that the CUSC modification CMP298 – which was supposed to be initiated as far back as 2016 - can be completed soon, despite stalling again in the past few months.

## **Network access planning**

The ESO and DSOs need to set out exactly what the “appropriate processes” would be for managing conflicts of interest that could justify DSO/DNO participation in pathfinders.

## **Service procurement**

We support this section in principle.

Again, it is difficult to comment on the RDPs, because the ESO's proposals for these have not been shared in detail. We have already mentioned above our reservations about the RDPs use of and similarity to ANM.

**Charging and access**

This is likely to be impacted by Ofgem's next decision on the Access and Forward-Looking Charges SCR.

**Codes and frameworks**

If Grid Code and Distribution Code are combined it is important that the combined code must be managed more efficiently than CUSC and Grid Code have over recent years.

**Service dispatch**

DER stakeholders (asset owners and aggregators) need more concrete information on what these proposals could mean for them and their future ability to access revenue streams from flexibility markets.

We have concerns about DSOs hard dispatching DER through DERMS. We believe that this can conflict with the DSO's role as a neutral market facilitator and is not suitable for aggregated assets. Our preference is for the flexible asset operator, which could be a commercial aggregator, to receive an API signal.

The consultation talks about the rules and principles for co-ordination and for service dispatch being transparently shared and agreed with services parties in advance of delivery. As we have not seen these rules, we cannot say if we support them or flag any issues.

**Operational liaison**

The ESO needs to be mindful of the costs impact on DER assets if they are required to install visibility equipment. We have had cases where network requests for the installation of monitoring and communications hardware have made low-carbon projects unviable – even where these had zero export.

**Incident planning and management**

For DER service providers (and DER assets in general) there is a need for greater clarity on how the ESO or DSO would communicate with DER asset operators/owners. For example, GC0147 leaves it to the discretion of DNOs how they communicate disconnection and reenergisation instructions to embedded generation.

We need clarity on the communications and processes around incident management so that we can make any changes to hardware or operations routines.

What additional activities do you believe the ESO needs to undertake to facilitate our 2025 vision?

Market participants are missing a detailed plan on how conflicts of interest could be addressed where DSO functions remain bundled within the Distribution Network Owner and Operator (DNO). This missing activity must be addressed to avoid undermining investor confidence in flexibility. The market is lacking concrete action from Ofgem and networks in this area.

Whilst the ENA has improved the Open Networks 'Conflict of Interest and Unintended Consequences Register' it still does not set out any mitigations for cases where DNOs might want to use their network assets to provide services to the ESO. Some DNOs have referenced separation of DSO and DNO teams in their DSO strategies, but do not provide any detail on implementation. There is nothing on the separation or delineation of activities in COI Register.

As a least regrets action, the ESO should share its lessons learned on the separation of network owner vs system operator activity. The ESO must ensure that in its own engagement with DSOs robust processes are in place (both at ESO and DSO-level) clearly demonstrating the resolution of any real and perceived conflicts of interests.

### **3. Proposed next steps**

Do you support our proposed next steps?

We support the proposed next steps, as long as they include further consultation with stakeholders. The 'way forward' also needs to allow for the development of the underling detail in areas where we have flagged this as missing.

We would like to see an overview plan with timings on the component parts of the vision.

Is there anything more you believe we should be doing to facilitate the DSO transition?

As mentioned above, we believe that the ESO can share lessons learned on its delineation of activities and conflict of interest management with DNOs.

\* \* \* \*

I hope you find our response useful. Please contact me if you have any questions on [helen.stack@centrica.com](mailto:helen.stack@centrica.com) or 07979 567785.

Yours sincerely

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