

Jason Brogden
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ENA Open Networks Project

By Email

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Your ref

Our Ref

Date

25th September 2018

Contact / Extension

Jim McOmish/
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Dear Jason,

Open Networks Project - Future Worlds Consultation

I am writing on behalf of SP Energy Networks (SPEN), representing the network licencees SP Transmission plc, SP Distribution plc and SP Manweb plc. We welcome the opportunity to respond to this consultation and formally provide the views of SP Energy Networks which have been shaped by the priorities of our customers and stakeholders. I would also like to take this opportunity to thank you for supporting our recent Strategic Stakeholder Panel. Your input was appreciated by all who attended.

As a starting point, we believe that the DSO transition should take place quickly and it should be married with the implementation of appropriate charging and flexibility frameworks. The transition should also be supported by changes to regulatory arrangements that encourage networks to invest in network solutions and procure flexibility services ahead of need, where that is shown to be in the best interests of customers.

In assessing the relative strengths and weaknesses of the 5 models considered by the Future Worlds consultation we have adopted a customer-centric approach, structured around three themes. Whilst the next phase of the Open Networks (ON) project will seek to develop a detailed Impact Assessment of each of the "worlds", we believe that this must keep customers interests as the central consideration.

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|----------------|---|
| Safety | The continued safety of customers' electricity supplies must be at the heart of the DSO transition. This must include the potential impact on vulnerable customers. |
| Service | The security of customers' supplies must not be compromised, it would not be acceptable for this transition to result in more frequent and lengthy power cuts. |
| Society | The DSO transition (including associated changes to network charges) should seek to support universal and fair customer access to the low carbon transition whilst addressing local community priorities. |

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We have engaged with our stakeholders (via our Strategic Stakeholder Panel) to seek their views on the priorities for this transition and encouraged our stakeholders to respond directly. Through this we have identified some additional priorities which are set out below and in the summary report (Attachment 6). We believe there is a strong basis for World A being in customers' best interests, and are confident that the ON Impact Assessment will reflect this if it considers all appropriate factors.

We believe DSOs operating under World A is the most effective model for the future. This world takes advantage of the DNOs retaining their core network capabilities, within a robust regulatory framework, to achieve clear goals that continue to ensure GB customers enjoy an efficient, co-ordinated and economical system of electricity distribution long into the future. We believe the DNOs are best placed to fulfil this role because:

- they have a deep working knowledge of local and regional distribution networks and the customers and governments they serve;
- they already have the communications infrastructure in place to operate these networks;
- the regulatory model encourages competition between DNOs through benchmarking, driving down costs for customers. Under a System Operator (SO) led model this competition disappears and customers pay twice, as operationally the SO would need to duplicate some of the capabilities of the DSO; and
- DNOs can move to the new model comparatively quickly. SPEN is already transitioning through ongoing projects such as Active Network Management in Dumfries and Galloway (which will put in place an arrangement with DG and NGET that will follow model A) and demonstrating our ability to offer flexibility services through UK leading pilot projects such as FUSION (which will enable local flexibility markets and peer to peer trading).

During our Strategic Stakeholder discussions earlier this month, stakeholders told us they desired a system which:

- meets local priorities and allows local communities to contribute and flourish in terms of innovation, skills and economy;
- enables the low carbon transition at lowest cost to customers, recognising the challenges of fuel poverty and playing a part in delivering fairness for all across the whole energy system; and
- keeps the voltage of customers supplies within safe limits, minimises frequency and length of power cuts whilst allowing long-term investment in infrastructure to ensure a secure system for the long term.

Our stakeholders also want us to consider which world is most transparent and delivers simplicity for consumers and security of data. They want a future where innovation and engagement of current capability is a priority while also investing in smart technology for the future. They also recognised that customers' needs will change rapidly as we go through the required low carbon transition, and they want us to ensure we select a future that will deliver in time.

The following table provides a summary of SPEN's assessment of the relative changes required to implement each World along with an assessment of the benefits, which has been informed by our stakeholder engagement. It is not intended as a replacement for the detailed Impact Assessment that will be completed in the next phase of the ON project but should, we believe, provide a sensible validation point to ensure that the Impact Assessment is appropriately considering the interests of customers.

	Scale Regulatory/ Legislative change	Cost and time of industry change	Customer Costs	Customer/Community Benefits
World A	Low	Low	Low	High
World B	Low	Low	Low	Medium
World C	We have not assessed World C as we believe it supports the other worlds rather than being a World in its own right. It will however require significant industry change to the regulatory arrangements and industry interfaces around charging. It will also need to be supported by a backstop arrangement to ensure that safety of customer supplies is ensured when pricing based solutions fail.			
World D	High	High	High	Low
World E	High	High	High	Medium

We would draw the following key observations on each of the Worlds:

1. We believe that World A has the most benefits/advantages of any world, meeting the needs of most customers, maintaining safety and security of supplies and offering best value. We believe World A has the potential to be further improved and we put forward recommendations in our response as to how this can be achieved.
2. We believe World B fails to deal with the weaknesses prevalent in the market today and offers minimal obvious advantages over World A. The coordination of DER use by the ESO is one of the primary areas where arrangements are not working currently and unlike in other Worlds, there is no single party responsible for coordination.
3. We do not believe World C is sufficient in its own right to address the requirements of the changing energy industry and the smart energy future. We believe its principles are best achieved when applied or overlaid across the other Worlds.
4. We do not believe Worlds D and E can be achieved without significant regulatory and legislative change. We also believe the scale of implementation and associated costs for GB consumers would be substantial. We do not believe the arguments for progressing either of these Worlds have been sufficiently made.

Finally, we strongly support the principle of neutral market facilitation. We believe this will be an essential component of the new arrangements and will provide confidence to new market participants, resulting in increased competition and reduced prices in the flexibility services market. We consider the DNO/DSO can be a neutral market facilitator and this can be assured by having transparency of market activities and clear rules on market operations, captured in a code with strong governance arrangements, underpinned by a licence obligation.

Should you like to discuss any aspect of this letter, our more detailed response, or the summary report of our Strategic Stakeholder Panel event that you attended, please do not hesitate to contact myself directly or alternatively Jim McOmish, our Head of Distribution Networks at Jim.Mcomish@SPENetworks.co.uk (phone number above).

Yours sincerely,



Scott Mathieson
Director of Network Planning & Regulation

Attachments: 1) Detailed SPEN response to consultation questions

- 2) Letter to Jonathan Brearley, Executive Director of Systems and Networks, "*Energy system transformation: principles around customer behaviour and network investment*"
- 3) Case study: Why flexibility may not be an automatic first resort
- 4) Frank Mitchell: Stakeholder Communication
- 5) SPEN Open Networks Future Worlds Stakeholder Communication
- 6) Summary report from SPEN Strategic Stakeholder panel