



Bringing Energy
Together

ADE Response to the ESO's DSO Strategy Consultation | 21st May 2021

Context

The Association for Decentralised Energy welcomes the chance to respond to the **ESO's consultation on their DSO Strategy**.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, efficient and user-orientated energy system. The ADE has over 140 members active across a range of technologies, and they include both the providers and the users of energy. Our members have particular expertise in demand side energy services, including demand response and storage, as well as combined heat and power, district heating networks and energy efficiency.

Consultation Questions & Responses

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

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

Overall, the ADE supports the principles and approach to the DSO transition set out by the ESO. We particularly welcome the strong emphasis on closer ESO/DSO coordination – including in service procurement, dispatch and operations.

We welcome the ESO's recognition of the central role of data in facilitating the DSO transition, including greater data-sharing for development and planning (FES-DFES) and during operations.

Automated dispatch across ESO/DSOs will be important to facilitate flexibility services across markets, and it is positive to see explicit consideration of this point in the ESO's strategy. We also welcome the acknowledgement of the importance of stackability across ESO and DSO services.

2. Proposed 2025 vision

2.1 – Do you agree with our proposed high level vision? // 2.2 – Do you have any comments on our proposed high level vision?

In general, the ADE agrees with the high-level vision set out in the strategy.

We would like to highlight the need for greater consideration of the respective roles of signals from the Balancing Mechanism, network charging and flexibility services, and welcome the mention hereof in the strategy.

Questions around the balance between market solutions and any emergency solutions also need to be addressed and debated. This is beginning to be addressed through recent initiatives (GC0143, GC0147, DCP371), however, we consider that these questions are not best addressed through

incremental modifications. We would welcome ESO's support in calling for a more strategic approach from Ofgem.

While we welcome the ESO setting out its strategy for the DSO transition to 2025, we would like to see a longer-term view on what the ESO and DNOs consider will be major topics and areas for development for the RIIO-3 price controls, and what this will mean for investments and preparation over the course of the RIIO-2 period.

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

While this DSO strategy makes reference to greater automated dispatch, this is something we would like to see greater ambition on from the ESO in collaboration with DNOs.

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

Development:

- The ADE support the views set out around long-term energy scenarios and the importance of clear processes for insight exchange. Furthermore, we would like to stress the importance of facilitating stakeholder engagement through standardised, accessible documents and materials.
- We have concerns around the suggestion put forward in the strategy of the possibility for DSOs to provide solutions for transmission system needs; we do not currently see how DNOs can work commercially with the ESO and remain neutral market facilitators. The Strategy appears to suggest that the ESO may contribute to DSO costs if it reduces transmission costs, while also sharing enhanced data with the DSO control rooms (and not with other market participants); this would give DNOs further monopolistic advantage over market participants. Further consideration and provision of detail is required around how neutral market facilitation can be ensured, and whether and how conflicts of interest could be managed satisfactorily.
- The ESO notes the use of CBA assessments (NOA for large scale transmission needs, Open Networks CEM for granular problems). The ADE has been engaging with both the ESO and DNOs around the CEM and Whole Systems CBA, being developed under the Open Networks Project. It is critical that these tools value flexibility solutions appropriately. In particular, we are concerned over the lack of recognition of the option value of flexibility in these tools and hope to see this included in future iterations.

We understand that the CEM is intended explicitly to assess costs and benefits from a DNO perspective and nothing more, and that it is under the Whole Systems CBA that wider costs and benefits may be considered. We would therefore expect to see greater clarity around the uses of and interactions between the CEM and the Whole Systems CBA, and justifications where assessments are made using the CEM for not assessing wider social costs and benefits, or qualitative consideration of these alongside the CEM assessment.

- We welcome the plans for ESO and DSOs to publish information to help DER service providers understand drivers for, and evolution of system needs to support participation in, coordinated markets for flexibility services.

- The ADE support the views set out around network access planning, and the need for ESO to access greater volumes of DER services to manage transmission system needs. We agree that this could create new potential revenue opportunities for DER service providers to provide services to facilitate system outages at lower cost to consumers.

Markets:

- Provisionally, we support the coordination of service procurement through the Open Networks Project and development of Regional Development Programmes, noting that industry engagement around RDPs is at a very early stage (we welcome the ESO's recent efforts to strengthen industry engagement in this area). We consider that RDPs have the potential to support the expansion of markets for flexibility, and look forward to working with the ESO and DNOs on this going forward.

- The ADE agrees with the need to facilitate participation in multiple flexibility markets and enable stacking across markets by removing unnecessary exclusivity clauses.

Additionally, if an asset is going to take part in DNO and ESO services, it needs to contain a metering system which meets the requirements of both. The ESO and DNOs should work to ensure standardisation of operational metering requirements and we would strongly suggest that this should be based on the approved CoP11 metering settlement standard, which echoes the settlement standards for all sizes of boundary meter (CoP 1,2,3,5,10). The same metering hardware can deliver both settlement metering and operational metering.

- The ADE strongly support the introduction of consistent framework agreements to simplify participation in different markets.
- The strategy mentions greater alignment of TNUoS and DUoS and development of methodologies for cost recovery associated with DSO activities. It is important to recognise the differences around DER compared to transmission connected assets; as such, a crude approach to alignment will not be beneficial. Provisionally, the ADE consider that the codes will need to develop to better set out appropriate roles and responsibilities for DER within a new system with potentially millions of small assets.
- The ADE support the aim to develop defined access rights to distribution networks and agree that this will support participation in flexibility markets.

Operations:

- Overall, the ADE agree with the need for standardisation and coordination in dispatch across ESO and DSOs to manage real time system conditions but would like to see further detail on what this will look like as well as greater ambition around automated dispatch.
- The ADE welcomes this approach's recognition that the Balancing Mechanism will need to access far more DER assets than today. Alongside the ESO's work with the DNOs, it is important that progress is made urgently on publishing further information on the skip rate within the Balancing Mechanisms, the reasons for its present rate and the ESO's plan for improving the rate at which DER is dispatched when it is cost-effective to do so.
- We appreciate the need for stackability principles to avoid inappropriate double counting/compensation for services dispatched that meet both ESO and DSO needs. With the possibility of assets providing services in different markets simultaneously, the question

arises of how to define and allocate the benefits of (and payments for) these services. The ADE would expect to see a system that remunerates a provider for all benefits provided across the system; including being remunerated by both the ESO and the DSO if both parties benefit. In these cases, efficient stacking should ensure that both overpayments and free-riding are avoided. Moreover, as removal of constraints and, more broadly, actions at one level can deliver system-wide benefits that may mostly accrue to another system operator or party, we consider that some form of revenue sharing system between system operators (and potentially third parties) would be relevant to consider.

- It is positive to see the ESO's expectation for increasingly automated approach to dispatch by DSOs, and the intentions around dispatch signals to be sent by ESO and DSOs in ways suited to service providers' business models, with API protocols standardised across ESO and DSO markets.
- The ADE support the views set out around operational liaison and real time transfer of data, including improved real time visibility of DER operations for both transmission and distribution system needs.
- We agree with the expectations, set out tentatively in the strategy, that coordination ahead of real-time to deal with large volumes of instructions and potential conflicts will also need to be automated and will require enhanced system integration and data exchange between ESO and DSO across time horizons.
- We would welcome possibility for DER to provide black start services to both DSO and ESO.

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

As discussed throughout this response, there are some areas where we would welcome further ambition from the ESO; specifically, we would like to see:

- consideration of a more strategic approach to address questions around the balance between market solutions and emergency solutions, rather than through incremental modifications;
- greater ambition on automation of dispatch as well as automated approaches to data sharing and coordination;
- further consideration of whether, and if so how, DNOs can remain neutral market facilitators while also working commercially with the ESO;
- a longer-term view on major topics and areas for development for the RIIO-3 price controls, and implications for investments and preparation over the course of the RIIO-2 period.

3. Proposed next steps

3.1 – Do you support our proposed next steps?

Yes, for this vision to result in successful and timely ESO/DNO coordination and facilitation of the DSO transition, this needs to feed into RIIO-2 business plans (ED2 and ESO BP2), and considering the substantial amount of work going on under Open Networks, alignment and coordination with relevant products and workstreams is essential.

Additionally, we would like to see a plan for the ESO's work on RDPs; how these will be developed and what the plans are for stakeholder consultation. We would also welcome further consideration

of how this interacts with other workstreams, including the outcome of the Access SCR and various pieces of work under the Open Networks Project around ANM.

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

See responses to previous questions; in particular question 2.5.

Finally, we would like to emphasise the importance of internal separation, within DNOs, of the DNO and DSO functions. This is crucial to address a range of potential conflicts of interest between DNO and DSO, position DSOs as neutral market facilitator, and ensure a fair and efficient DSO transition. While not directly pertaining to the ESO, this is something that needs to be considered in the context of the ESO's strategy for the DSO transition, as this has important implications for conflicts of interest and whether and how these can be satisfactorily managed.

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