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By email only to [flexibility@ofgem.gov.uk](mailto:flexibility@ofgem.gov.uk)

## Regulatory treatment of CLASS as a balancing service in RIIO-ED2 network price control

Dear Edwin

Thank you for the opportunity to provide feedback on the above consultation. Our response should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

UK Power Networks is fully committed to facilitating the transition to a net zero emission economy. Our networks have already seen great levels of change, which we have accommodated whilst continuing to provide world class levels of network reliability, excellent customer service and affordable bills. For example, across our networks we have connected 180,000 renewable generators, 32,000 EV charge points and 300MW of electricity storage.

As renewable capacity continues to come online and electricity demand significantly increases to reduce the emissions associated with heat and transport, it is crucial that all cost efficient forms of flexibility can be utilised to reduce total costs for customers. This will involve co-optimising resources to reduce costs for Transmission Operators<sup>1</sup> (TOs), the Electricity System Operator<sup>2</sup> (ESO) and Distribution Network Operators<sup>3</sup> (DNOs). We therefore strongly believe that to meet customers' changing needs and government's policy objectives e.g. on decarbonisation and clear air, a combination of both network based and market based solutions will need to work in harmony. In this way we are encouraged by Ofgem's current commitment to ensure that all flexible technologies are utilised in a way that will benefit the whole system. Furthermore, we believe that Ofgem's rationale for allowing DNOs to use technology such as CLASS is consistent with the four strategic outcomes stated in the DSO position paper published by Ofgem in August 2019<sup>4</sup>.

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<sup>1</sup> TOs recover their costs for operating and maintaining the transmission network through Transmission Network Use of System charges (TNUoS)

<sup>2</sup> The ESO recovers their costs for balancing the GB electricity system through Balancing Services Use of System charges (BSUoS)

<sup>3</sup> DNOs recover their costs for operating and maintaining the distribution network through Distribution Use of System charges (DUoS)

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/ofgem-position-paper-distribution-system-operation-our-approach-and-regulatory-priorities>



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Nevertheless, at this time UK Power Networks has not invested into CLASS technology and is not participating in any of the ESO's balancing markets. Whilst this may continue to be the case, we believe the unique position DNOs have to use this type of flexibility means that it should not be ruled out. Unlike market based flexibility solutions such as electricity storage and DSR, CLASS can only be provided by DNOs.

UK Power Networks fully endorses a 'flexibility first' mantra and believes this is equivalent to putting customers first. Inevitably when the same output can be achieved by market based flexibility as can be achieved by network based assets and their associated flexibility, there is a need to ensure a level playing field exists, which also means removing any conflicts of interest the procurer may have. At distribution level, UK Power Networks alongside other DNOs, are working together towards holistic changes to ensure that market options are tested fairly, transparently and consistently against network options<sup>5</sup>. More detail on the actions UK Power Networks is taking to remove any perceived conflicts associated with our own procurement of flexibility is in our response to question 12.

We acknowledge that in the current world where local DNO markets are emerging, maintaining market confidence and trust is paramount. We have already invested significantly in our flexibility programme, one of our five strategic priorities of our DSO programme. Our aim is to unlock new market based flexibility to reduce our future costs whilst facilitating decarbonisation. Therefore, any decision to invest in technology such as CLASS would only be done once we are fully confident that it would not impair our ability to be a neutral market facilitator across our distribution network. As part of this we would engage with our stakeholders to ensure that their concerns are addressed prior to any investment. This reaffirms our priority to develop smart and flexible capabilities that continue to put customers at the heart of our business.

The current GB regulatory framework focuses on the delivery of measurable and meaningful outputs at efficient cost. For example, the totex sharing factor incentivises licensees to assess all available options to meet performance targets and as cost efficiently as possible; with cost savings being shared between customers and the licensee. This has demonstrably worked well and has supported UK Power Networks adopting a flexibility first principle. As explained in the consultation document, in the case of ENWL's CLASS the procurer is National Grid ESO, who has an obligation to cost efficiently balance the national system. Given the complete separation and independence of National Grid from the DNOs, as well as their licence obligations (e.g. covered in C16), we do not believe there is any case to be made that CLASS' use is based on conflicted decision making. Nevertheless, we welcome engagement with National Grid ESO on whether their procurement methodology could be made more transparent and how we can best align the approaches taken at transmission and distribution.

As identified by Ofgem the two main considerations with regards to whether CLASS should be permitted for use in the ESO's ancillary service markets are:

1. Whether the utilisation of CLASS negatively affects customers, either in terms of their network access or quality of service.
2. Whether DNOs have an unfair advantage with regards to competing with other parties for service provision.

On the first point we have engaged with ENWL and have read through their publications on CLASS. Based on the available evidence and responses to our questions, it appears that the effects of the use of CLASS are unnoticeable to network users and we understand the CLASS control system is able to ensure that voltage levels stay within statutory limits. Furthermore, it is our understanding that this type of system can enhance voltage control such that the DNO can optimise for the benefit of network users. With respect to our Power Potential Project with National Grid ESO, which is seeking to resolve service conflicts between

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<sup>5</sup> See the ENA's Flexibility Commitment report for more detail

<https://www.energynetworks.org/assets/files/ENA%20Flexibility%20Commitment%20Our%20Six%20Steps%20for%20Delivering%20Flexibility%20Services.pdf>

distribution and transmission requirements, we believe this type of additional control could be complimentary, because it will allow networks to be configured in a way that optimises existing capacity.

On the second point we agree with Ofgem that the most appropriate route to market would be DRS8, as this ensures that the customer benefit is maximised and it means that the costs associated with developing this service are not included in base allowances. Nevertheless, we fully recognise the concerns that market players may have with regards to DNOs using network based assets to provide ancillary services to the ESO. To address these concerns it will be important that DNOs show visibility around the separation of costs relating to meeting their own licence conditions from expenditure for activities such as CLASS, which is to support wider system needs. We therefore welcome further engagement on how this type of activity is best reported in order to balance the need for transparency whilst avoiding any market distortion, which will be a risk if all information on costs and revenues is published<sup>6</sup>. This could be progressed, for example, through the current RIIO-ED2 working group on cost assessment, which is already looking at how DSO related activity should be captured in the next price control.

We believe it is important that Ofgem aligns their decision making as part of this consultation on CLASS with the parallel work on a new Whole Systems Licence Condition and its associated guidance<sup>7</sup>. For example, under these proposals licensees will be required to take actions that deliver whole system cost reductions, rather than only focussing on their own costs and outputs. This will apply to DNOs, IDNOs and TOs and will enable licensees to provide services to each other, where cost efficient to do so. We therefore welcome engagement with Ofgem and other licensees on what the most appropriate mechanisms are for transferring revenue in a way that is consistent with Ofgem's decision on CLASS.

We are cognisant that new RIIO-ED2 features such as the Return Adjustment Mechanism (RAM), and the blended totex sharing factor, could have the unintended effect of deterring whole system collaboration between licensees such as CLASS; for example, if DRS8 is included within the RAM. In our view a scenario should be avoided where because a DNO is performing well it then has a weaker incentive to undertake work that helps to reduce whole system costs e.g. by providing a service to another licensee, because the margin for doing so is reduced. There is also a risk that due to DNOs having different sharing factors the most cost efficient option is not progressed by the ESO. To address this, Ofgem could consider whether a fixed 50/50 sharing factor is appropriate for activity that falls under the whole systems category i.e. through a new DRS10 category.

In the appendix we have provided feedback to the individual questions asked in the consultation. If you have any questions regarding our response please do not hesitate to get in touch.

Yours sincerely



James Hope  
Head of Regulation & Regulatory Finance  
UK Power Networks

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<sup>6</sup> The ESO already publishes market reports on its balancing services, which enables parties to estimate the revenues received for different offerings

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-whole-electricity-system-licence-condition-d177a-electricity-distributors-and-transmission-owners>

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## Appendix: Response to questions

### Question 1: Are there other options we should have considered?

In the context of the current policy framework we believe the correct options have been considered in this consultation. Going forward if roles and responsibilities were under review then there could be scope for other options to be considered. With reference to the ENA's Open Networks Project, which examined future arrangements, if policy were to shift towards World E: Flexibility Coordinator or World A: DSO coordinates then this would likely open up new options such as a more independent DSO body procuring ancillary services alongside the national ESO, for example at the Grid Supply Point (GSP). Nevertheless the minded to option of including CLASS as part of DRS8 is compatible with World's B, C and D. Importantly, these Worlds were supported by the majority of stakeholders when they were consulted on during 2018 and 2019 and were considered to be of least regret.

### Question 2: Do you agree that market based mechanisms can provide the most efficient incentive for CLASS participation in balancing services?

We believe market mechanisms are likely to provide a strong incentive for participation. However, a key difference between normal market mechanisms and Ofgem's proposal is that the totex sharing factor will apply, meaning a large proportion of the revenue will go to customers. We fully support this, however it means that the actual incentive for DNOs to invest in technologies such as CLASS will be dependent on the strength of the totex sharing factor. We therefore suggest for these whole system solutions it may be more appropriate for a fixed 50/50 sharing factor to be applied across all DNOs through a new DRS category, which will mean customers and DNOs share the benefits equally.

We recognise that electricity networks are a natural monopoly, nevertheless we are a strong supporter of having a regulatory framework that mimics the dynamics of a competitive market. Whilst we maintain that accountability and licences are essential for running a safe and reliable system, we acknowledge that for networks to innovate and reduce costs incentive based regulation continues to be the best way forward.

The novel issue here is how to incentivise licensees to offer the ESO new services that can reduce system related costs to customers. If this was turned into a mandatory service e.g. through a price control deliverable, it may achieve the same outcome, but it could end up costing more if it is incorrectly assumed that the DNO solution is always cheaper than solutions offered by the market. Another option could be to establish a separate mechanism for DNOs and the ESO to exchange services outside of the ancillary services market, but concurrently. In theory this could work well, but it may be less transparent and would be more complex to run. As a result we agree with Ofgem's minded to position, which is for DNOs to go through the conventional market route in RIIO-ED2.

We are also aware of an argument that the CLASS service should be used as a last resort in a way that is akin to Low Frequency Demand Disconnection (LFDD). We do not agree with this on the basis that CLASS is providing additional flexibility beyond tools such as LFDD. In fact through innovations such as CLASS the ESO will have a bigger toolkit, which could in the future help avoid situations such as the August 9<sup>th</sup> Power Cut that caused major disruption to many network users. Given the rapid changes happening across the electricity system it is vital that DNOs, TOs and the ESO work together to bring forward all forms of flexibility they have at their disposal. This will not only help reduce the costs associated with the energy transition but it will aid system reliability.

**Question 3. What is your view on DNOs' sharing profits with consumers, even if this means consumers are also exposed to DNOs' losses (including how this might affect DNOs' competitive behaviour noting this is different to other providers of balancing services)?**

Due to the nature of the CLASS service we agree with Ofgem's position that DRS8 is the best option to incentivising its use. We also believe that the consistency this has with what has been done in RIIO-ED1 is important for all stakeholders. Whilst the DNO has to invest its own funds to offer the CLASS service it is still making use of existing customers' assets to do so, therefore we believe it is right that the benefits are shared. Regarding customers being exposed to additional downside risk we do not think this will be material, as prior to investing into this type of activity a robust evaluation of the costs and benefits will be undertaken. This is in line with how UK Power Networks justifies all of its investments and we have a strong track record of delivering high levels of performance whilst minimising costs to customers. Furthermore, Ofgem has been clear that additional allowances will not be given to DNOs to undertake activities such as CLASS that go outside the DNOs' traditional remit.

**Question 4. How might limits on charges to the ESO in DRS9 affect investment and utilisation signals for CLASS?**

As outlined elsewhere in our consultation response we believe that customers should share the benefits that deploying CLASS brings, because the service is inherently using assets that have been funded by DNOs' customers. For this reason we support either DRS8 or the development of a new DRS category that is similar but has a fixed sharing factor.

We agree with Ofgem that DRS9 could be a viable option but that it would be potentially harder to manage under the current definition of DRS9, which states that DNOs can earn a "reasonable" margin. This is because any revenue generated from using CLASS will be uncertain, therefore the revenue margin will also be inherently uncertain. Nevertheless if this option were to be taken forward it should be straightforward for Ofgem to acknowledge this when assessing compliance. Potential benefits of DS9 is that it would provide a sharper incentive for DNOs to invest and could provide a level playing field between DNOs who offer CLASS, by avoiding the impact that different DNO sharing factors would have. However this would have to be weighed up with overcoming the issue that ENWL have already used DRS8 in RIIO-ED1, which would create disparity and potentially a distortion between different DNO offerings in RIIO-ED2.

As highlighted in our response to question 2 the totex sharing factor plays a key role in making the business case through DRS8. Ofgem has floated the notion of totex sharing factors as low as 15% for DNOs in RIIO-ED2. If such low sharing factors were to materialise it would very likely deter any investment into CLASS technology via DRS8 and we believe it would distort the risk vs reward balance between licensees and their customers.

**Question 5. Do you agree that requiring CLASS in the price control would not promote efficient investment signals in CLASS and could distort competitive outcomes?**

Yes we agree, as explained in our response to question 2.

**Question 6. Do you have evidence CLASS could affect the likelihood of system reliability issues?**

No we do not have any evidence of this. Based on evidence provided by ENWL the CLASS service should not negatively affect system reliability. In contrast enhanced voltage control of the distribution system should help better manage system reliability.

**Question 7. Do you have evidence competition is currently being distorted or impeded by the participation of CLASS? Do you agree with our assessment that it is unlikely DNOs have or would have market power in future, and the reasons we have provided in Appendix 2?**

We do not have any evidence that competition is being distorted or impeded by the participation of CLASS. We agree with Ofgem that it is unlikely DNOs would dominate the market. Most importantly, DNOs already have licence conditions and obligations under the Competition Act that strongly deter them from anti-competitive behaviour. Also, as the DNO groups are legally separate organisations there is no greater risk associated with their participation in the ESO's markets than any other party. This is particularly the case for UK Power Networks, which does not have any affiliated generation or retail businesses.

As Ofgem states in the consultation document, there are technical constraints to what CLASS can offer the ESO, which will limit the overall impact that DNOs can have on the overall ancillary service market. Furthermore, given the long timescales involved for DNOs to reach these technical limits we do not believe that market power will be an issue over RIIO-ED2.

**Question 8. What information could the DNO have privileged access to that that could offer it an unfair advantage in balancing services provision? How might this change in future if the DNO and ESO increasingly coordinate?**

We acknowledge that in the current world where local DNO markets are emerging, maintaining market confidence and trust is paramount. We have already invested significantly in our flexibility programme, one of our five strategic priorities of our DSO programme. Our aim is to unlock new market based flexibility to reduce our future costs whilst facilitating decarbonisation. Therefore, any decision to invest in technology such as CLASS would only be done once we are fully confident that it would not impair our ability to be a neutral market facilitator across our distribution network. As part of this we would engage with our stakeholders to ensure their concerns are addressed prior to any investment. This reaffirms our priority to develop smart and flexible capabilities that continue to put customers at the heart of our business. In our response to question 12 we set out some of the steps we are undertaking to ensure there is confidence in our ability to develop local flexibility markets whilst providing whole system services that provide societal benefit.

One of the measures in place, is the segregation of the activities of the teams that are running flexibility markets from the main network asset planning teams. This is something that we already have internal governance around and we are currently strengthening, as highlighted in our response to question 12. To further enhance transparency, we will be carrying out external audits of these arrangements whilst we keep them continuously under review. In the case that UK Power Networks participates in balancing services provision, then our arrangements will be reviewed to make sure that any perceived conflicts or issues are managed.

UK Power Networks does not have access to any market based information relevant to transmission/national markets that is not publically available, whether this is related to the Balancing Mechanism, the wholesale market or the ESO's ancillary service markets. We do not see any reason for DNOs to have commercially sensitive information held by the ESO going forward. Additionally, UK Power Networks publishes all relevant information from the flexibility tenders it undertakes. This ensures that there is no unfair advantage with regards to our own products. Also, it applies to all financial bids for an active power service. Hence, all parties at distribution level will have the same level of information to participate should they wish to bid in to provide a service.

**Question 9. What measures would you consider effective and proportionate to ensure that privileged information the DNO has access to is not used inappropriately to benefit the commercial performance of CLASS?**

At the moment we are not aware of any privileged information the DNO has access to that would give any competitive advantage within the ESO's markets. Nevertheless we are very keen to hear from stakeholders regarding any concerns they have and what steps we could put in place to address these. In this regard we see parallels with the work we have done to give greater assurance around our procurement of flexibility for our own needs, as detailed in our response to question 12. For example, by attaining independent assurance of our procurement methodology, we can demonstrate that the information we have is used in an appropriate way that does not result in us gaining any undue commercial benefit. As part of any assessment into whether to undertake any new activity such as CLASS, we would also weigh up the need for further action such as greater ring-fencing of teams. This is something that will likely be embedded into our refreshed DSO strategy, which will be informed by stakeholder engagement.

**Question 10. In what other ways do you think DNOs could take advantage of their DNO role in the context of providing balancing services with CLASS?**

As our responses to questions 8 and 9 state we are not aware of any ways that DNOs could do this today, however, we understand that in theory there could be future scenarios where this risk could materialise. Importantly, this does not mean that technologies such as CLASS should not be deployed, but it does mean that governance arrangements should be kept under review in a way that is proportional to the risk.

**Question 11. How far do you think existing safeguards (including licence obligations and competition law) against DNOs taking advantage of their DNO role in the context of participating in the balancing markets with CLASS are sufficient?**

Yes, we think existing safeguards provide a strong deterrent against DNOs abusing their position. Anti-competitive behaviour can result in fines of up to 10% of global turnover, as well as prison sentences. Moreover any breach of licence conditions could result in hefty fines from Ofgem. These risks far outweigh the potential benefits a DNO could gain from offering ancillary services to the ESO. However, due to the savings this could bring to DNOs' customers and wider system users, we think it is right for DNOs to explore the application of flexible technologies such as CLASS, recognising we are in a unique position to implement such innovative solutions.

In addition to the above we also have strong reputational drivers for behaving in a way that our stakeholders and customers would expect us to as an essential service provider. This is not only about meeting set requirements but is about going above and beyond to demonstrate our commitment to being a respected and trusted corporate citizen. For example, we have already invested significantly in our flexibility programme with the aim of unlocking new market based flexibility to reduce our future costs whilst facilitating decarbonisation. Therefore, any decision to invest in technology such as CLASS would only be done once we are fully confident that it would not impair our ability to be a neutral market facilitator across our distribution network. As part of this we would engage with our stakeholders to ensure that their concerns are addressed prior to any investment. This reaffirms our priority to develop smart and flexible capabilities that continue to put customers at the heart of our business. In our response to question 12 we set out some of the steps we are undertaking to ensure there is confidence in our ability to develop local flexibility markets whilst providing whole system services that provide societal benefit.

**Question 12. What additional measures would be effective and proportionate to address actual or perceived risks of DNOs taking advantage of their DNO role?**

We have heard loud and clear from our stakeholders that we need to build market confidence by being transparent over our procurement approach. We were the first DNO to commit to market testing all of our HV and EHV reinforcement needs before investing in any new network assets and to date we have tendered for over 300MW of our needs<sup>8</sup>.

We were also the first DNO to market test requirements at LV and we currently have 60 sites at this level out for tender. All of this is separate to the decision on CLASS and is because we believe market based flexibility can have a major role to play in helping us run our networks for the benefit of our customers. This is further evidenced by our collaboration with National Grid on the Power Potential Project, which is helping both us and the ESO use the same DER to resolve both our needs.

To summarise we want to provide assurances that we can co-optimize the use of network assets and market based assets in a way that is fair and cost efficient. In the table below we have outlined the steps taken towards this objective.

Specific area	Actions
Visibility of flexibility activities	<ul style="list-style-type: none"> <li>We introduced an improved website where we publish our documentation<sup>9</sup></li> </ul>
	<ul style="list-style-type: none"> <li>We publish our needs on an open and accessible third party visibility platform<sup>10</sup></li> </ul>
Provision of tender process information transparently	<ul style="list-style-type: none"> <li>We inform stakeholders of the timelines and specific steps of our tenders through our Invitation To Tender (ITT) documents<sup>11</sup></li> </ul>
	<ul style="list-style-type: none"> <li>We inform flexibility providers of the relevant T&amp;Cs at the time of the ITT</li> </ul>
	<ul style="list-style-type: none"> <li>We publish detailed ITT pre tender openly to all interested providers on our website – as opposed to only qualifying companies</li> </ul>
	<ul style="list-style-type: none"> <li>We inform flexibility providers of the assessment methodology with the ITT documentation.</li> </ul>
Expand areas of opportunities	<ul style="list-style-type: none"> <li>We have published HV and LV tenders expanding market opportunities</li> </ul>
	<ul style="list-style-type: none"> <li>We have forecast our flexibility needs out until 2028 to give providers our market forward view</li> </ul>
Transparency of value of flexibility	<ul style="list-style-type: none"> <li>To get independent assurance of our procurement methodology we commissioned an independent review</li> </ul>
	<ul style="list-style-type: none"> <li>We published revenues in £ and £/MWh per zone to give market indication of value ahead of each tender to help market determine business case and bidding<sup>12</sup></li> </ul>
	<ul style="list-style-type: none"> <li>We compared key aspects of our procurement approach with the ESO's Capacity Market<sup>13</sup></li> </ul>

<sup>8</sup> <http://futuresmart.ukpowernetworks.co.uk/wp-content/themes/ukpnfuturesmart/assets/pdf/futuresmart-flexibility-roadmap.pdf>.

<sup>9</sup> <https://smartgrid.ukpowernetworks.co.uk/flexibility-hub/>

<sup>10</sup> <https://picloflex.com/>

<sup>11</sup> [https://smartgrid.ukpowernetworks.co.uk/wp-content/uploads/2019/12/Invitation-to-Tender-PE1-0037-2019-Flexibility-Services\\_HV.pdf](https://smartgrid.ukpowernetworks.co.uk/wp-content/uploads/2019/12/Invitation-to-Tender-PE1-0037-2019-Flexibility-Services_HV.pdf)

<sup>12</sup> <https://smartgrid.ukpowernetworks.co.uk/wp-content/uploads/2019/12/Appendix-6-Flexibility-Zones-Revenue-Ranges-Flexibility-Services-Tender-Apr-20.xlsx>

<sup>13</sup> <https://www.ukpowernetworks.co.uk/internet/en/about-us/RIIO-2/UKPN%20RIIO-ED2%20open%20letter%20response%20final%20V1.pdf>

Specific area	Actions
Provision of post tender information	<ul style="list-style-type: none"> <li>We publish all bid information post tender. This includes all bids by company, location, MW, price, accepted/rejected<sup>14</sup></li> </ul>
Information operating flexibility	<ul style="list-style-type: none"> <li>We publish estimates of dispatch frequencies of flexibility providers</li> </ul>
	<ul style="list-style-type: none"> <li>We have set out the principles of dispatching flexibility in all our ITT documents<sup>6</sup></li> </ul>
Transparency of key DSO performance metrics	<ul style="list-style-type: none"> <li>In September 2019, we published our Smart Grid KPIs that demonstrably measure the financial, environment and customers benefits of our DSO investments including our Flexibility programme<sup>15</sup></li> </ul>

Furthermore, in 2019 we significantly increased our stakeholder engagement and the support we provide to new market entrants. As a result we have co-designed our processes and products with more than 650 stakeholders. This has been conducted via a wide variety of channels, including the Winter and Spring Flexibility forums, industry conferences, bi-laterals, webinars and dedicated surgeries. Furthermore we have met with international delegations to understand what best practice looks like from a global perspective. Based on the feedback received we have made numerous changes to our approach; these include putting expected revenues into £/kW metrics and increasing contract lengths up to a maximum of seven years in duration.

In addition to the steps described in the table, over the next six months we plan to:

- Publish a Transparent Processes consultation. This will provide additional information to stakeholders around how we tender system needs and will seek feedback on our processes. More specifically, we will be explicit around how the flexibility sites' selection is done by the Smart Grid team independently of traditional planning teams. Subsequently, we will update stakeholders of the outcome of the consultation later in 2020 alongside the outcome of the March 2020 tender at our Flexibility Spring Forum.
- Appoint an independent auditor of our flexibility procurement. This will provide an additional level of assurance of our internal processes e.g. selection of units.
- Work with Ofgem and BEIS in order to understand expectations and process for introducing the relevant licence conditions ahead of RIIO-ED2. This includes the current work underway to develop the guidelines for the new DSO reporting requirements in RIGs that will lead to changes this year and increased visibility.
- Working with other DNOs and the ESO through Open Networks, for example, we fully supported the development of the ENA's 'six steps for delivering flexibility services' published in June 2019 and we want to ensure there is a DSO Implementation Plan that tracks progress. Through our leadership of the Flexibility Work Stream at Open Networks, we are driving the development of common processes and methodologies that will provide further clarity to stakeholders. Further standardisation of products, common contracts and a common flexibility valuation methodology are priorities for 2020. We will also continue to work with ESO both under the Regional Development Programme and Power Potential project, to develop a coordination framework for planning and operating the transmission and distribution networks in the most efficient manner for consumers.
- We are reviewing our DSO strategy by evaluating whether the operating model is producing the required outcomes and we will publish an updated DSO strategy in due course. This will be partly informed by the feedback we receive in our forthcoming Transparent Processes consultation.

<sup>14</sup> <https://smartgrid.ukpowernetworks.co.uk/wp-content/uploads/2019/11/Post-Tender-Report-Bids-201819.xlsx>

<sup>15</sup> <http://www.energynetworks.org/assets/files/ENA%20Flexibility%20Commitment%20Our%20Six%20Steps%20for%20Delivering%20Flexibility%20Services.pdf>.

Lastly, recognising the interaction activities such as CLASS could have with other regulatory activity DNOs are involved in, we believe there is merit in enhancing the way DNOs report costs in RIIO-ED2. We therefore welcome further engagement on how this type of activity is best reported in order to balance the need for transparency and to avoid any market distortion, which will be a risk if all information on costs and revenues is published. This could be progressed, for example, through the current RIIO-ED2 working group on cost assessment, which is already looking at how DSO related activity should be captured in the next price control. We also welcome further engagement with National Grid ESO to find ways of aligning and enhancing procurement approaches at transmission and distribution.

**Question 13. Are there other specific effects to competition that are relevant to our decision? What effects would these have on consumers?**

We are not aware of any other specific effects to competition this decision will have.