

Future arrangements of the System Operator

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The electricity industry is changing



What are we hearing?

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Your processes are complex and not transparent

The SO is transmission biased!

We need longer contract periods for ancillary services

The SO should step up! ...

Network charges need to be more cost-reflective

A holistic charging review is needed

The SO needs to collaborate more with DNOs



Ofgem have consulted on proposals for a new SO model to meet changing industry needs

Enhanced roles for the SO

SO to carry out its existing functions and take on some new ones

Greater independence of the SO

SO to be incorporated in a separate company, wholly owned by
National Grid

What are we doing?

Developing the role of the Electricity System Operator to play its part in facilitating the transition to a low carbon, interactive industry model whilst minimising costs and maintaining security of supply



Flexibility



**Network
Competition**

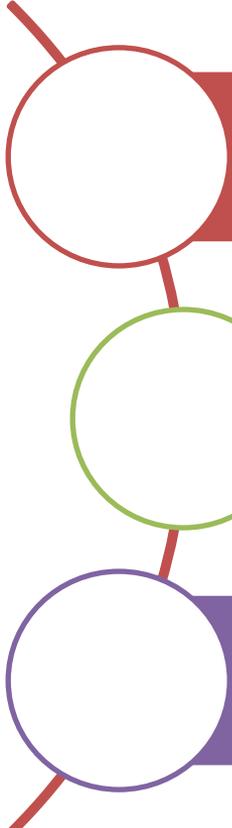


Whole System



**Level Playing
Field**

Flexibility – Facilitating efficient markets for flexibility

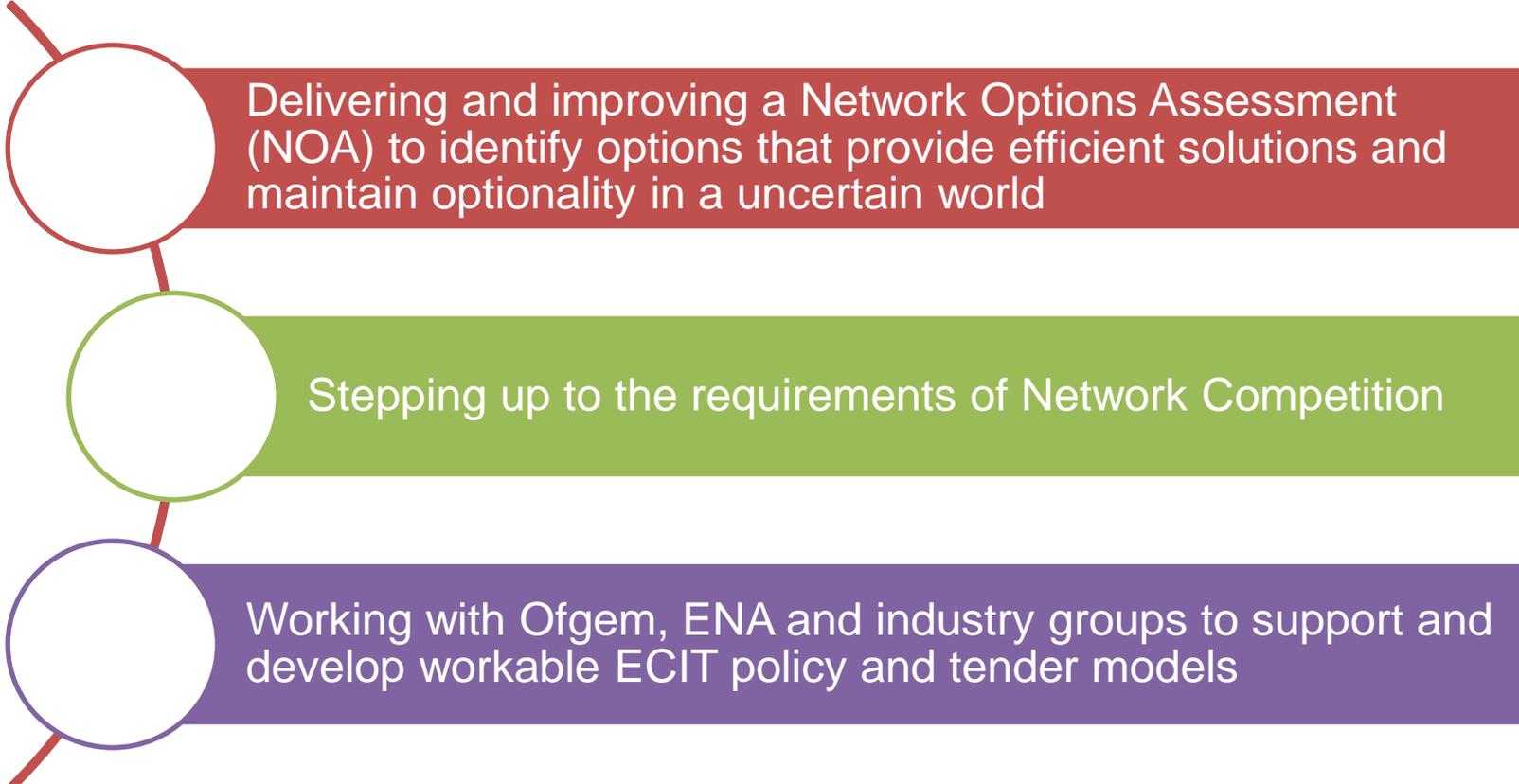


Improving the information we provide to market participants (historical, future requirements and website)

Simplify our products and services (including testing and compliance as well as contracting structures)

Optimise the use of Distributed Energy Resources – ensuring parties can provide multiple services but just to the SO but to other market participants as well

Network Competition – Optimising network investment



Delivering and improving a Network Options Assessment (NOA) to identify options that provide efficient solutions and maintain optionality in a uncertain world

Stepping up to the requirements of Network Competition

Working with Ofgem, ENA and industry groups to support and develop workable ECIT policy and tender models

Whole System - supporting network and market access for all parties



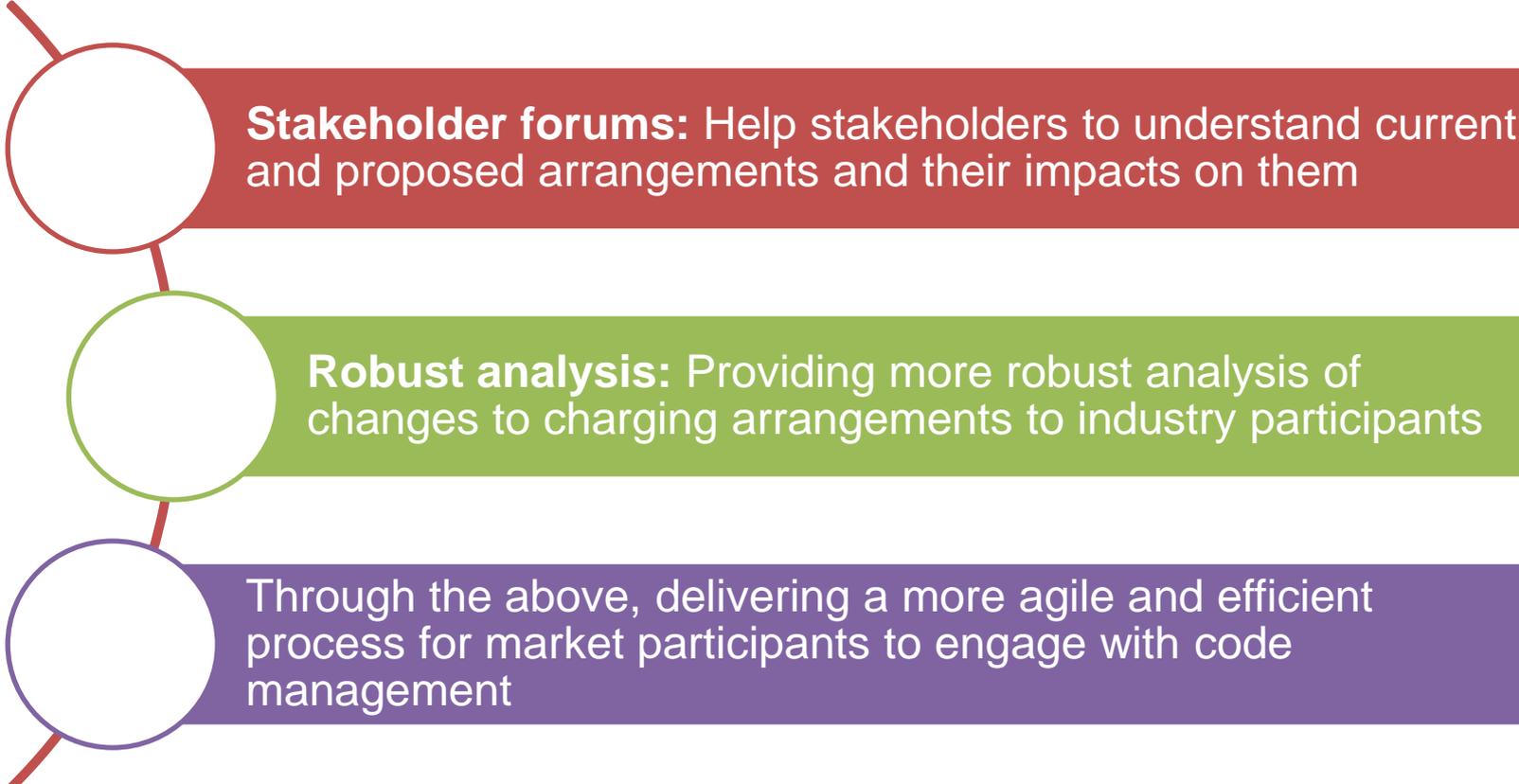
Regional Development Programmes: Practical implementation of operability schemes to tackle current issues which establishes industry processes and data flows

Enhanced network data and modelling to release DER connection capacity via redefined network capability

Feed above learning's into wider developments for market structures as well as roles and responsibilities of parties

Level Playing Field – Facilitating transition to smart, flexible energy system through effective network charging

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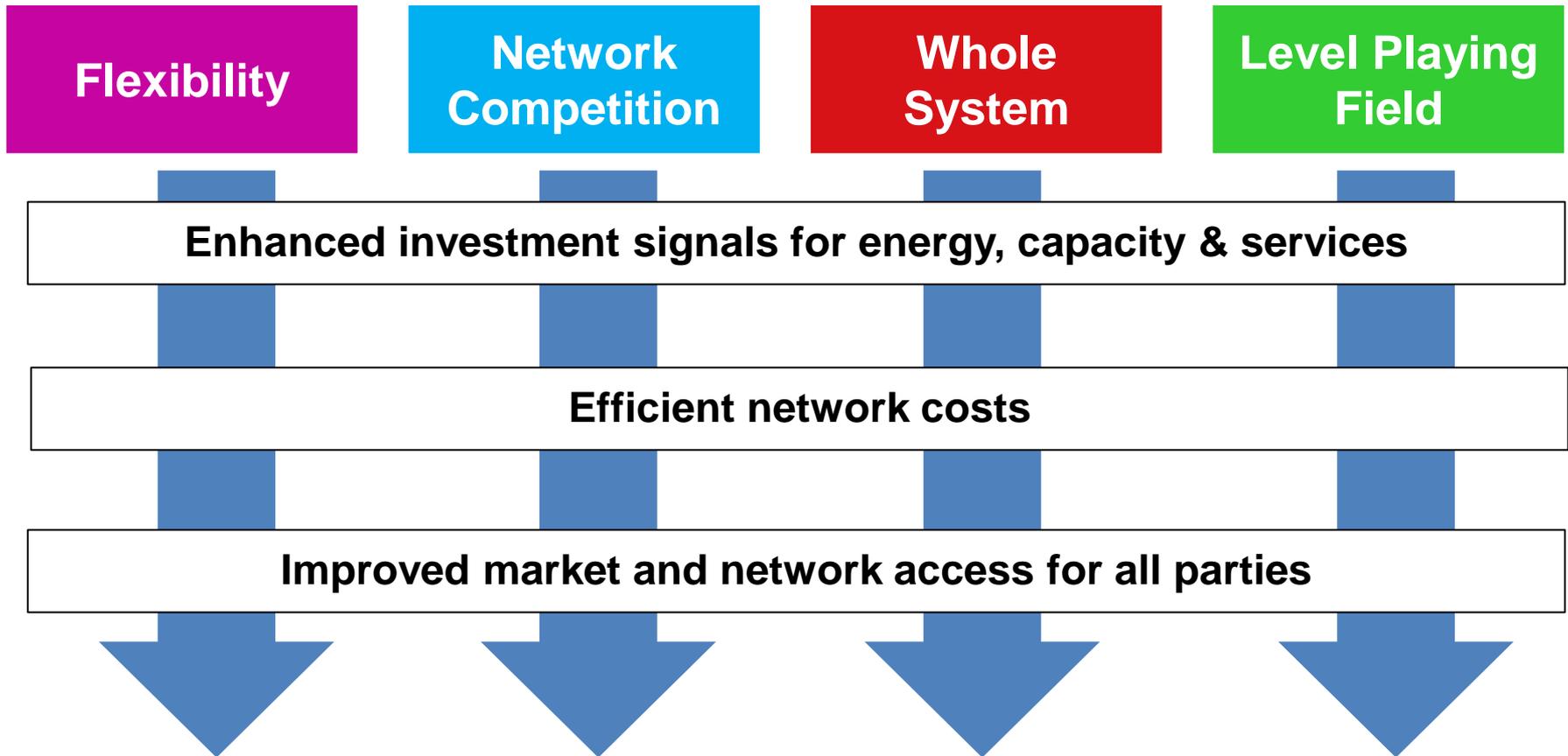


Stakeholder forums: Help stakeholders to understand current and proposed arrangements and their impacts on them

Robust analysis: Providing more robust analysis of changes to charging arrangements to industry participants

Through the above, delivering a more agile and efficient process for market participants to engage with code management

The FRSO programme delivers consumer value through a holistic approach to industry challenges



Low carbon energy delivered efficiently and securely to consumers

The proposals

Governance

- Separate legal entity with separate board with at least 2 sufficiently independent directors

Finance and Credit

- ESO and ETO would have their own accounts (statutory and regulatory) and assets
- SO would also retain the role of administrator of the charging arrangements.
- SO may receive support for the broader NG group on a commercial basis

Employees

- No employees working on both SO and TO issues
- Support functions such as HR and Finance would be provided to the SO on the same basis that they are provided to other NG Group entities

Information

- NGTO should only have access to the same information as other TOs.
- Separation of IS systems, where it is valuable to do so

Physical

- To avoid any real or perceived conflicts, SO and TO should have separate offices with appropriate restrictions on employee access to the offices

Proposed timeline and deliverables

