



30 March 2010

Open letter on SQSS

I am writing to you in my new capacity as chairman of the SQSS Review Group. The Security & Quality of Supply Standard (SQSS) is a set of criteria established as a licence condition on transmission companies which help specify how transmission networks are planned and operated. Over the last 18 months, significant work has been undertaken to consider and progress changes to the standards, however, there remains much more to do to ensure that they remain fit for new circumstances and challenges including our low carbon future.

I would like to take this opportunity to bring the industry up to speed on the current status of this work and our proposed ambitious workplan for 2010. All three transmission licensees remain committed to strong customer engagement, and I would like to take this opportunity to outline how we would like to achieve enhanced customer engagement through governance and process changes as we move forward.

It is recognised that there has been a considerable effort and contribution made, not only by the transmission licensees, but a number of other interested parties. I would like to take the opportunity to thank everyone who has participated for your contribution to date, and I look forward to continuing to work with you in the delivery of the plan that we have outlined below. I would also welcome any comments/observations you may have on the proposed workplan.

Workplan for 2010 (and Beyond) in taking the review forward

All three transmission licensees recognise the pressing need to complete the review of the SQSS and, given the wide and increasing scope of a fundamental review, acknowledge that we need to be more proactive in the future in terms of keeping the industry appraised of progress. As the SQSS underpins the case for development of the transmission networks, it is important that we progress quickly and address the relevant issues resulting from technology and policy developments, especially the implications of new 'SMARTer' technology and the demands of meeting a low carbon energy system.

We fully recognise the complex interaction between demand security, increased network utilisation and the technology required to develop 'SMARTer' grids. We are also cognizant that the volumes of demand management likely to be required post 2020 are not presently sufficiently developed to really understand SMARTer grid network needs. Given this we have concluded that it would be more appropriate to take forward the fundamental review in a phased approach. This allows us to address the more immediate issues such as integrating intermittent energy into the transmission system in an economic and efficient manner, but also permits sufficient time to allow full consultation on how we take forward networks to accommodate tomorrow's low carbon energy system.

Given our desire to make timely progress, the SQSS Review Group proposes to take forward the SQSS review in the following phases:-

Phase 1

- Issue 1st consultation on SQSS in April 2010. This will address changes identified by TSORG (Transmission Short term Operating Review Group), that can be considered standalone. These include, amongst other things:-
 - Removal of Regional variations (variations in requirements in Scotland and England) which were introduced with the implementation of BETTA¹
 - Review of appropriate criteria to be applied in determining transmission capacity in meeting security requirements
 - Review of generation connection options to allow users greater choice when it does not impact on other users
 - Giving greater clarity on demand management which would be considered in determining optimum transmission capacity requirements
- Undertake further detailed analysis and consult in June 2010 on wind generation integration. This is important to ensure the efficient design of the network for the next decade as large scale intermittent wind generation is connected to meet 2020 targets. This will consider, amongst other things:-
 - Connection criteria appropriate for local connections and the opportunity for greater customer choice
 - Recognising wind generation is predominately an energy source (i.e due to intermittent nature of output provides limited demand security), the criteria to be applied in integrating wind generation in an economic and efficient manner
- Work with Ofgem to provide any additional information they require to conclude their assessment and make a decision later this year, on increasing the largest infeed loss from 1320MW to 1800MW. This is an important critical step in enabling new nuclear to connect, improving fuel diversity and meeting 2020 carbon targets.

¹ British Electricity Trading Arrangements

Phase 2

To codify the approach to establishing a network suitable for accommodating electrification of vehicles and heating on a large scale as well as new low carbon demand management technologies, the work plan will then look to:

- Develop new SQSS governance arrangements in the second half of 2010 to reflect developments in offshore transmission and potentially to formalise the arrangements such that future modifications can be well specified and robustly considered.
- Use the customer engagement process envisaged for the forthcoming Transmission Price Control Review 5 (TPCR5) to provide clear direction to the Review Group on the optimum balance of security of supply and economic efficiency for the network of the future.
- Develop a programme for the assessment of modifications associated with the more complex elements of the SQSS review, which will be informed by the customer engagement process outlined above, which will consider:-
 - Balancing security of supply with economics, deterministic with probabilistic standards
 - How best to incorporate a massive growth in demand side management as electric vehicles and heat become more prevalent as we approach 2020

This phased approach has the advantage of ensuring we make necessary progress on all outstanding actions, whilst prioritising the short/medium term challenges needed to facilitate 2020 renewable targets that we presently face, in a safe, secure and efficient manner. In taking this work forward we are seeking to ensure that industry views are fully considered, as is security of supply. We propose to strengthen the role of the Industry Review Group, and we will be scheduling a number of industry workshops to ensure the concerns of the industry, government and the regulator are addressed in taking this work forward.

Background to the Existing Review

In the Energy White Paper in May 2007, Ofgem and BERR were requested to assess the arrangements for transmission access and identify potential improvements to both the short term and long term regimes. This work was taken forward through two Workstreams:-

- The Short Term Access Governance (STAG) Review which examined the steps being taken to optimise access to the network in the short term; and,
- The Transmission Access Review (TAR) which considered more substantial reform of the access arrangements in the longer term.

Transmission Short term Operating Review Group (TSORG) was established by Ofgem to undertake a review of transmission system operation. The work has been carried out by the three transmission licensees, in conjunction with Ofgem and

BERR, so as to identify ways in which additional capacity might be made available using existing transmission system infrastructure.

STAG, TAR and TSORG all made recommendations that had implications for the SQSS and suggested the need for a fundamental review. In particular, certain options for developing the transmission access arrangements explored in TAR and the implications of large offshore wind concentrations implied by the round 3 offshore wind leases highlighted both new opportunities and challenges that might require alternative approaches in the SQSS. On this basis, and with the agreement of Ofgem, the GBSQSS review group changed focus from addressing potential adaptations to the SQSS towards considering the changes that would be more appropriate for the longer term.

In reviewing the SQSS, the existing transmission licensees recognised the interest of network customers and so established an Industry Review Group to ensure participation by interested parties. Over the last 18 months the group received a number of requests for reviews/updates of the SQSS from various sources, but as many relate to accommodating new low carbon generation technologies, the emphasis within the companies has been placed on developing specific development proposals for achieving 2020 targets and justifying these in Ofgem's subsequent reviews rather than attempting the more complex elements of the fundamental review of SQSS criteria in isolation from the development plans.

Since starting a more fundamental review, the role of the electricity networks has come under increasing policy focus. The Select Committee² looking at the future of Britain's electricity networks noted that there are "some concerns that the existing regulatory framework is driving the case for transmission investment presented by the industry at the expense of other more cost-effective options that seek better to utilise the existing network infrastructure. The current fundamental review of the Security and Quality of Supply Standards (SQSS) therefore presents a major opportunity to address these issues." The Select Committee also notes that "reform of the SQSS will be vital for the development of a future SMART grid" and they stressed the importance of urgently completing and publishing a review.

In developing a revised project plan, not only have we have recognised the need to make timely decisions where appropriate, but also the need to ensure that we have appropriate level of customer engagement at each stage. For the first Phase of this ongoing review we will be undertaking an open consultation with interested parties within the Industry. But given the complex nature of the Phase 2, and given the potential impact on the service provided to the end consumer, we feel it is more appropriate to link consultation to the customer engagement process we will be undertaking for the forthcoming Transmission Price Control Review (TPCR), particularly given that the development of the fundamental review proposals, if adopted, could have a direct impact on level of service provided to the end consumer.

² House of Commons Energy and Climate Change Committee "The future of Britain's electricity networks" Second report of session 2009-10.

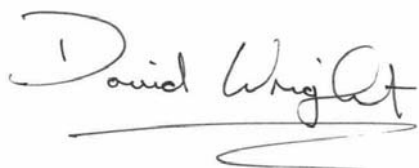
Feedback to proposals

I would welcome your feedback on:-

- 1) The proposed Workplan for 2010
- 2) The proposed enhanced customer engagement & consultation processes for Phases 1 & 2 of this project plan
- 3) The form of governance required for the SQSS as we move forward

We are committed to keeping you informed as our work progresses and will issue further open letters as required if there are any material changes to our proposed workplan. If you have any comments, please do not hesitate to contact either Andy Hiorns (01926 655421), myself (telephone), or any of the SQSS Review Group members.

Yours sincerely

A handwritten signature in black ink that reads "David Wright". The signature is written in a cursive style with a long horizontal flourish underneath.

David Wright

SQSS Review Chairmen

Review Group Members:

David Wright	National Grid, Chair
Colin Bayfield	Scottish Power
Cornel Brozio	Scottish Power
David Carson	Scottish Power
Ian Gilbert	NGET
Andy Hiorns	NGET
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