

10th November 2010

SQSS review – progress update

Back in March I wrote to you as Chair of the NETS SQSS Review Group to describe the Review Group's proposals to take forward the SQSS review. The letter¹ described the issues that we were considering at that time, the work we were about to commence, and included a commitment to keep the industry informed of progress. Since then we have undertaken consultations on three sets of proposals that will have substantial industry impact. The Review Group felt that at this stage it would be appropriate to hold a further workshop to update the industry, and to inform the future work program. This workshop was held on 5th October. Its aims were to:

- Update the industry on the progress we have made in 2010
- Consider priorities for the next phase of future work, including future governance
- Discuss how best to involve the wider industry in future work

The slides, discussion material, and notes from the workshop are available on our website². I am writing now on behalf of the SQSS Review Group to summarise the discussions from the workshop, to outline the next phase of SQSS development work, and to request your support in taking forward this next phase.

Progress to date in 2010

Since my letter in March we have made significant progress on a number of issues that we, Ofgem, and other stakeholders identified as priorities in ensuring that the requirements of the NETS SQSS will remain appropriate for the major developments that will be needed in the coming years. We have undertaken three separate industry consultations, and are currently preparing submissions to Ofgem, in which we will propose a number of amendments to the NETS SQSS. The consultations addressed a diverse range of subjects.

In April we reported on the work that had been undertaken in the previous two years, and sought views on several proposals that emerged from this. The work identified a number of regional differences that can be removed, including a planning requirement that is more onerous in England and Wales and can potentially lead to greater costs. Other proposals, such as basing default generation connections on capacity and fuel source, were sufficiently developed that we consulted on their principles, and we will use the comments received to inform our further work in developing these principles. We also described the extensive review of technical criteria relating to system voltage and stability, and of the guidance on the use of intertrips, which concluded that the current requirements are robust and remain appropriate. Other work has seen the development of analysis tools that will allow us

¹ <http://www.nationalgrid.com/NR/rdonlyres/CF78A12-949C-4D87-B8FD-F51FE156D9E6/40409/SQSSOpenLetter300310.pdf>

² <http://www.nationalgrid.com/uk/Electricity/Codes/gbsqsscode/fundamental/October2010Workshop/>

to make further progress, such as developing criteria for larger off-shore wind farms, in the next phase of review.

The development of substantial volumes of wind powered generation in the next few years is one of the major changes that we, as an industry, will see. It is clear that the level of infrastructure required to accommodate intermittent generation is different to that for the conventional generation that we have connected historically. In March we established a working group to develop a method that would identify the system capability required with increasing volumes of intermittent generation, based on getting the balance right between accommodating wind with operational measures and with additional infrastructure. We consulted on the principles of the method in June, and on the NETS SQSS text required to specify the method last month.

We have previously made recommendations on modifying the NETS SQSS to allow for the connection of larger generating units, for which we saw a clear cost benefit. Since making these recommendations we have become increasingly aware that, in the interim period until they take effect, or until it is decided not to implement them, they may be inadvertently hampering the connection of new generation. Consequently, in September, we consulted on our plan to amend the original proposal to bring forward the implementation date. This has a number of benefits in providing greater certainty to generation, and in allowing the benefit of new, cleaner generation to be realised sooner.

Throughout this period we have kept the industry informed of developments, and sought their views, through workshops and open letters. I would like to take this opportunity to thank all of you that have participated in the workshops and sent us your comments. We will continue to maintain a high level of engagement with all our stakeholders, as this is essential to us in understanding their needs.

At the workshop last month it was agreed that over the last few months our level of engagement and rate of progress on reviewing the NETS SQSS criteria has substantially improved. The workshops that we have run at the time of each consultation have been appreciated. Feedback on our proposals to bring forward the implementation date for changes to the infeed loss criteria was positive, with comments suggesting it is the right approach. The wind integration proposals are seen as a step in the right direction.

Over the next few weeks we will submit our proposals in all of the above areas to Ofgem. The Review Group believe that their introduction will bring substantial benefit in directing the future development of the transmission system.

Next phase of work

At the workshop there was considerable debate on whether, and how, to take forward a more fundamental review of the standard. Some attendees supported significant review of the fundamental principles, such as planning the system against a double circuit loss, whilst others favoured an incremental approach, addressing issues as they arise and become clear. As described previously, in my letter dated 30th March, the Review Group believe this is a challenging area of work.

Following the discussion at the workshop, and subsequent further consideration by the Review Group, we believe that it is essential to understand the broader views of all stakeholders (industry participants, Transmission Owners, Regulators, Government policy and European partners) before we can reasonably determine the appropriate direction for future work of this nature. The balance between climate

change, affordability, and future security of supply for the UK is a delicate one, and the SQSS Review Group believes it would need clear direction on these policy issues before progressing such work.

In taking forward the transmission price control review the three onshore TOs and Ofgem will be consulting with all stakeholders on these and similar issues. These consultations will be key in informing our recommendations to Ofgem on the future objectives of the NETS SQSS, and will address subjects including:

- the value that different stakeholders place on reliability, and the role that the NETS SQSS plays in ensuring this reliability
- the appropriate level of detail required to describe the processes used to develop an economic and efficient system
- the nature, and level, of customer choice
- the role of the NETS SQSS in co-ordinating the transmission owners
- the right balance of risk and benefit that should be made when developing the transmission system
- the potential for provision of further demand services

The Review Group members are also aware of the work ENTSOe is undertaking on harmonising Grid Code and Planning standards across Europe. The SQSS Review Group believe it is important to work through both the UK stakeholder discussions and the ENTSOe development work, and use this to inform the appropriateness of a substantial change to the fundamental principles that the SQSS for the UK are founded on.

The TOs will be starting transmission price control review stakeholder discussions in the next few weeks. We will hopefully obtain a clearer view on all stakeholder requirements through this process. The timing of the transmission price control review process, with the ENTSOe work happening in parallel, is ideally suited to informing future SQSS review direction. We do not see this as preventing or delaying SQSS development, rather we believe this is an essential part of providing clear direction to any future review to ensure the policy direction is both understood and supported, and is thus much more likely to reach a timely conclusion.

It is our intention that we will provide updates on the transmission price control review consultations and ENTSOe work during future regular forums. Once broader stakeholder views have been obtained and understood, the Review Group will discuss their implications for the SQSS, and bring forward proposals to address the issues raised.

During the period of transmission price control review consultations, the Review Group believes that there are aspects of the NETS SQSS review that can and should be taken forward. We believe that progressing these matters will bring clear benefit in areas that will be of significance in the near future. We propose to set up three working groups, with representation from across the industry, to address the following:

- Transmission Entry working group – this group will further develop the proposals, for different default connection arrangements for different types and sizes of generator, that were consulted on in principle in GSR008
- Interconnectors group, covering integration with ENTSOe – this group will look at the assumptions that should be made in the treatment of interconnectors

- Offshore transmission and Integrated HVDC group – this will develop criteria for application to large, distant offshore wind farms, and consider the applicability of MITS criteria to offshore or DC networks in parallel with the onshore system

The establishment of these groups was discussed and supported at the workshop.

Under the existing governance arrangements, the Review Group will develop initial, focussed terms of reference for these groups. The terms of reference will ensure specificity and timeliness in progressing the issues. We believe that it is appropriate for the TOs to chair each working group and submit reports to the SQSS Review Group for subsequent consultation. Should there be any alternate views within the working groups, these will be fully represented in the consultation and subsequent reports.

It is envisaged that these groups will hold first meetings this year. They will aim to submit proposals to Ofgem within one year.

The Review Group believe that this programme will best ensure that, across the industry, we focus on bringing forward proposals relating to current, well defined issues, and work towards understanding the basis and focus for future, more challenging review.

Future SQSS Governance

The NETS SQSS governance arrangements are currently voluntary. The Review Group believes that this will not be appropriate in the future, for reasons including:

- the introduction of offshore TOs that will be required to meet the standard
- the lack of clarity in the process for making amendments
- the need to ensure that future reviews are properly defined, and not too large
- the desire to avoid the need for Ofgem to continually update multiple TO licences as the NETS SQSS evolves
- the desire to avoid having multiple versions of the standard in concurrent use across the TOs.

There are currently a number of different governance arrangements in place for different industry documents. The Review Group is considering whether one of these, or a hybrid, is appropriate for the NETS SQSS. Our preference is for arrangements based on those for the Grid Code as these:

- Provide clear ownership and responsibility for the document
- Ensure that all stakeholders are involved in reviewing the requirements within the document
- Ensure that reviews are undertaken with clear terms of reference, and involve industry representatives with expert knowledge in the area
- Ensure that clear recommendations are submitted to Ofgem

We believe that putting in place more formal governance arrangements that meet these criteria will be key to ensuring good progress is made in the right areas in the coming few years.

During discussion in the industry workshop, there was agreement that formal governance should be introduced. The meeting discussed a number of options for this and some key principles emerged.

- Views were expressed that a key measure of successful governance is how easy it is for a user to get a proposal to Ofgem – it should be possible to always do this, irrespective of TO support or agreement.
- There were no strong views on industry representation on the panel, except if this is needed to facilitate getting user proposals to Ofgem.
- It was noted that a balance is required between the ability of parties to easily submit change proposals and the need to avoid instability in the standard resulting from a large number of changes.
- The provision of feedback to the industry is important. Suggestions to achieve this included:
 - a governance commitment to regular forums, possibly every six months
 - publication of consultation responses and review group replies, in addition to including them in the report to Ofgem
- Governance needs to be clear on the detail to which proposals should be worked up, with the aim of avoiding multiple consultations by the Review Group and Ofgem wherever possible.
- It was suggested that the governance document should state the NETS SQSS objectives.

These views are consistent with those of the Review Group, and will help us develop the detail of the arrangement proposal that we will consult on.

We will welcome any further views on an appropriate governance framework. Please send these to us as described below.

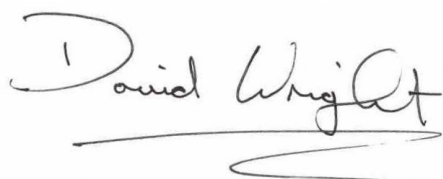
It is intended that proposals will be consulted on early in 2011, followed by their submission to Ofgem before the end of 2010/11.

Industry Involvement

We welcome industry participation in developing our future governance arrangements and in taking forward the specific developments as outlined in this open letter. We believe that for progress to be made, positive contributions from the wider industry are needed on all the issues. We would like nominations for representatives on each of the three groups that we intend to establish this year by November 24th. Please forward nominations to our SQSS e-mail address, ENI.SQSS@uk.ngrid.com.

We are also committed to holding regular six monthly industry workshops, as we have done in 2010, to keep the industry informed of SQSS developments, until such time that these are superseded by any new governance arrangements.

Yours Sincerely

A handwritten signature in black ink that reads "David Wright". The signature is written in a cursive style and is underlined with a single horizontal line.

David Wright

SQSS Review Group Chairman

Review Group Members:

David Wright	NGET, Chair
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