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Dear Sir

Open Networks Project - Consultation on future worlds impact assessment

The Flexible Generation Group (FGG) represents the owners of and investors in small scale, flexible generation. These power stations are embedded in distribution networks and provide a variety of vital services to the system operator to help it deliver secure, economic supplies to electricity customers. We also participate in the Capacity Market (CM) and have made significant investment in new capacity on the back of CM agreements; we have delivered more new capacity than any other group of GB companies. As the market develops we expect that FGG members will be selling services without undue limitations to both the ESO and DNOs as the latter learn to balance the market with new technologies, securing demand for customers.

Impact Assessment (IA)

The FGG welcomes the work done by Baringa, which provides a set of useful tools to assess the options and future scenarios developed by the Open Networks project. In particular, the more detailed articulation of the various market models (Worlds) is useful in promoting a common understanding. We also welcome the approach of a measured, evolving transition in developmental stages, which assigns value to current arrangements and future opportunities for Distributed Energy Resources. However, we would welcome a more focussed approach to aid efficiency and understanding across the market.

The FGG has not analysed the details of the modelling work, but in discussion with other parties we feel that the models remain quite unclear. For instance, the report states that World B is the current starting point of the route to transition, but arguably the current arrangements fit into World D; more consideration should be given as to what extent the market should move into World B. For example, the ESO buys reactive services, but the DNOs could procure some local reactive services, as Ofgem has proposed in the past with their suggestion of local reactive power markets. Where is the cut off the DNOs in the lead on service procurement vs the ESO given the ESO can buy a service to use in more than

one DNO region? It will be inefficient if ESO and DNOs are not clear which services they should be developing and procuring.

While we recognise that the project has undertaken some very interesting work, we would encourage the ENA to focus the next piece of analysis on a few selected Worlds that have demonstrated greater benefits and potential.

From the FGG perspective, we support the development of World B (for both stage 1 and 2). This is the scenario that in principle allows market participants to sell to a number of counter-parties the different services they require. The ability of parties to add value across different parts of the market has been encouraged by Ofgem¹ as a way to increase investment in new services and technology.

The FGG believes that the most efficient way forward is Transition Path n.1, taking into account connections and charging needs, and arrangements for DERs to provide flexible services to the ESO and the DSOs. Stacking revenues and value is key to facilitate DERs being able to provide services to multiple system operators, and to do so competitively and at the lowest cost to consumers. World B allows DSOs to address local issues, but local requirements should be addressed without compromising the overall system balance, and should still allow DER providers to offer their residual flexibility directly to the ESO.

With regards to other Worlds, we agree that World C, on reform of access and charging arrangements, should not be a standalone scenario and it should be integrated in the other Worlds.

With regards to World E, although the proposed separate DSO could be a rather inefficient solution, this is the only scenario trying to address and deliver the role of DSOs as neutral market facilitators. Industry has been continuously raising the issue of the need to mandate a legal separation between DNOs and DSOs to limit the risk of conflict of interest in the key responsibilities of supporting the optimisation of the wider electricity system, actively managing the network, and optimising the amount of network reinforcement needed. Yet, this requirement seems only to be considered in a standalone World instead of it being integrated across all Worlds as is the case for World C.

Most importantly, the FGG does not support World A, which introduces regional single buyers. Allowing DSOs to provide services on a locational basis to the ESO will only exacerbate current concerns around the effectiveness of roles and scope of regulated activities in preventing market distortions as the energy system evolves. Parties should be free to sell to the DNO or the ESO via a bilateral trade, choosing who to sell to, even if there are two markets for the same product.

Furthermore, currently our members only need to contract with the ESO to sell GB wide services from geographically-spread sites. World A would therefore obviously increase our transaction costs and we believe would lead to regional market splitting, with increasing diversity, the very thing that in the past has resulted in post code lotteries. For

¹ BEIS and Ofgem, Smart System and Flexibility Plan, July 2017. Accessible here: https://www.ofgem.gov.uk/system/files/docs/2017/07/upgrading_our_energy_system_-_smart_systems_and_flexibility_plan.pdf

these reasons, we believe that World A would bring too many distortions and have severe detrimental effects on competition. As such, we would therefore prefer to see work on this World stopped, so resources can focus on more acceptable outcomes.

We are concerned that the take up DSR, either reducing or moving demand, may not be substantial enough and we therefore believe that the DNOs should undertake some investment in their networks as well as looking at policies to alter usage. We welcome the ‘flexibility first’ statements of SSEN and UKPN and would encourage the development of the new worlds to focus on utilising existing D connected assets as an alternative to investment in wires, but recognise that sometimes more network capacity is required.

The IA suffers from having little detail on the Ofgem charging reviews. Generally, we believe the IA is right to show that more networks will be managed on a local basis, but this does not seem consistent with the Ofgem IA on charging² which suggests CCGTs are the most efficient way to meet future demands. It would be useful for the market to understand why the Baringa and Frontier results are so markedly different. The Baringa work could also be fine-tuned when more details of Ofgem’s policies are published.

FGG also believe that the benefit of embedded generation in terms avoided TO investment is undervalued; the costs of the actual investments to increase TO capacity are greater than the IA suggests and we would like to see some further analysis done in this area. Although more of a charging issue, we are concerned that the full costs of the TO investments offshore are not reflected in the wholesale prices of the relevant assets. On the other hand, the lack of TO investments in areas such as the south west is stopping the deployment of embedded resources, with the associated reduction in competition.

As noted above, FGG does not want to see the market develop in such a way as to increase the administrative burden of parties in contracting and coordinating with one another. Ease of market entry and exit, transparency and accountability are important in developing economically efficient markets. We suspect that the IA is not capturing the inefficiency of arrangements with multiple monopoly activities (notably World E) and those with less transparency and increased market distortions (such as World A). If the majority of respondents share these views, we feel it would be prudent to drop these options and focus on developing the other models. This also highlights the need to consider the impact of contracting on the national balancing market, which is missing from the IA.

We agree that we appear to currently be operating in World B, moving from World D, and we agree that developing that structure further is the best way to move forward, as it gives the ESO and DNOs different roles, but more logically puts them in charge of the areas where they have expertise and should have transparent obligations. However, drawing the lines between the DSOs and the ESO needs far greater clarity. Our concern with Transition Path n.3 is that the ESO has shown a consistent inability to actively engage with, and utilise, smaller parties. With smaller, decentralised generation growing, it would be reckless to put the ESO in charge of everything until it proves it can deliver.

²Residual charging, targeted charging review, Ofgem’s minded to consultation, further analysis on the impact on large customers – December 2018.

We have concerns that the schemes to test new technologies and ways of working are dominated by the DNOs. They need to indicate, with more detail, to the market the types of services they want to see develop, the timescales, locations, new approaches, etc., and therefore facilitate more competitive tendering of their trials. No monopolies should be allowed to own and operate assets in the competitive parts of the market.

FGG notes that the impact of competition is considered in the IA, but it is difficult to understand if that is just competition in the provision of the services that the DNOs require or if the IA is also considering the impact of competition in the wider market, such as the BM or the CM. We would welcome a greater understanding as to how the competition metric is derived. We note the reference to reduced energy balancing costs, but are unclear where the reductions are coming from.

In summary, we support a system that builds on current commercial structures, but with a clearer delineation between the roles and responsibilities of the TO and the DNOs. This seems to lean us towards favouring World B, but until there is greater transparency about how the ESO and DNOs would collaborate and coordinate we would favour some more detailed analysis on both World B and World D.

We hope that these comments are helpful and would be happy to discuss any of the details with you and your team.

Yours sincerely



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Flexible Generation Group members:

PeakGen Power

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Forsa Energy

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UK Power Reserve

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Plutus Powergen

VPI Distributed Generation

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