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*Sent via email only to opennetworks@energynetworks.org***Energy UK Response: Open Networks Project Flexibility Consultation**

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies, right through to new, growing suppliers, generators and other market participants including aggregators, software providers and EV chargepoint operators.

Energy UK welcomes the opportunity to feed into the work of the Open Networks Project (ONP) workstreams on flexibility. We would again note our appreciation for the work done by the ENA and the many network representatives leading work across the project to date. The development of robust competitive markets for flexibility will be critical to keeping costs down for consumers and we, therefore, welcome the products set out in this consultation.

Energy UK does, however, hold concerns over the monitoring and governance of the Flexibility Commitments that underpin these products. Implementation of common standards and the wider flexibility principles must be monitored, and any DNO or DSO seen to be consistently subverting these principles should be removed from the signatories.

Energy UK increasingly hears concerns from members over DNOs that continue to be publicly associated with these commitments while also progressing changes that undermine markets for flexibility, or in some cases while entering into direct competition with their customers. The ONP can only expect to retain stakeholder buy-in at the levels it has seen to date if there is confidence in the impact of its outputs.

Innovation and market confidence are still being hampered by the code modification process, particularly noting SECMP0046 and the associated DCUSA change proposal DCP371, as well as being impeded by continuing issues surrounding networks' participation in competitive markets. This is undermining the efforts of the ONP to establish attractive markets for providers of flexibility.

If the ENA or other stakeholders would like to discuss any of the details of Energy UK's response below, we would welcome continued bilateral engagement and engagement with Energy UK's many stakeholder groups.

Sincerely,

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Energy UK Response to Open Networks Flexibility Consultation

Common Question for all Products

Q1 – Do you agree with our proposals within this consultation paper and if not, please provide us with any rationale and alternative proposals? This feedback can be generic to our proposals or provided on a product by product basis.

Energy UK broadly agrees with the proposals set out in this consultation and welcomes the focus on developing effective markets for flexibility across the distribution level. Creating a clear, consistent process is core to increasing the potential for participation, and is a welcome output for the ONP. Energy UK would, however, like to see more focus given to governance, to ensure that all DNOs are delivering against the promise set out by the Flexibility Commitments. This should include more regular publication (e.g. monthly) of the amount of flexibility procured by individual DNO, with the addition of data on utilisation.

It is further vital to the successful development of markets for flexibility that these changes are coordinated with wider reforms, given the interdependency across network charging, Distribution System Operation functions, RIIO-ED2, and the wider work of Ofgem and BEIS in delivering a smart flexible energy system. Highlighting these interdependencies at Advisory Group meetings and clarifying the ways in which they are coordinated has been one element of the ONP that has not been as present recently.

While Energy UK expects that this is due to resource constraints and reprioritisation across Ofgem, BEIS, and networks throughout COVID-19, it is important to return that element to engagement as soon as is possible. This includes establishing a clear understanding of ongoing changes that may impact on flexibility market development, from SECMP0046 mentioned earlier to PAS1878 standardising smart energy appliances' integration into markets.

Energy system data is a further enabler of effective markets, and Energy UK would reiterate the request for the ONP to prioritise opening up data on the state of network assets in a timely manner. We welcome the work done to date in establishing heat maps and open information across DNO websites, but this work is far from complete. With the licence changes relating to the reform of the LTDS not due to take effect until Q2 2023, the ONP should identify where quick win, least regrets improvements can be delivered in the short term.

Common Evaluation Model – 2020 Product 1

We would also take this opportunity to welcome the principle of DNOs using a common CBA tool for future decisions when comparing reinforcement with the use of flexibility services. Provided that the results are published it will aid transparency and help DNOs demonstrate that they are acting impartially.

However, Energy UK does not find that the Baringa tool is sufficiently ambitious or accurate, given that it does not fully assess the optionality value of using flexibility services to delay physical reinforcement until the DNO can make a more informed choice based on greater data. The tool also does not incorporate whole system impacts of flexibility utilisation, something that DNOs are required to explore under new licence conditions.

The CEM was introduced to show how DNOs would compare ANM against flexibility service procurement and reinforcement, but the documents shared for Product 1 do not sufficiently demonstrate how ANM would be assessed. Without further work there is a risk that DNOs will not sufficiently consider all the costs or wider societal impact associated with the use of ANM or other network-based solutions. Market participants need to be confident that all options are being fairly and comprehensively compared.

The tool has not been fully examined by a wide range of stakeholders, and this needs to be addressed before this tool can be seen to be effective.

Procurement Processes – 2020 Product 2**Q2 – Would stakeholders see greater value in holding PQQ stages (1, 2 in the associated presentation) at point A or point B in the timeline with rationale?**

Energy UK sees Assessment Criteria A as the most sensible approach. This approach would spread out the timeline for requirements and ensure that participants are not required to take part in the tender process before knowing if they qualify. There may need to be some flexibility in terms of the approach, as it is possible for a party to not meet the requirements at the time of the tender but be on schedule to qualify by the time of asset testing.

The ONP should also include efforts to work with stakeholders to streamline and remove barriers from the Technical PQQ that could, at present, be a barrier to participation for aggregation.

Q3 – Do you agree with the alignment of timing for procurements on the proposed cycle of 2 procurements per year and if not, why?

Energy UK broadly agrees with this approach for services tendered in advance of need. There is a need to ensure that these timelines do not clash with existing tenders across energy markets. There is a further need to ensure that the process holds enough flexibility to allow for additional tenders as required by the DNO where unforeseen circumstances emerge.

This could also allow DNOs to develop routine markets across closer to real time shorter timeframes. System operations over the COVID-19 lockdown present the most vivid example of how circumstances can change, but the uptake of low carbon technologies can also be expected to fluctuate based on location without much forward notice.

Network operators regularly state that uptake of distribution-level flexibility and market participation has been a challenging process to date. Energy UK encourages the ONP to consider other factors that have influenced engagement in the market. This includes the perception that primary income streams for flexibility are in jeopardy (examples include: Capacity Market suspension; Ofgem's charging reviews; delayed reform of NGESO Ancillary Services; SECMP0046, and; CLASS participation in NGESO markets).

The recognition of these wider factors as well as the relationship between DNO and ESO procurement cycles is important, as flexibility providers consider their overall business case rather than the market in isolation.

Active Power Services Parameters – 2020 Product 3**Q4 – Do you agree that implementation of these consistent parameters helps to remove barriers to entry?**

Energy UK agrees that implementation of these consistent parameters will be a valuable tool in removing barriers to entry.

Q5 – Should any other parameters be considered and if so, why?

Energy UK has no additions at this point, but would note the importance of ensuring that these parameters are reviewed on a regular basis to ensure they are not creating barriers as additional business models and technologies emerge.

New DSO Services – 2020 Product 5**Q6 – At what point do you believe it is appropriate to standardise new products? For example, should we initiate standardisation early on limited experience, or allow more than 2-3 DNOs to develop and procure similar products before commencing standardisation?**

Beyond the four standardised services, it is understandable that DSOs will need some flexibility to deliver additional products to meet the changing needs of their local area. The ONP should be used to coordinate the development of those products in an open and transparent manner, and to aid DNOs in identifying the areas of least-regrets in which further standardisation can be progressed. This should include stakeholder engagement ahead of the introduction of a new product, and the delivery of a trial tender of the service with information shared on the process and experience throughout the process.

Standardisation of products should be initiated following an initial trial tender as, while allowing for innovation is important, standardisation will offer market confidence. Once the service has been trialled, the ONP should standardise the approach. Differentiation between services being actively tendered for should only occur after a full justification is set out for that exemption.

A principle of transparency and a common goal to replicate, standardise and roll out to more areas at the earliest opportunity should be central to DNO activity. ONP governance should ensure that project trials set clear timelines that remove any risk of DNOs establishing a suite of bilateral agreements. .

Tenders for the service should be able to continue during the standardisation process, and flexibility should be embedded in the process to allow for further innovation and adaptation where justified by evidence. This will prevent the development of multiple similar products across GB, and give the market confidence in its ability to have visibility of, and input into, the development of new products.

Q7 – Which new DSO services do you believe are ready for standardisation now, if any, and why?

Any services currently being tendered for in more than one distribution area should be standardised. There may be a need to review innovation projects that are examining closer-to-real-time products and identify no-regrets areas for standardisation to enable this part of the market to further develop.

Market Facilitation – Non DSO Services – 2020 Product 6

Q8 – What input can you provide to help us prioritise non-DSO Service development?

- **What do stakeholders want network operators to facilitate in the near term?**
- **How can network operators facilitate non-DSO services whilst ensuring system resilience?**
- **How do network operators create scalable interfaces that allow these markets to flourish?**

The provision of accurate, granular data on the state of the network is critical to enabling non-DSO services to develop. The ability of DNOs to monitor network assets and electricity flow across their distribution areas must be improved upon, and the data made widely available to give a level playing field to all parties that wish to establish markets and services. These parties include NGESO, who increasingly needs visibility of the distribution network to enable effective balancing.

Market operators and networks should also be sharing full details of the intended timeframe for the market. This includes information on how long a reinforcement deferment will run for, what kinds of constraints exist in each area, and timelines for the natural replacement cycle of the local assets. Setting out these risks and sensitivities will enable operation of a range of markets within a fully informed modelling approach.

DSO operations should be kept separate from the business as usual of network operation. Sharing data and ensuring a level of separation of these activities will allow third parties to establish competitive and effective market platforms and processes.

Network operators already maintain acceptable levels of service across their network areas, and this will enable continued provision of services by other parties, including NGESO. Stakeholder engagement is also maintained at a high level, but may need to be adapted to ensure that DNOs are aware of and

able to support third parties in the development of local markets for flexibility. This includes consulting on the best approach to delivering those projects.

The existing approach of DNOs to engagement with these projects has resulted in concerns as community projects are disheartened by high connection costs for shared assets. Resolving this issue by consulting with these groups on what options there are for connection at low cost will be crucial to continued interest in these projects across the board.

Baselining Methodology – 2020 Product 7

Q9 – What challenges are flexibility providers currently facing in respect of baseline requirements?

While Energy UK broadly asks that local markets follow the established standards set by NGESO markets, there is some room for improvement in this space, as recognised by NGESO in its ongoing market reforms. Concerns regarding baseline requirements are often based in pre-qualification requirements poorly suited to distributed assets and particularly to DSR. The use of historical data as a baseline does not work well for aggregated assets, and this can lead to perverse outcomes. Consultation with a wide range of flexibility providers including suppliers, generators, and aggregators will ensure a suitable solution can be developed.

Q10 – Open Networks Project will consider if differing DER types such as demand turn up, storage, generation etc. should be subject to different methodologies. Do you feel this would be a fair outcome for providers or, would a simple one-size fits all approach encourage more participation?

Energy UK feels that the approach should be reflective of the needs being addressed by each service. So long as those overarching requirements are uniform across all local markets for flexibility, the market will adapt to address those requirements. To create any significant differentiation in the approach taken based on technology would risk being discriminatory to certain technologies, so must be carefully approached.

Any differentiation within the methodology should be in place solely to ensure fair treatment of all technology types, with monitoring in place to test the impacts of the approach and address any issues. There may have to be different methodologies to allow technologies to compete fairly, but these need to be designed in a way that does not confer advantages to any specific asset class.

Q11 – Are there any other key aspects Open Networks should consider when investigating potential methodologies?

The scope provided to the consultants could result in recommendations based on the most common existing approaches used by networks. There is a risk that this would embed practices that do not work for newer sources of flexibility, such as the aggregation of smaller DSR devices.

The Interactions between Flexible Connections (ANM) and Flexibility Services – 2019 Product 5

Q12 – Please provide feedback on the proposed future activity for consideration and which of these activities should be prioritised in any future scheduled development work in the Open Networks Project?

Energy UK welcomes the proposed future activity in this area, which may aid in connection and utilisation of additional low carbon and flexible assets. Energy UK still holds concerns regarding the approach to ANM, and the risks that continued utilisation poses to developing flexibility markets. Most DSO Strategies published by DNOs discuss expanding ANM across their networks to utilise this in demand management. Opening up data on ANM availability and the utilisation of these controls is important to understanding where this could have a negative impact on flexibility market development.

While the products set out are welcome, there remains a need to address the overarching question of what priority ANM does and should take alongside the wider range of solutions available. This question must be resolved for the market to have confidence that assets will be called upon as part of the market, instead of DNOs continuing to rely on ANM and curtailment.

Energy UK continues to feel that the term 'flexible connection' should be replaced given the lack of clarity, as the connection is not flexible for the customer, simply able to be curtailed.

Q13 – Under the current arrangements to do you receive sufficient information, in the right format, and at the right time to be able to manage your curtailment risk effectively?

While Energy UK is not a direct participant, Energy UK members note the need for greater communication of the intended actions of the DNO, the state of the network, and the availability of other sources of flexibility. Energy UK believes that the existing and future workstreams within this section could address these concerns as long as they are progressed in an open manner with significant stakeholder engagement.

Q14 – Are there barriers preventing customers with assets with Flexible Connections (ANM) providing flexibility services to the ESO or DSO today?

Certainty and complexity remain issues for those with constrained connections, as bidding into many services requires certainty of availability, something that can be impacted by the connection agreement. It is vital that all forms of flexibility at Distribution level are coordinated with NGESO balancing and markets, with DSO actors prioritising the use of flexibility services. It is important that whole electricity system balancing retain an overarching priority over localised constraints.

In terms of day-to-day operations, there is a need to develop a set of clear principles and primacy rules for addressing flexibility service conflicts between the transmission and distribution networks. No party should be unreasonably restricted from accessing a range of revenue streams and valuing their potential where it is most efficient to do so, unless operation of the transmission or distribution system is at considerable risk.

There should be processes in place to ensure robust justification and full transparency around any restrictive actions taken by DNOs or NGESO.

Q15 – How could DNOs better enable customers with Flexible Connections (ANM) to use Flexibility Services to mitigate the current and future curtailment?

Placing ANM below flexibility services contracted in a market process will further enable those operating under a constrained connection to offer a service to address the constraint before being actively constrained. This would also encourage those parties to find ways to integrate flexibility into their business model, reducing the need for constraints to be put in place.

As set out in the approach to date, it is clear that improving clarity over frequency, duration, and type of curtailment would be an improvement on the existing approach and allow for greater integration of these assets into NGESO markets.

DNO Flexibility Services Revenue Stacking – 2019 Product 5

Q16 – Please provide feedback on the identified barriers and proposed recommendations and which of these recommendations should be prioritised in any future scheduled development work in the Open Networks Project?

Energy UK broadly supports the recommendations made under this product and the efforts being made to ensure revenue stacking is available to all FSPs. Any local market activities should be coordinated with NGESO to ensure full transparency over what assets are needed where. This was one of the first

topics raised at Advisory Group meetings and continues to be a critical requirement of the successful integration of distributed assets into whole electricity system balancing and stability.

Residential Flexibility

Q17 – Do you have any ideas on how we might better engage and encourage participation of residential flexibility in flexibility service provision? Can you identify any barriers that might currently exist, along with potential solutions?

Energy UK welcomes the efforts of the ONP in engaging aggregators and community energy groups, and would like to see this continue to aid in answering and addressing these questions.

There is a degree to which increasing residential participation sits outside of the purview of the ONP, in terms of the impacts of reflective network charging and the development of attractive customer propositions. Beyond this, there is a role for the ONP in ensuring that: baselining allows for participation of a higher number of smaller assets; systems in place for dispatch are able to automatically select a range of providers regardless of size and technology type, and; resources are made easily available and understandable to encourage and enable participation from a wide range of individuals.

Energy UK members have also raised concerns about the level of asset re-assurance aggregators are required to provide for different services at residential level. There are alternative, approaches that may be more appropriate. As stated earlier, there may have to be different methodologies to allow technologies to compete fairly, but these need to be designed in a way that does not confer advantages to any specific asset class.

Beyond this, it is important that appropriate financial incentives are offered for behavioural change, and the amount paid to FSPs will impact the number of participants, including residential customers. Given the nascent nature of these markets, it is critical that this incentive is attractive to incentivise participation and develop a robust competitive market.

Stakeholder Engagement

Q18 – Do you have any ideas on how we might better engage and encourage feedback and input from stakeholders (including non-traditional energy market participants)?

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