

# Conflicts of Interest (Col) and Unintended Consequences (UC) Register Webinar

Fiona Navesey  
Avi Aithal

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## Thank you for joining this Webinar.

This webinar will commence at 10:03am.

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- The slides from the webinar will be made publicly available on ENA's website.
- If you would like to receive information about the Open Networks Project or have any feedback you would like to submit, please get in touch with us at [opennetworks@energynetworks.org](mailto:opennetworks@energynetworks.org).

# Agenda for the session

1. **Introductions**
2. **Purpose of webinar**
3. **History of the Col and UC Register**
4. **Evolution and Continual Improvement**
5. **How the Risk Register is used today**
  - Process
  - Engaged parties / roles
  - Approval process
  - Comms
6. **Main Features**
  - Definitions (risk / status)
  - Systemic risk / ONP risk
  - Heatmaps
7. **Walkthrough of the Register features**
  - Tabs and Headings
  - Heatmaps
  - Sample risks
8. **Interactive session – Stakeholders and Risk Owners**
  - Review risks of interest
  - Mitigation strategies
  - Actions
  - Progress
9. **Wrap Up**
  - Feedback capture
  - Action summary

# Purpose of Col and UC Register Webinar

## **Provide a teach-in on the Open Networks Conflicts of Interest and Unintended Consequences Risk Register**

- Background
- Current uses and importance
- How to navigate
- How to engage and challenge

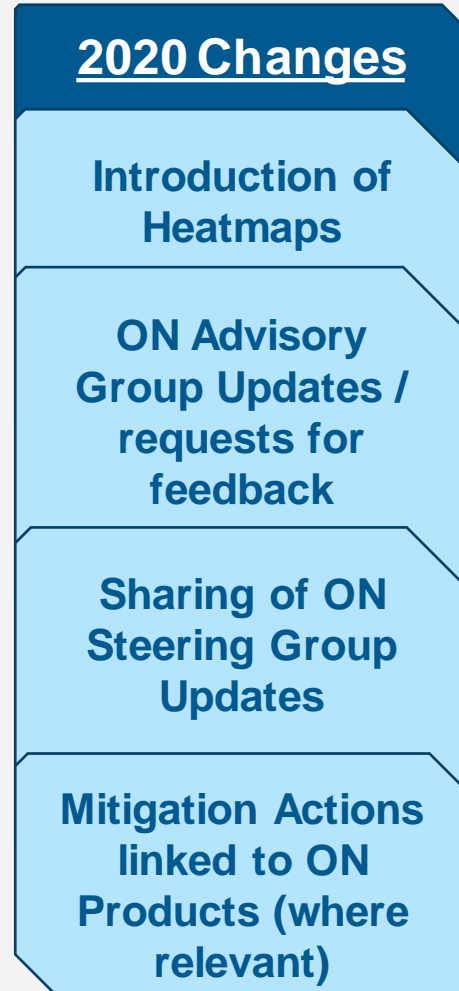
## **Opportunity to explore the top risks in detail**

# History: the Col and UC Register – a response to stakeholder concerns

- Part of the wider ENA ONP and Baringa activity on ON Future Worlds in 2018
- COI and UC scoped out with ONP and stakeholders in a workshop 4/12/2018
- Six themes identified
  - Distributional Customer Impacts
  - Risk of Regret
  - Operational Viability
  - System Security
  - System Operator Conflicts
  - Market Power and Gaming
- **Importance recognised - scoped out as a standalone product (ON 2019 WS3 Product 7)**
  - Included Conflicts of Interest and Unintended Consequences of the transition to DSO but NOT risks to the DSO model or operations
  - Product to explore risks and focus on mitigation measures
  - **Outputs:** A spreadsheet to act as a risk log and tracker; recommendations for work in 2020
  - **Outcomes:** transparency for stakeholders; better informed decisions on the design of DSO
  - First version shared with ON AG autumn 2019

# Evolution of the Col and UC Risk Register

further investigations: stakeholders not aware of improvements to the Col and UC Registers



ON has taken action to address the conflicts of interest but has not engaged sufficiently with stakeholders to understand whether they are happy with the mitigation put in place.

Greater detail on the processes DNOs will implement to avoid conflicts of interest.

Concerned that this document has become a 'black hole' for stakeholders' legitimate concerns.

Suggest ENA Customer & Social Issues Working Group are involved in product and widening of scope to address the needs of vulnerable customers.

Monitoring activity only adds value if followed up by actions to address / mitigate identified risks. Not clear how Open Networks intend to address risks identified in the risk log

# Continual improvement - Col and UC Register Focus for 2021

**External Stakeholders**

- Awareness rather than content
- CITA: more focus on impact on consumers esp. vulnerable

**Internal stakeholders**

- Awareness
- Unwieldy
- Relevance to Smart System evolution

	STOP	START	CONTINUE
External Stakeholders		<ul style="list-style-type: none"> <li>• Refresher Webinar</li> <li>• Blogs/Social Media</li> <li>• Engage ENA Customer &amp; Social Issues Group to monitor / advise on vulnerable customer impacts</li> <li>• More explicit links with DSO implementation plans?</li> </ul>	<ul style="list-style-type: none"> <li>• Heatmap focus</li> <li>• Updated Flags</li> <li>• Publish Steering Group updates</li> <li>• Mitigation focused approach to Advisory Group engagement</li> </ul>
Internal stakeholders	<ul style="list-style-type: none"> <li>• Quarterly updates – move to 6 monthly with an interim refresh</li> </ul>	<ul style="list-style-type: none"> <li>• Separate systemic risks from more actionable risks – sub-registers that fit one page</li> <li>• Review and communicate interactions with DSO implementation plans</li> <li>• Refresher Webinar</li> <li>• Blogs/Social Media</li> </ul>	<ul style="list-style-type: none"> <li>• Heatmap focus</li> <li>• Publish Steering Group updates</li> <li>• Filters by Product / Owners</li> <li>• Updated flags</li> <li>• Workstream AoBs</li> </ul>

# Current position – how the Col and UC Register is used today

## Aims

- Focuses on conflicts of interest and unintended consequences raised by stakeholders and provides full visibility of activity
- Working with stakeholders, it identifies and tracks mitigating actions needed to ensure a fair marketplace that delivers the best outcomes for all consumers.
- Ensures ON activities and /or activities of third parties are not leading to unfavourable outcomes for any actors in the energy landscape and in particular vulnerable customers.

## Process – generic approach to risk management

- Each risk has a risk rating with mitigation strategy(s) and associated actions
- Risk owners are required to review and update their risks on a quarterly basis; ONP quality check and present to WS3 Leads
- Quarterly review and final approval by ON Steering Group and updates to the ON Advisory Group
- Stakeholder input is key; register is open for comments on ENA website and ON AG input sought proactively
- Heatmaps introduced in the Q3 2020 enabling stakeholders and risk owners to focus on the greatest risks and monitor progress more easily.



# Col and UC Register Q2 2021 Update

## **Process Changes**

- Detailed review 6 monthly (Q2 and Q4); Heatmaps review (Q1 and Q3)
- ENA Customer and Social Issues (C&SI) Working Group engaged re: risks with direct customer impacts
- More clarity on interactions with DSO Implementation Plans
- Risk owner and stakeholder communication / engagement plan

## **Structural Changes**

- Systemic risks split out separately – smaller sub-registers
- Risks captured by Heatmaps identified in Register
- Risks monitored by ENA C&SI Working Group identified in Register
- Filters by Product / Organisation Owner

## **Content Updates**

- No major update in March
- Ofgem A&FLC SCR minded-to decision captured
- Flexible Connection (ANM) Stakeholder Focus Group Workshops and recent deliverables captured
- Work on WS1A P5 Primacy Rules for Service Conflicts commenced

# Col and UC Register Contents

- **Register Tabs**

- Readme
- Definitions and Ratings
- Change Log
- COI: Heat Maps / Systemic Risks / Open Networks Project focus
- UC: Heat Maps / Systemic Risks / Open Networks Project focus
- Scorecard
- Out of Scope

# Calibration of Risk Impact and Probability

Calibration of Risk Impact	Ofgem's Components of System Transformation			
Risk Impact	Decarbonisation (Net zero in 2050 target)	'Minimise the cost of any necessary expansion of network capacity'	'Facilitate effective energy markets'	'Achieve whole system efficiencies (across vectors)'
<b>3. Critical</b>	The issue will cause a significant component of the action plan to stall throughout GB	The issue will cause the network to expand "unnecessarily" (i.e. non network solutions are a <i>realistic</i> alternative) and a higher cost	Costs to generation and supply of energy are added	Options selected locally across vectors clash and lead to costs that could have been avoided
<b>2. Significant</b>	The issue will cause a significant component of the action plan to be delayed in some places	The issue will cause the network to expand "unnecessarily" (i.e. non network solutions are a <i>realistic</i> alternative)	Opportunity to take costs out of generation and supply of energy are within reach but missed	Some effort to coordinate options across vectors was made but could not be pursued
<b>1. Moderate</b>	The issue will be a hinderance to parts of the action plan	The issue will cause the network to expand but non network solutions are not a <i>realistic</i> alternative	No opportunity to take costs out of generation and supply of energy arises	No effort to coordinate options across vectors is made
<b>0. Insignificant</b>	The issue will have little or no impact on the action plan	The issue will have little or no impact on network expansion	The issue will have little or no impact on costs or cost avoidance	The issue will have little or no impact on whole system efficiencies

## Calibration of risk probability

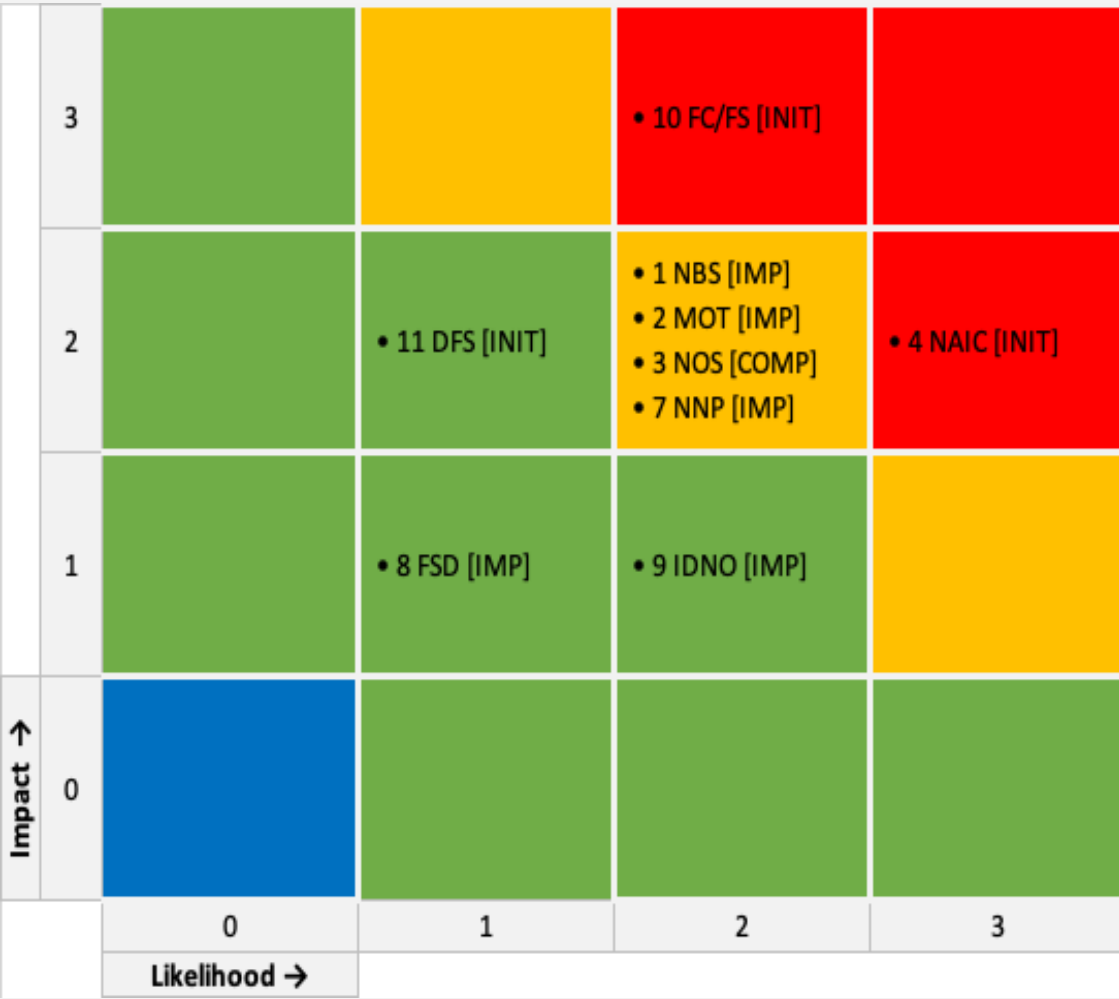
Risk Probability	Definitions
<b>3. Near certain</b>	The risk event is expected to occur in most circumstances
<b>2. Probable</b>	The risk event will probably occur in most circumstances
<b>1. Possible</b>	The risk event should occur at some time
<b>0. Rare</b>	The risk event may occur, only in exceptional circumstances

# Definitions: Mitigation Categories and Implementation Status

Mitigation Categories	
Level	Description
<b>Avoid</b>	Avoid – Change plans to circumvent the problem;
<b>Reduce</b>	Control / mitigate / modify / reduce – Reduce threat impact or likelihood (or both) through intermediate steps;
<b>Accept</b>	Accept / retain – Assume the chance of the negative impact is acceptable
<b>Transfer</b>	Transfer / share – Outsource risk (or a portion of the risk) to a third party or parties that can manage the outcome. This may be done financially through insurance contracts or operationally through outsourcing an activity.

Status - Aligned with DSO implementation Plan	
Level	Evidence for level
<b>1. Not currently planned for implementation</b>	Reflects progress of steps that have been considered by the organisation(s) but are not currently planned for further implementation.
<b>2. Initiated</b>	Need identified and planning has commenced
<b>3. Implementing</b>	Implementation plans have started; may include activity pilots to validate solutions.
<b>4. Completed</b>	Steps are completed, and no further action is required by the organisation(s). Also includes also steps that are now part of normal operations and embedded in management system procedures or similar.

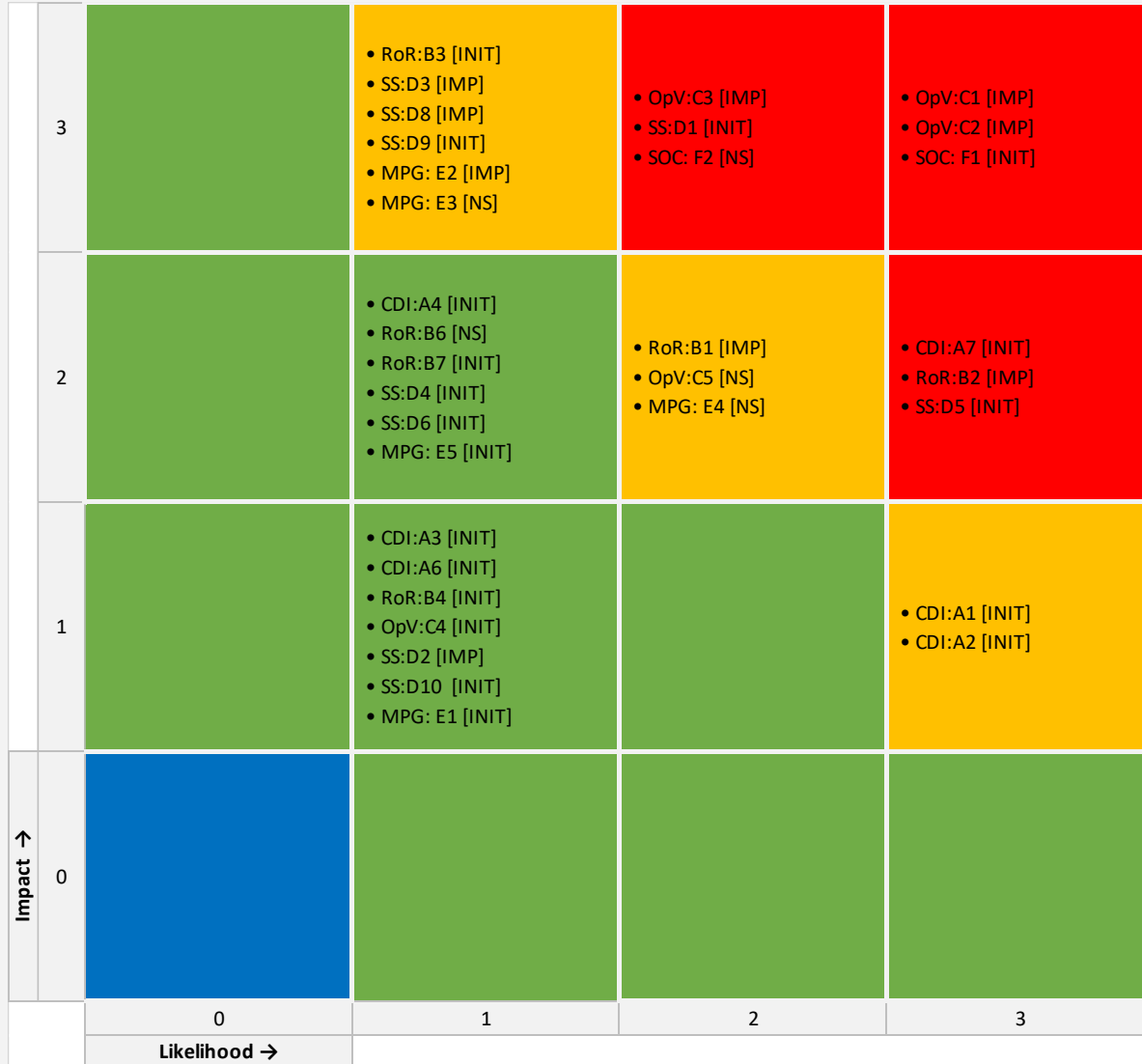
# Heat Map - Conflicts of Interest



Ref	Risk Score		Heat Map	Potential Conflict of Interest
	L	I		
NBS Col 1	2	2	Owner Status	Networks <u>B</u> ased towards capex <u>S</u> olutions and not flex services ONPWS1A 3. Implementing
MOT Col 2	2	2	Owner Status	Flex services <u>M</u> erit <u>O</u> der not <u>T</u> ransparent, undermining competition ONPWS1A 3. Implementing
NOS Col 3	2	2	Owner Status	<u>N</u> etwork <u>O</u> wnership of <u>S</u> torage OFGEM 4. Complete
NAIC Col 4	3	2	Owner Status	Flex services from funded <u>N</u> etwork <u>A</u> ssets <u>I</u> nhibits <u>C</u> ompetition OFGEM 2. Initiated
NNP Col 7	2	2	Owner Status	<u>N</u> etwork <u>N</u> eeds not <u>P</u> romoted sufficiently reduces FSP engagement ONP WS1A 3. Implementing
FSD Col 8	1	1	Owner Status	<u>F</u> lexibility <u>S</u> ervices Provider leverage market <u>D</u> ominance ONP WS1A 3. Implementing
IDNO Col 9	2	1	Owner Status	<u>I</u> DNO Regs Framework discourages use of flexibility services OFGEM 3. Implementing
FC/FS Col 10	2	3	Owner Status	<u>F</u> lexible <u>C</u> onnections (ANM) used inappropriately reducing need for <u>F</u> lex <u>S</u> ervices ONP WS1A 2. Initiated
DFS Col 11	1	2	Owner Status	Network connection processes <u>D</u> elay <u>F</u> lex <u>S</u> ervices to enable more Flexible Connections (ANM) OFGEM 2. Initiated

[STATUS]	KEY
[NS]	Not Started
[INIT]	Initiated
[IMP]	Implementing
[COMP]	Complete

# Heat Map – Unintended Consequences



Ref	Likelihood	Impact	HEATMAP	STATUS	Owner	Potential Unintended Consequence
<b>CDI Customer Distributional Impacts</b>						
A1	3	1	A	Initiated	WS1A, WS5 & OFGEM	Inclusivity: Unequal customer opportunities in flex services
A2	3	1	A	Initiated	OFGEM	Perceived unfairness of more cost reflective charging principles
A3	1	1	G	Initiated	OFGEM	Elec supply availability/performance becomes inconsistent across different areas
A4	1	2	G	Initiated	OFGEM & WS1A	TPIs not acting in consumer interest leading to industry/customer dissatisfaction /disengagement
A6	1	1	G	Initiated	OFGEM	Consumers on passive networks pay for DSO operations, for which they perceive no benefits
A7	3	2	R	Initiated	OFGEM	Diminishing share of customers pay more of the network costs
<b>RoR Risk of Regret</b>						
B1	2	2	A	Implementing	WS1A & WS1B	Industry too focused on markets, overlooks benefits of tech solutions. Customer costs increase.
B2	3	2	R	Implementing	WS1A	Stranding of flexibility assets because Network needs change
B3	1	3	A	Initiated	OFGEM & WS3, WS1A	DNOs introduce DSO functions not needed in the medium/long term due to improved network access and charging signals
B4	1	1	G	Initiated	WS1A WS1B	Customers overpaying or DNO business case for existing FSPs changes fundamentally
B6	1	2	G	Not yet planned	WS2	Queue Management changes could create a number of unintended consequences
B7	1	2	G	Initiated	WS1B P5	Stakeholders take inappropriate actions due to misunderstanding network data
<b>OpV Operational Viability</b>						
C1	3	3	R	Implementing	WS1A & WS1B	Sub-optimal dispatch.
C2	3	3	R	Implementing	WS1A & WS1B	Conflicting signals from control systems; market participants lack understanding
C3	2	3	R	Implementing	WS1A, WS1B & WS2	Increased difficulty in assessing the generation capacity required by the system
C4	1	1	G	Initiated	OFGEM	Lack of incentives for innovation in technological solutions
C5	2	2	A	Not yet planned	OFGEM, BEIS, WS1A & Networks	Market Oscillation
<b>SS System Security</b>						
D1	2	3	R	Initiated	OFGEM & BEIS WS1B & WS1A	Clarity of accountabilities reduces across DNO/DSO and TO/ESO especially with respect to system security / resilience
D2	1	1	G	Implementing	WS1A	Arbitraging of different non/part-delivery penalties
D3	1	3	A	Implementing	OFGEM, BEIS & ENA	Increasing reliance on external communication infrastructure
D4	1	2	G	Initiated	WS1B & WS1A	DSOs focus primarily on local thermal constraints increasing the wider system risk
D5	3	2	R	Initiated	WS1A TEF Pilots	Impact of FSP gaming on system security
D6	1	2	G	Initiated	WS2 WS1A	Reduced network headroom (as a result of efficient markets)
D8	1	3	A	Implementing	DNOs, NCSC, BEIS	Information availability facilitates hackers and cyber criminals
D9	1	3	A	Initiated	Ofgem / BEIS ENA ONP TEF Pilots	Uncoordinated approaches to new markets reduces system security
D10	1	1	G	Initiated	TEF Pilots WS1A	DNO/TO receives an unplanned benefit through a peer-to-peer trade that is unrewarded.
<b>MPG Market Power and Gaming</b>						
E1	1	1	G	Initiated	OFGEM & WS1A	Existing mandatory requirements become "paid services" (E.g. RoCoF / Power Quality / Inertia) ; potentially increasing consumer costs
E2	1	3	A	Implementing	WS2 WS1A	Information shared via the SWRR could provide parties with an unfair market advantage.
E3	1	3	A	Not yet planned	OFGEM	Ability for generators to trade ROCs (or equivalent) rates for flexibility amongst themselves
E4	2	2	A	Not yet planned	OFGEM WS1A	Providing visibility of emerging constraints may provide parties with the ability to trigger / game the constraint
E5	1	2	G	Initiated	OFGEM ENA ONP	Lack of incentives for innovation in commercial solutions could prevent smaller Market Actors from adopting a more innovative delivery approach or flexibility coming to market
<b>SOC System Operator Conflicts</b>						
F1	3	3	R	Initiated	WS2 P2 ESO	DNO / TO connection timelines erode the business case for services
F2	2	3	R	Not yet planned	OFGEM	Regulatory claw-back of asset allowances / funding for flexibility procurement

# Systemic Risks

## Determining “Systemic Risks”

- Largely systemic to the energy industry
- Mitigation sits primarily with other bodies e.g. Ofgem or BEIS
- Risks that are very broad / can never be fully mitigated and therefore captured within the principles of the DSO Implementation Plans
- Subjective to a degree

## Systemic Risks Examples

COI	Risk
COI_8	Market dominance abuse of flexibility provider/lack of market liquidity and competition
A1	Inclusivity: Unequal opportunities for different customer groups wishing to participate in flexibility markets and in particular vulnerable customers
A4	Third party intermediaries do not act in consumer interest leading to industry dissatisfaction. Consumers may not see the full value for their services. Poor consumer experience could reduce the levels of engagement.

# Col and UC Risk Register Walkthrough



# Walkthrough – Screensharing of the Register

- **Main tabs / headings**
  - Readme
  - Definitions and Ratings
  - Change Log
  - COI – Heat map / Systemic Risks / ONP Focus
  - UC – Heat map / Systemic Risks / ONP Focus
  - Scorecard
  - Out of Scope
- **Main Filters**
  - Heat map rating
  - Customer and Social Issues
  - Updates applied
  - Workstreams
- **Risk examples**
- **Interactive session – stakeholder led**
  - Opportunity to review risks of interest
  - Examine mitigation strategies
  - Discuss mitigation actions
  - Progress to date

# Wrap Up and Key Dates

- **Recap feedback / actions**
- **Next steps**
- **Slido poll**

Date	Activity	
June 2021	• 2021 Q2 Col and UC Risk Owner Review	<input checked="" type="checkbox"/>
22 <sup>nd</sup> July	• ON Steering Group Approval	<input checked="" type="checkbox"/>
30 <sup>th</sup> July	• 2021 Q2 Col and UC Risk Register Published	<input checked="" type="checkbox"/>
4 <sup>th</sup> Aug	• Col And UC Webinar	
2 <sup>nd</sup> Sept	• ON Advisory Group	
Sept 2021	• 2021 Q3 Col and UC Heat Maps Review	
Oct 2021	• 2021 Q3 Col and UC Heat Maps Review Published	
Dec 2021	• 2021 Q4 Col and UC Risk Owner Review	
Jan 2022	• 2021 Q4 Col and UC Risk Register Published	

# Annexes – Backup slides

# Annex A Col and UC Risk for C&SI Working Group Monitoring

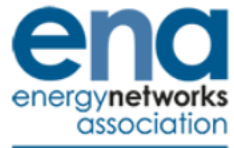
	Risk Description
Col 9	IDNO revenue driven by demand so no incentive exists to encourage alternate solutions; customers on these networks cannot benefit from flexibility services
A1	Inclusivity: Unequal opportunities for different customer groups wishing to participate in flexibility markets and in particular vulnerable customers
A2	Perceived unfairness or consumer backlash from a move away from 'postage stamp' principles (charges are the same for all customers within a DNO area)
A3	Electricity supply availability/performance becomes inconsistent across different areas. Customers experience outages.
A4	Third party intermediaries do not act in consumer interest leading to industry dissatisfaction. Consumers may not see the full value for their services. Poor consumer experience could reduce the levels of engagement.
A6	Consumers on passive networks end up paying for DSO operations, for which they perceive they do not see benefits
A7	A diminishing share of electricity customers are left to pick up more of the network costs

## Annex B Conflicts Of Interest - Systemic Risks (2 out of 9)

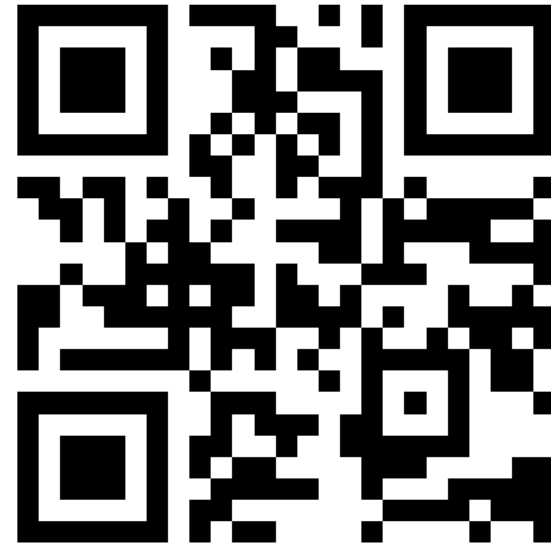
COI	Risk
COI_8	Market dominance abuse of flexibility provider/lack of market liquidity and competition
Col_9	IDNO revenue driven by demand so no incentive exists to encourage alternate solutions

UC	Risk	
<b>Distributional Customer Impacts</b>	A2 Perceived unfairness or consumer backlash from a move away from 'postage stamp' principles (charges are the same for all customers within a DNO area)	
	A3 Electricity supply availability/performance becomes inconsistent across different areas. Customers experience outages.	
	A4 Third party intermediaries do not act in consumer interest leading to industry dissatisfaction. Consumers may not see the full value for their services. Poor consumer experience could reduce the levels of engagement.	
	A6 Consumers on passive networks end up paying for DSO operations, for which they perceive they do not see benefits	
	A7 A diminishing share of electricity customers are left to pick up more of the network costs	
	<b>Risk of Regret</b>	B1 Higher costs to UK customers - Industry is too focused on markets and overlooks the benefits of technological solutions
		B2 Stranding of flexibility assets; conversely this may be a good outcome if a net saving to UK current and future customers
B3 Network companies spend money building out SO functions which are not needed in the medium/long term because better network access arrangements and charging signals are in place		
B4 Network consumers overpaying or the business cases for existing Flexibility Service Providers (FSPs) disappears.		
B7 Stakeholders take inappropriate actions based on misunderstanding of network capacity information		
<b>Operational Viability</b>	C4 Lack of incentives for innovation in technological solutions	

UC	Risk
<b>System Security</b>	D3 Increasing reliance on communications infrastructure
	D5 System security impacted as a result of gaming
	D6 Reduced headroom (as a result of efficient markets).
	D8 Information availability facilitates hackers and cyber criminals
	D9 Reduced system security
<b>Market power and gaming</b>	E1 Risk of existing mandatory requirements becoming "paid services" (E.g. Power Quality / Inertia), potentially increasing cost to consumers
	E2 Risk that information being shared via the Embedded Capacity Register (ECR) provides parties with an unfair market advantage.
	E3 Ability for generators to trade ROCs (or equivalent) rates for flexibility amongst themselves
	E4 Giving third parties visibility of emerging constraints may provide them with the ability to trigger those constraints which they are then paid to resolve
<b>Market Power &amp; Gaming</b>	E5 Lack of incentives for innovation in commercial solutions, potentially preventing smaller Market Actors from adopting a more innovative delivery approach or flexibility coming to market
	F1 DNO / TO connection timelines can erode the business case for services
	F2 Regulatory claw-back of asset allowances / funding for flexibility procurement



Join at  
**slido.com**  
**#531 947**





**Energy Networks Association**

4 More London Riverside

London SE1 2AU

t. +44 (0)20 7706 5100

🐦 @EnergyNetworks

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