

**ON WS3 P2: Conflicts of Interest and
Unintended Consequences Risk
Register**
Q3 2021 Heatmap Review

28 October 2021



Col and UC Registers - Quarterly Update

Q3 2021 Refresh

- ONP review of Heatmaps, focusing on red zones to determine any escalations / de-escalations for Steering Group

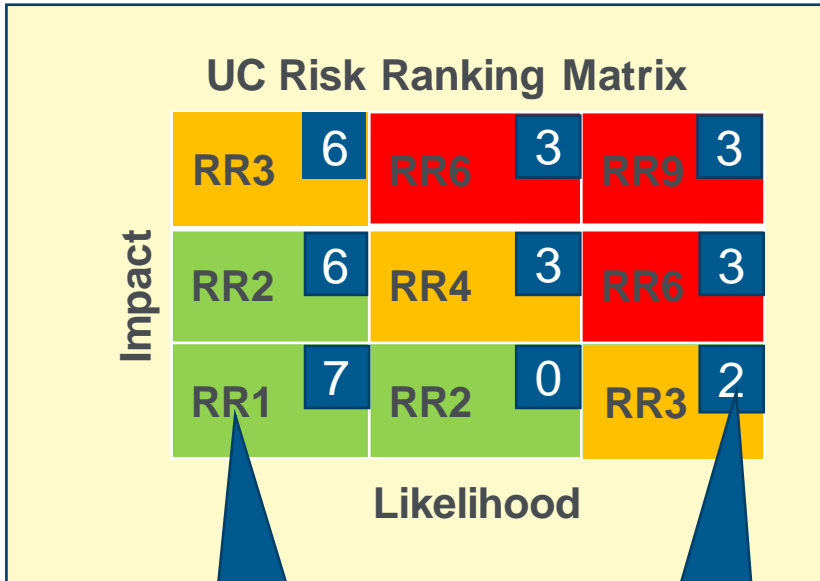
Progress Status	Not currently planned			Initiated			Implementing			Completed		
	Q1	Q3		Q1	Q3		Q1	Q3		Q1	Q3	
Quarter 2021	0	0	↔	3	3	↔	5	5	↔	1	1	↔
Conflicts of Interest	4	1	↓	20	21	↑	9	11	↑	0	0	↔
Unintended Consequences												

Steering Group asked to:

- Note the updates and progress being made
- Note the Heatmap review did not reveal any issues for escalation
 - Main red zone risks within the scope of the ONP continue to make progress and / or are captured in the proposed ONP activity
 - Further delays to some Ofgem policy decisions may impact a few red zone risks in the future
- Approve changes to reduce two Risk Ratings:
 - Col_3: “Network Ownership of Storage” (Ofgem) RR4 - **REDUCE to RR2 (possible / significant)**
 - Cust_Impacts A7: “Diminishing Share of Customers Pay More of the Network Costs” (Ofgem) RR6 - **REDUCE to RR2 (possible / significant)**

Heatmap Review Q3 2021

Heat Map Key



Risk Ranking =
Likelihood x Impact

Number of risks in
this Risk Ranking

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

Impact Calibration	Ofgem's Components of System Transformation			
	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)'
3. Critical	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 realistic 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
2. Significant	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 realistic 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
1. Moderate	The issue will be a hindrance to parts of the action plan	The issue will cause the network to expand but non network solutions are not a realistic alternative	No opportunity to take costs out of generation and supply of energy arises	No effort to coordinate options across vectors is made
0. Insignificant	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

Heatmap Conflicts Of Interest Risk Areas:

Col – Major (Lxl Risk Rank: 6)

Col_4_(ONP): Flexibility services from funded network assets (i.e. CLASS) is inhibiting competition

- ✓ Concern reiterated in 2020 Flex Consultation responses
- ✓ Additional Ofgem consultation and decision (2021)

Col_10_(ONP): Impact of Flexible Connections (ANM enabled) on flexibility services

- ✓ Major concern of stakeholders and reaffirmed in the Flex Consultation responses
- ✓ Major area for PID2021 (WS1A P3,P5,P6,P8,P9)
- ✓ Ofgem final decision re: A&FLC SCR 2021

Col - Minor (Lxl Risk Rank: 4)

Col_1_(ONP): Networks biased towards capex solutions and not flexibility services (WS1A)

- ✓ P1 CEM Tool Implemented April 2021
- ✓ WS1A Activity (P3,P5,P6,P8,P9)
- ✓ Ofgem final decision re: A&FLC SCR 2021

Col_2_(ONP): Flex service merit order not transparent and undermining competition (WS1A)

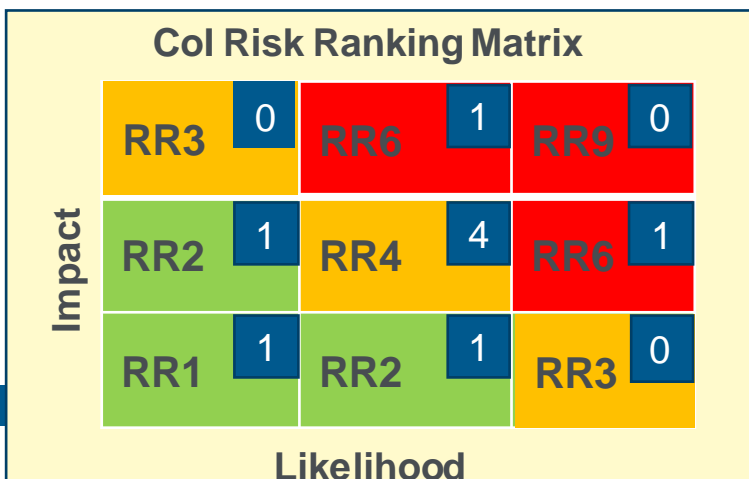
- ✓ New DNO Licence Reporting requirement (CEP) implemented April 2021

Col_3_(ONP): Network Ownership of Storage (Ofgem)

- ✓ *Complete – licence updated REDUCE to RR2*

Col_7_(ONP): Network needs not promoted sufficiently reducing FSP engagement (WS1A/1B)

- ✓ WS1A Activity (P3,P5,P6,P8,P9)
- ✓ NDPs - new licence condition; publication May 2022



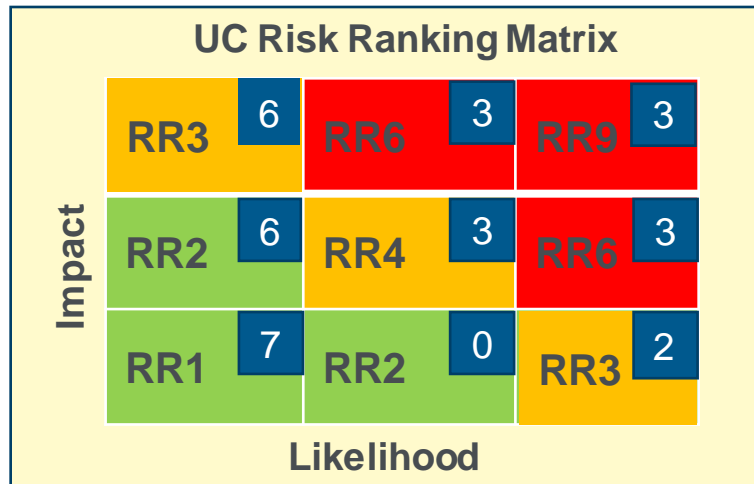
Forecast Heat Map Unintended Consequences Risk Areas:

UC - Critical (LxI Risk Rank: 9)

- C1 & C2 (ONP): suboptimal dispatch and conflicting signals from control systems
 - ✓ Primacy Rules for Service Conflicts (P5) ONP PID2021
- F2(SYS): Regulatory claw back of asset allowances / funding for flexibility procurement (treatment of deferred investment)
 - ✓ Ofgem consultation and decision (2021)

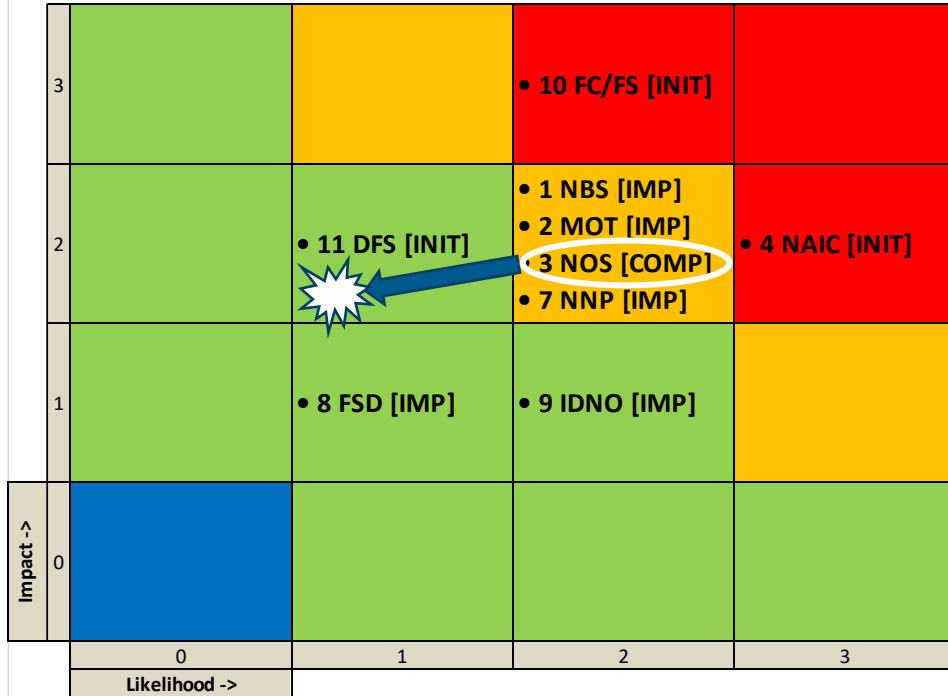
UC - Major (LxI Risk Rank: 6)

- A7(SYS): Diminishing share of customers pay more of the network costs
 - ✓ **Transmission Charging TCR modifications – REDUCE to RR2?**
 - ✓ Ofgem final decision re: A&FLC SCR 2021
- B2(SYS): Stranding of flexibility (user) assets because Network needs change
 - ✓ WS1B Whole Elec System Planning products
 - ✓ Improved network information captured in PID2021 (incl NDP)
- C3(ONP): Increased difficulty in assessing the generation capacity required by the system; and
- D1(ONP): Clarity of accountabilities reduces across DNO/SO and TO/ESO w.r.t. system security / resilience
 - ✓ Improved network information / co-ordination and co-optimisation products captured in PID2021
 - ✓ Primacy Rules for Service Conflicts (P5) ONP PID2021
- D5(SYS): Impact of FSP gaming on system security
 - ✓ Learnings from pilots and commercial agreements; anti-competitive behaviour - Ofgem responsibility
- F1(SYS): DNO / TO connection timelines erode the business cases for flexibility procurement
 - ✓ Improvements to queue management (WS2 P2) implemented July 2021



Annex 1: Col Heatmap and Data – proposed rating changes

Potential Conflicts of Interest Heatmap

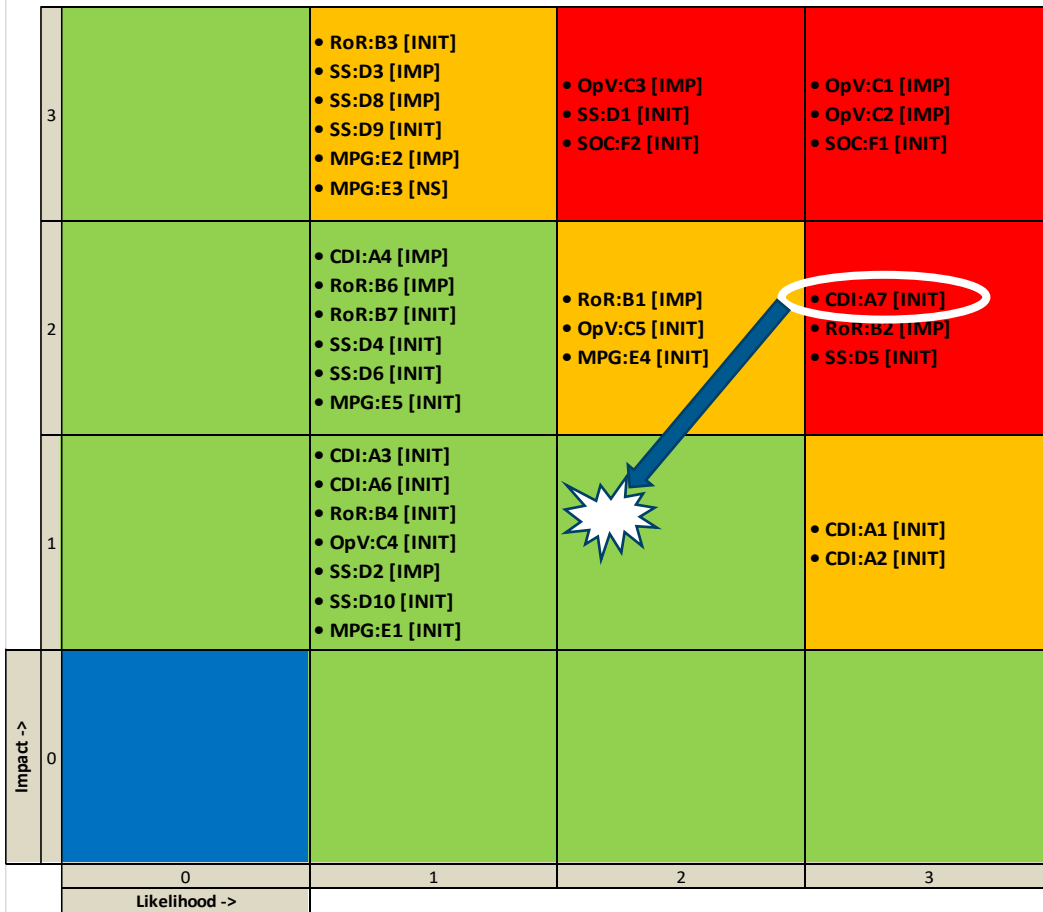


Ref	Likelihood	Impact	HEATMAP	STATUS	Owner	Potential Unintended Consequence
Col 1 (NBS)	2	2	A	Implementing	ON WS1A	Networks Biased towards capex Solutions and not flex services
Col 2 (MOT)	2	2	A	Implementing	ON WS1A	Flex services Merit Order not Transparent, undermining competition
Col 3 (NOS)	2	2	A	Complete	OFGEM	Network Ownership of Storage
Col 4 (NAIC)	3	2	R	Initiated	OFGEM	Flex services from funded Network Assets Inhibits Competition
Col 7 (NNP)	2	2	A	Implementing	ON WS1A and WS1B	Network Needs not Promoted sufficiently reduces FSP engagement
Col 8 (FSD)	1	1	G	Implementing	ON WS1A	Flexibility Services Provider leverage market Dominance
Col 9 (IDNO)	2	1	G	Implementing	OFGEM	IDNO Regs Framework discourages use of flexibility services
Col 10 (FC/FS)	2	3	R	Initiated	ON WS1A	Flexible Connections (ANM) used inappropriately reducing need for Flex Services
Col 11 (DFS)	1	2	G	Initiated	OFGEM	Network connection processes Delay Flex Services to enable more Flexible Connections (ANM)

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

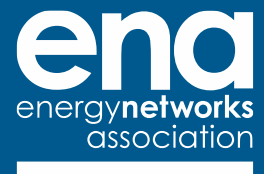
Annex 2a: UC Heatmap Data – proposed rating changes

Potential Unintended Consequences Heatmap



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

Ref	Likelihood	Impact	HEATMAP	STATUS	Owner	Potential Unintended Consequence
CDI Customer Distributional Impacts						
A1	3	1	A	Initiated	WS1A, WSS & 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
RoR Risk of Regret						
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	Implementing	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
OpV Operational Viability						
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	Initiated	OFGEM, BEIS, WS1A & Networks	Market Oscillation
SS System Security						
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	Implementing	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.
MPG Market Power and Gaming						
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	Initiated	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
SOC System Operator Conflicts						
F1	3	3	R	Initiated	WS2 P2 ESO	DNO / TO connection timelines erode the business case for services
F2	2	3	R	Initiated	OFGEM	Regulatory claw-back of asset allowances / funding for flexibility procurement



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