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OVO's response to Ofgem Minded to Positions Consultation on Access and Forward-looking Charges Significant Code Review

About OVO

OVO group (OVO) welcomes the opportunity to respond to Ofgem's minded-to decision on the Access and Forward-looking Charges Significant Code Review.

OVO is one of the UK's largest energy suppliers. We serve nearly five million customers and employ just under 8,000 people. Our work goes far beyond that of a traditional energy retailer; we are a decarbonisation company for the home. Our vision is not just to help consumers cut carbon, but to do so in a way that actually puts the value generated from decarbonisation directly back into consumers' pockets. We are also at the forefront of innovating the technologies and products that will be pivotal to decarbonising homes across the UK.

OVO is a collection of companies at the forefront of innovation on net zero carbon living to harness clean, affordable energy for our members. Founded in 2009 by Stephen Fitzpatrick, OVO redesigned the energy experience to be fairer, greener and simpler for all. Today, OVO is on a mission through its sustainability strategy, Plan Zero, to tackle the most critical issue of our time - the climate crisis. This includes our commitment to achieve net zero emissions across our operations and support our five million members in eliminating their household emissions by 2030.

Kaluza - OVO Energy's technology partner - is pivotal in enabling the real-time billing and domestic flexibility offerings for our energy customers. Kaluza's software platform is built to connect to millions of smart devices like electric vehicles, electric storage

heaters and home batteries owned by residential customers, and intelligently manage their charging. Kaluza dynamically controls devices to consume energy during periods of low system demand and periods of high renewable generation all while meeting customer needs. Additionally, Kaluza optimises home batteries and vehicle-to-grid chargers to export stored energy back to the grid, helping alleviate system stress at peak times and earning customers money.

Key Points

- Impact assessment and stakeholder engagement

  We urge Ofgem to provide a combined impact assessment of the Access and DUoS charges reforms. It is difficult for stakeholders to fully assess the potential impacts without knowing how these interact with other parts of the Significant Code Review (SCR).

- The Significant Code Review and net zero

  The sixth IPCC report on climate change shows that unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, the 1.5C target will be beyond reach.

  So far, the SCR has been segmented into different sets of reforms. **There is little evidence of how these reforms will positively impact renewable generation and/or consumers in their decarbonisation journey, including their role as flexibility providers.**

  The Smart Systems and Flexibility Plan recognises that the transition to a smarter and more flexible energy system which benefits consumers will reduce the costs of the energy system by up to £10bn a year by 2050.

- Distribution network connection charges

  We **welcome Ofgem's efforts to reduce the prohibitive upfront cost of connection** for the residual user and/or those users who will need to increase

their network capacity. According to the FES 2021 'Consumer Transformation' and 'Leading The Way' scenarios, we need 2.6 million heat pumps by 2025 and/or new build homes to have heat pumps installed in line with the Future Home Standards. This will be an important enabler of decarbonising homes, as more domestic capacity is needed to electrify heat and transport.

- Access rights choices and curtailment

  Loosely defined levels of curtailment are a consequence of the lack of flexibility procured by DNOs. Residential customers could provide flexibility the system needs to integrate more renewables and protect network users from the risk of curtailment.

  Work to increase the capacity procured and flexibility markets should start now to secure the installed capacity needed to achieve net zero. BEIS estimates that when we have 40GW of wind on the system in 2030, we will need around 30GW of low carbon flexible assets. Restricting DNOs' use of curtailment to a specific number of hours and then requiring them to procure any additional flexibility through flexibility markets is a positive step forward.

Questions 3 - Connection boundary

We welcome the removal of the upfront cost of connection for domestic customers. This is an important step forward to enabling the transition to net zero, in light of the increase in domestic capacity needed to electrifying heat and transport.

The Common Connection Charging Methodology (CCCM) for access rights is a barrier to the deployment of EV's and electric heat. Households seeking to upgrade their connection capacity to install a charger, or an electric heat pump could face prohibitive upfront costs.

The current arrangements are a potential barrier to achieve net zero. The prohibitive cost of reinforcement for domestic customers who need to upgrade their connection to

charge their EV or electrify their heating system will cause significant delays. It could even prevent customers from taking action at all.

To promote rapid uptake at scale of the technologies crucial to meeting the UK's net zero target by 2050, the system signals need to be aligned with this objective. Domestic consumers will need to adopt new low carbon technologies and increase their connection capacity to deliver on the Government's Future Homes Standard, which requires homes built in 2025 or after to have low carbon heating.

Recently, the Government has pledged to install 600,000 heat pumps per year by 2028 in homes across England - compared to the approximately 30,000 heat pumps currently installed and In 2020 the Government brought forward its 2035 petrol and diesel ban for cars and vans to 2030. To realise this step change in the electrifying heat, the barriers to adoption for households need to be lowered. Sending upfront capacity signals is inefficient given that residential customers cannot respond to the signals and they have a limited ability to relocate in response to connection charge signals. Even if the current tenants/owners relocate in the future, the new tenants/owners will have to replace their gas boiler and, if buying a new car, this will be electric.

As such, removing the upfront connection cost levels the playing field between new and existing customers and aligns with Ofgem's principle of fairness. The current CCCM methodology means the cost of reinforcement falls on new customers or customers trying to adopt low carbon technologies, EVs or electric heating, despite existing customers' contribution to the need for reinforcement. Therefore the costs of reinforcement will be borne by those seeking to take positive actions aligned with UK targets. This change rebalances the incentives to support consumers to make decisions that help to decarbonise homes.

In addition, the current arrangements contribute to the distribution network taking an incremental approach to reinforcement rather than investing in flexibility services and

long-term reinforcement planning to allow the decarbonisation of heat and transport needed.

OVO strongly believes in the central role of domestic flexibility to achieve the UK's net zero targets. At present, DNOs are not encouraged to adopt other flexibility solutions, such as domestic flexibility. If domestic users were not responsible for funding the reinforcement works, DNOs would have more incentives to look for alternatives to reinforcement to increase capacity such as low carbon technologies, storage and other flexibility services.

OVO welcomes Ofgem's proposed position to remove reinforcement costs from the connection charge resulting in a shallow connection boundary and move towards a more cost-reflecting structure of DUoS.

The CEPA -TNEI impact assessment supports the positive impact on consumers of the reforms. We agree that customers adopting V2G technologies will see further reductions in their electricity bills. However, the analysis does not consider the flexibility that could be provided by electric heating.

Suppliers are integrating new innovative technologies such as Kaluza, helping them to optimise value from decarbonising the home, including electric heating. The economic benefits of Ofgem's preferred options for domestic consumers will have more significant advantages for domestic consumers thanks to new technologies, business models, and domestic flexibility.

Questions 4 -Access Rights

We note that the proliferation of non-firm connection agreements is a reactive response to a lack of functioning flexibility markets and not a long-term solution. In addition, continued reliance on such mechanisms undermines the development of efficient market mechanisms for flexibility. It distorts competition, allowing networks to access flexibility for free due to their monopoly position.

We welcome Ofgem's objective to reduce uncertainty and loosely defined levels of connection service such as "flexible connections", which imply a significant risk of curtailment for users. The right levels of contracted flexibility will allow DNOs to provide customers with a measured risk and specific level of curtailment.

Significant volumes of additional generation and demand will be added to our electricity system over the next few decades. From 2035 all new cars and vans will be zero emission at the tailpipe and the Government has set an ambition of installing 600,000 heat pumps per year by 2028. Flexibility markets need to be developed in parallel to give consumers greater control over their energy bills and reward their behavioral change when responding to network signals.

It is crucial that Ofgem's reforms unlock the potential for residential flexibility. BEIS' electricity system analysis published in December 2020 highlights the importance of system flexibility in bringing down system costs in a low carbon system. In the high demand scenario there is a reduction of systems costs up to £12bn per year provided by demand side response (DSR) and storage. The Smart Systems and Flexibility Modelling found that Smart charging of electric vehicles has the largest impact on peak demand. The highest potential for flexibility is likely to come from residential off-street charging. This is because it represents the largest amount of controllable load and is especially valuable as it moves demand away from the evening peak.

We see the significant code review as a key part of the puzzle in unlocking domestic engagement in the energy transition. Domestic flexibility, in particular, has a crucial role in achieving net zero goal and achieving this at the lowest cost. It is therefore crucial that SCR works in tandem with the other areas of reform.

The SCR is a significant undertaking for both Ofgem and the industry, and it must be a positive step forward. The sixth IPCC's report highlighted the urgency to take immediate action and get the policy framework right.

Ofgem needs to be clear on how it will ensure flexibility is procured and remunerated at the right level. So far, it is unclear when or how and when DSO markets will be delivered. And, in particular, how domestic-scale flexibility may participate in them. As Ofgem works through its shortlisting, Impact Assessment and develops its minded-to rationale, we urge it to be explicit in the next steps for areas considered unachievable in the time frames or outside the scope of this reform.

Other

OVO welcomes the removal of defined access rights for domestic customers. We agree that this would be complex to deliver and offer limited value compared to charging-based signals.

Should you have any questions or would like to discuss our response bilaterally please feel free to contact us at policy@ovoenergy.com.

Kind regards,

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