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**By email to Ofgem :**

Louise van Rensburg. Head of Whole System Coordination  
Laura Hutton. Senior Manager

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Dear Louise

**Ofgem Call for Input. Guidance for reporting requirements under Electricity Distribution Licence Condition 31E: Procurement and use of Distribution Flexibility Services<sup>1</sup>**

Sustainability First is a think-tank and charity that works in the energy, water and utilities sectors. We have significant experience of consumer and public interest issues, with a focus on social and environmental concerns - [www.sustainabilityfirst.org.uk](http://www.sustainabilityfirst.org.uk) . Sustainability First associates have participated in the RIIO2 process as members of Ofgem's Challenge Group, as chairs and members of company CEGs / user groups and via the Ofgem working group process.

In connection with ED2, Sustainability First has taken an active interest in implementation of the new DNO Licence Condition 31E. This letter is a response to Ofgem's call for input on its guidance for reporting requirements.

As well as setting out new DNO requirements on procurement and reporting of flexibility services<sup>2</sup>, LC 31E **also includes important new provisions on energy efficiency**. This includes : *'promoting the uptake of measures to improve Energy Efficiency, where such services cost-effectively alleviate the need to upgrade or replace electricity capacity and support the efficient and secure operation of the Distribution System. This may include procuring Energy Efficiency Services, where it is economic and efficient to do so;'*(LC 31E).

The text of LC 31E references energy efficiency throughout - alongside the text on flexibility services - including with regard to the annual DNO procurement statements (31E.8), annual DNO Reports on out-turns (31E.14) and providing information as required (31E.19).

In March 2021 Sustainability First submitted a note to Ofgem – '[Energy Efficiency : What is the DNO Role in ED2 ?](#)'. Inter al, this considered how LC31E might helpfully shape a more active role for DNOs in the ED2 period on energy efficiency as a possible offset to network investment and / or as an alternative to flexibility procurement. We also co-hosted a workshop in September 2021 on the DNO role in energy efficiency. The [slides](#) and [workshop notes](#) are here.

We saw a strong case for DNOs - and also for Ofgem - to better understand the case for DNO involvement in thermal insulation programmes – whether for homes or other buildings – especially given anticipated uptake of electric-heat. Not least, a sufficiently-insulated home must surely be a key enabler of electric heat-flexibility. We also saw a need to better understand how far energy

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<sup>1</sup> Ofgem Call for Input on LC31E. 22 November 2021 - <https://www.ofgem.gov.uk/publications/procurement-and-use-flexibility-reporting-guidance-electricity-distribution-licenses> – and Ofgem Draft Guidance on LC31E. 22 November 2021 – <https://www.ofgem.gov.uk/publications/procurement-and-use-flexibility-reporting-guidance-electricity-distribution-licenses>

<sup>2</sup> In the context that 'the licensee must coordinate and direct the flow of electricity onto and over its distribution system in an efficient, economic and coordinated manner'.

efficiency procured by DNOs at particular locations could offer a cost-efficient and viable alternative to new load-related network investment and / or to flexibility.

One of our conclusions was a need for Ofgem and the companies to consider how the detailed energy efficiency provisions of LC31E might be interpreted in practice.

In this regard, a brief scan of the initial DNO Flexibility Procurement Statements submitted under LC31E<sup>3</sup> suggests that more guidance is needed from Ofgem on the energy efficiency provisions of the licence condition. For example, there is considerable variation among the six DNOs as to how the provisions on energy efficiency are addressed and a word search shows that :

- Three statements make no reference at all to energy efficiency
- Three statements reference energy efficiency (of which one very briefly)
- Two indicate that they are 'technology neutral' as between DSR and energy efficiency.
- One DNO dedicates a short section of their procurement statement to energy efficiency. This helpfully indicates that the DNO has engaged with some relevant parties who may have an interest in providing energy efficiency services. And also explains that qualifying energy efficiency schemes could, in principle, be credited with an availability payment.

These initial procurement statements suggest that there is a case for greater focus generally from both Ofgem and the companies on the energy efficiency provisions of LC31E, including how the companies should address these as a part of their formal annual reporting requirements. Ofgem may therefore wish to clarify that :

- Annual DNO procurement statements should set out DNO approaches to energy efficiency measures including related stakeholder engagement
  - and that -
- Annual reports should report on energy efficiency against the procurement statement and on a consistent / comparable basis across DNOs

Clarifying the reporting requirements of LC31E on energy efficiency in this initial way will hopefully enable DNOs to start to provide clearer signals to the market that energy efficiency as well as flexibility can be expected to become a viable tool in the DNO tool-box as a cost-efficient response to expected load-growth from electric heat.

In the Annex to this letter, we give brief answers to Ofgem's questions.

With best wishes

**Judith**

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<sup>3</sup> DNO Flex Procurement Statements. Submitted to Ofgem March 2021. Published September 2021 - <https://www.ofgem.gov.uk/publications/electricity-distribution-standard-licence-condition-31e-flexibility-procurement-statements-2021>

**Ofgem C31E Guidance Call for Input : responses to Ofgem questions from Sustainability First***Q1. Does the Guidance require specific amendments or additions?*

Both flexibility and energy efficiency are important demand-side mitigations. However, the draft Ofgem guidance does not address the LC31E provisions on energy efficiency despite this being consistently referenced throughout the text of the condition. Energy efficiency is a corner-stone of affordable GB heat decarbonisation and it seems important to cover energy efficiency, both in the procurement statement and in the annual report. For the reasons set out in our cover letter it is also important that DNO energy efficiency actions are addressed and reported to Ofgem in consistent and comparable ways.

The title of the guidance refers only to flexibility procurement. It may be helpful to also reference energy efficiency in the title and thereby better reflect the licence provisions.

*Q2. How would you propose to use the information provided through the Distribution Flexibility Services Procurement Statement? Do the contents and format proposed in this Guidance support or complicate this use case?*

It seems important to signal to the market that energy efficiency measures will be considered in DNO procurement under LC31E, where demonstrated as a cost-efficient and viable alternative to network investment or to DSR / flexibility.

This would provide welcome transparency for stakeholders in the energy efficiency community and supply chain to understand how DNOs regard energy efficiency as a tool in their tool-box for the future. It would also provide insight for Ofgem and BEIS.

*Q3. How would you propose to use the information provided through the Distribution Flexibility Services Procurement Report? Do the contents and format proposed in this Guidance support or complicate this use case?*

Similarly, reporting outcomes on energy efficiency as a cost-efficient and viable alternative to network investment or to DSR / flexibility will support market development. It would also provide important insight to Ofgem, BEIS and other parties actively engaged in energy efficiency delivery (energy efficiency supply chain, local authorities, energy retailers with ECO obligations, community organisations, NGOs et al).

*Q4. What level of locational granularity is preferable to understand flexibility procurement activity, and for what applications? At what level of granularity are the proposed use cases limited?*

On energy efficiency procurement and reporting, locational granularity could be helpful, including for example, whether off-gas grid, rural, suburban or inner-city and also by local authority area to support local area energy planning.

*Q5. How would you propose use the data provided in the Supporting Data template?*

N/A

*Q6. Do you have a strong preference for the provision of primary data, at a glance summaries, or other means of data sharing?*

Data summaries are helpful.

For detailed analysis by external stakeholders – whether on flexibility or on energy efficiency – primary data could also be very helpful depending on the analysis being carried out – be that national, regional or local-level analysis.