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By Email Only

OVO's response to Ofgem's consultation on the Regulatory treatment of CLASS as a balancing service in RIIO-ED2 network price control

Founded in 2009, OVO redesigned the energy experience to be fairer, greener and simpler for all. Today OVO is no longer simply an energy retail business: it is a group of innovative, dynamic companies, all striving to harness technological advances with great consumer propositions to create more affordable clean energy for everyone.

Kaluza is OVO's intelligent energy platform able to connect and control millions of smart devices across customers' homes, such as electric vehicles, heaters and batteries. The platform uses machine learning and AI to create a more flexible energy system, optimising devices to use energy off-peak, when costs and carbon levels are lower. Working with a range of industry-leading hardware manufacturers, energy suppliers and grid operators, Kaluza is driving the global transition to a distributed and secure, zero-carbon grid.

OVO welcomes Ofgem's engagement with stakeholders on its minded-to position on the regulatory treatment of CLASS as a balancing service in RIIO-ED2 network price control. To ensure that a competitive, flexible energy system becomes a reality and Distribution Network Operators (DNOs) neutrally procure and facilitate operational flexibility services and markets, it is crucial that permitted DNO activities and their regulatory treatment are clearly defined.



However, we are concerned about the impact of the regulatory treatment of CLASS as a balancing service on nascent flexibility markets. While we are supportive of DNOs looking to increase the efficiency of the system, and pass savings on to consumers, we are concerned about the treatment of consumers as a captive audience who bear the downside risk of this competitive service without their consent.

We are also concerned with the omission of an impact assessment and a strong baselining methodology from the consultation, and the potential for Ofgem's minded-to decision to set a precedent for the rollout of CLASS across other networks and its use in wider markets.

We have set out our views on Ofgem's minded-to decision below, as well as the key points we believe must be addressed to deliver a competitive, distributed energy system that puts empowered customers at the centre of the energy system's transition and the creation of a zero carbon grid.

The role of the customer

We are concerned that the command-and-control mechanism under which CLASS operates undermines the role of the consumer as the supplier of their own flexibility. It is crucial that consumers are not prevented from offering their own flexibility (via suppliers or aggregators) and being rewarded for doing so. It is therefore important that appropriate baselining and market protections are in place in order to prevent CLASS blocking consumers from offering competitive flexibility services.

We appreciate the work done to explore whether consumers "notice" the drop in voltage, but we do not think that this limited survey is sufficient to assure either the long term, or the more extensive use of such a product. We would therefore suggest that an ongoing monitoring framework is required to ensure the consumer impact is properly modelled. In particular, the impact on suppliers should be considered if consumers are contacting them in the first instance - this was absent from the survey.

In addition, the use of services such as CLASS should be limited to the intended use-case to avoid this decision setting a precedent with unintended consequences. This could be limiting the use of CLASS to only as an ancillary service (i.e. not competing in



the Balancing Mechanism or European Reserve Response), and to a minority of total balancing services (by volume or by value).

We appreciate the opportunity offered by more efficient use of our systems, and believe all energy participants should be striving to deliver the lowest cost, safe, energy system. We support network companies in delivering this vision, but we need to ensure that the consumer role in the energy transition, and the competitive provision of services, are protected as we seek to develop and define the role of the future energy system, including and especially those of DSOs and DNOs. Ofgem needs to ensure that it does not set precedents at this time that undermine these crucial principles.

Undermining competition

OVO is additionally concerned that the regulatory treatment of CLASS as a balancing service will undermine effective competition in flexibility markets and set a precedent for DNOs to deliver flexibility services through command and control rather than competitive flexibility services.

For another flexibility provider (for example, an aggregator of storage) to offer the same “turn down” service to ESO, the provider needs to consider the following: (1) they would need to obtain the consent of their customers, (2) provide an incentive (sometimes delivered as a “profit share”) with the customer to deliver the flexibility, and (3) manage the downside risk that this service was not successful in flexibility markets. In offering CLASS, the network is able to completely avoid part (1) of this process, and is able to share downside risk with customers who have not consented to share this risk. Avoiding these costs of delivery is only achievable through the network’s monopoly position, and we are therefore concerned that allowing networks to operate in this way undermines the development of a competitive market for flexibility services.

Supplier imbalance

We note that the impact of reducing demand on supplier imbalances has not been sufficiently considered. With the scaling up of this approach as suggested by Electricity North West, this could have a material impact on supplier imbalances. In the absence of published information about the utilisation and scale of CLASS we cannot provide



evidence on the impact of this. We would ask Ofgem to conduct and publish an impact assessment, and keep the impact on supplier imbalances under review.

Decision-making process

The omission of an impact assessment from the consultation process means that flexibility service providers currently have no sight of the evidence that has been used to inform Ofgem's minded-to decision. The industry is unclear on the overarching expected impact of CLASS on the system, and specifically the level of consumer benefit that it will bring and the marginal cost of its delivery. OVO urges Ofgem to provide better visibility of its decision-making process through the publication of an impact assessment.

Conclusion

We very much support Ofgem's work to ensure that DNOs procure and facilitate operational flexibility services and markets neutrally. Flexible energy at a residential level will be critical to reducing the cost of decarbonisation in the UK and putting customers who are in control of their energy demand at the centre of the energy transition. This is why it is so important that DNO activities do not undermine customer control or the overall competitiveness of a distributed energy system. We look forward to the regulator's continued work in this field and would be keen to discuss practical solutions to the above problems in more detail.