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Joint response from OVO Energy and Kaluza to the RIIO-ED2 Business Plans

About us

OVO is the UK's third largest domestic energy supplier. Our work goes far beyond that of a traditional energy retailer; we are a decarbonisation company for the home, and our sustainability strategy, Plan Zero, commits us to tackling 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 members in reducing the carbon emissions from their home energy use.

OVO is at the forefront of innovating the technologies and products that will be pivotal to decarbonising homes across the UK and rightly form a central part of network companies' ambitions in RIIO-ED2. Our vision is not just to help consumers cut carbon but to do so in a way that puts the value generated from decarbonisation directly back into consumers' pockets.

Kaluza is a modular Software as a Service (SaaS) platform. Its mission is to accelerate the energy transition toward net-zero by providing enabling technology for retailers to reduce their operational costs and increase their agility to be able to offer tailored propositions to their customers. Kaluza's technology is used as the recommendation engine (through the retailer) for end-customers to decarbonise their homes in a way that works for them and their desired level of engagement.

Unlocking flexibility to efficiently invest in network infrastructure

Investment in electricity networks is critical to meet net zero by 2050. This investment will be necessary to enable the roll out of EV charging infrastructure and heat pumps, particularly given the 2030 target to phase out the sale of petrol and diesel vehicles. However, the current energy crisis means that it is more critical than ever to ensure that the costs passed through to



consumers are efficient to minimise the impact on bills, without slowing progress to net zero. In order to deliver this investment in networks efficiently, **Ofgem should consider the case for further investment in infrastructure against the potential for increased flexibility services to support network constraints.**

In the business plans, it is clear that DNOs expect flexibility to play some role in addressing network constraints and peak demand. DNOs vary between describing their role as “facilitating” flexibility markets or “promoting” them, but all DNOs expect to procure flexibility (from households as well as other demand and supply-side providers) as an alternative to network reinforcement. In some cases, DNOs consider their flexibility plans will allow them to provide low carbon technologies (LCTs) connections (in congested areas) faster than they currently can.

Ofgem should encourage DNOs to procure domestic-scale flexibility in order to unlock investment in LCTs at the best value for consumers. Specifically, we believe Ofgem should allow DNOs to revisit their investment options more frequently as more data becomes available through the ED2 period. Not all DNOs support this approach currently. This approach would avoid overinvestment in physical infrastructure where flexibility might be able to maximise efficiency to reduce the need for capital investment ultimately funded by consumers. We believe it is important that Ofgem is consistent in how the level of investment proposed by DNOs is adjusted to reflect developments in the market. **It is critical that consumer flexibility is appropriately valued and remunerated, and that DNOs do not continue to rely on “free” flexibility via the current and extended use of non-firm connections and Load Managed Areas.**

We understand that Ofgem has designed RIIO-ED2 to incentivise network companies to increase their efficiency over time and ensure they deliver high quality outputs for consumers. However, it is critical that consumer outputs are not only limited to current consumers; as per Ofgem’s statutory obligations, **DNOs and Ofgem should give due consideration to the needs of future consumers.** On this issue specifically, future consumers will be encouraged to purchase EVs as manufacturers transition to ending the sale of diesel and petrol vehicles. Investment in electricity networks to support EV charging and domestic flexibility cannot therefore be retrospectively demand-led. To ensure that consumers can adopt the technology critical to reaching net zero by 2050, supported by companies like OVO, **investment in networks in tandem with developing flexibility services must happen in advance of demand at the most efficient level.**



Transparency on assumptions

As expected against this context, we note that all DNOs feature EV charging prominently in their business plans. However, the extent to which EV charging is a key challenge and/or key area of increased demand and workload over ED2 varies relative to other themes in the business plans.

We encourage Ofgem to take a consistent approach to EV charging across business plans to ensure that no area of the country is left behind in the net zero transition.

In order to forecast future demand for EV chargepoints, all DNOs have adopted a “scenario-based” approach to developing their business plan to consider the pace and nature of the public’s adoption of low carbon technologies, generally heavily relying on “Future Energy Scenarios” from National Grid ESO.

Currently, the business plans do not make clear what combination of flexibility and network reinforcement will be needed during ED2. In practice, this means that it is unclear how well flexibility solutions will work and the value that will be available to consumers who choose to offer their flexibility to the system. **We urge Ofgem and the DNOs to ensure these assumptions are transparent and well justified.**

Incentives and uncertainty

We welcome Ofgem’s proposed incentives and uncertainty mechanisms which will vary DNOs’ allowed revenues during the price control according to their performance against targets for certain outputs. We believe this is important to ensure only efficiently incurred costs are passed through to consumers, and will help deliver the net zero transition at the best value for money. Whilst we understand that future demand from EV charging, heat pumps and domestic flexibility is ultimately uncertain, the UK’s legally binding climate targets – and, within that, obligations and targets to promote the uptake of low carbon infrastructure by consumers – do provide a reasonable trajectory for demand.

Therefore, Ofgem’s package of Uncertainty Mechanisms and Outcome Delivery Incentives (ODIs) should not discourage ambition and investment in electricity networks and flexibility that will be critical to reach net zero by 2050. **Whilst additional network capacity should be linked to growth in electricity demand, it cannot be done on a solely retrospective basis.**

DNOs propose a range of mechanisms for dealing with uncertain low-carbon technology demands and requirements. **It will be critical to calibrate these mechanisms so that**



investment in networks enables consumer uptake of LCTs; if DNOs and Ofgem wait until demand is imminent and/or already realised, it will delay and deter consumer uptake - or worse still, adversely affect the reliability of our energy system. Investing in advance of demand - both in infrastructure and flexibility - will also allow companies to deliver reinforcement quicker and potentially cheaper than if they are demand-led. It is critical that domestic-scale flexibility is appropriately valued here - in particular, that optionality value that it offers in the context of this extreme uncertainty. Where investment is required “ahead of need”, this optionality value should be a key factor when deciding whether to invest in infrastructure or flexibility procurement.

In general, DNOs appear to have adopted a relatively conservative assumption about the volume of work required to facilitate EVs and other LCTs as part of their baseline revenue requests, and then proposed that Ofgem relies on uncertainty mechanisms to increase their allowances if demand grows at a faster rate than they have assumed. Some DNOs also propose specific pieces of “anticipatory expenditure” which will help meet demand in the future. But it is critical that the combination of baseline revenues and uncertainty mechanisms will ensure that electricity networks can meet future demand from EV chargepoints and heat pumps in particular.