

Energy UK response to Ofgem's Draft Determinations for RIIO-ED2

25 August 2022

About Energy UK

Energy UK is the trade association for the industry with over 100 members from established FTSE 100 companies to growing suppliers and generators, which now make up over half of our membership. We represent the majority of the energy sector excluding networks and upstream oil and gas.

Executive Summary

Energy UK welcomes the opportunity to respond to the Draft Determinations for the RIIO-ED2 Price Control. In order to reach Net Zero, it is vital that Distribution Network Operators are enabled to develop their networks to allow widespread connections of low carbon technologies, including distributed generation, electric vehicle chargepoints and heat pumps.

Increasing amounts of demand on the distribution network, as well as the proliferation of variable and flexible assets, necessitates the move to Distributed System Operation. The functions that underpin DSO must be further developed through the RIIO-ED2 period.

Network Buildout

- It is important that DNOs are allowed and encouraged to invest in their networks in line with the expected requirements of Net Zero, and the inclusion of uncertainty mechanisms is welcome. Energy UK does, however, hold concerns that placing much of the revenue needed for assets that will enable Net Zero into incentive schemes and uncertainty mechanisms without giving a clear understanding of the governance arrangements and timelines for these processes. Based on existing processes surrounding these mechanisms, inefficiencies could slow the buildout required to connect low carbon assets. Clarity on how this will be avoided would be welcome.
- It is important that the final determinations appropriately incentivise anticipatory investment in networks based on accurate and granular data about anticipated need. This must be developed alongside a clear methodology for identifying where smart, flexible solutions will be considered alongside traditional network reinforcement, for example through a volume driver for flexibility procurement. Energy UK fully supports the use of flexible assets in order to reduce network costs for consumers as we continue to upgrade an aging network infrastructure to ensure it is fit for 2050.

Distribution System Operation (DSO)

- The new DSO incentive is welcome but a number of concerns remain about how it is implemented:
 - It is unlikely that executive-level accountability will be effective for day-to-day decisions, and concerns remain that anti-competitive behaviour could still 'pass under the radar'.
 - Performance metrics for DSO activities only make up 20% of the weighting; which in turn is only 0.2% of total DNO revenue. Energy UK remains concerned that this incentive is insufficient to drive the right behaviour.
 - It is important to ensure that performance measures remain outcome-focussed.

- Energy UK would encourage further clarity on DSO governance, as it may be important to progress changes during the RIIO-2 period.

CLASS

- It is concerning that there seems to have been no decision made on DNO usage of CLASS, and there is no discussion of CLASS in the draft determinations. Many in industry maintain significant reservations about network usage of CLASS, and there is a clear disparity across DNO business plans regarding intended uptake of this technology. Given the inherent impact this has on market certainty, it is important that this issue be resolved in a timely manner.

Data and Digitalisation

- The focus on data and digitalisation is welcome, as are the associated license conditions. However, additional incentives may be necessary around network monitoring, information sharing and data transparency. In particular, network heat maps should be rolled out more widely and standardised in order to better indicate where there is capacity for connections.

If you have any questions about this response or wish to engage with Energy UK and its members, we would welcome further engagement.

Kind regards,
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Consultation Questions

Q1. Do you agree with our proposal to introduce a new funding mechanism for PoLR activities?

- Energy UK is responsive to the principle of socialising costs of new EV chargepoints (EVCPs) in locations that are deemed too high a risk for chargepoint operators (CPOs) themselves and welcome anticipatory investment in chargepoint infrastructure. However, DNOs should not be the chosen provider of last resort. It is our understanding that our position is shared across industry, including with other trade associations and consumer organisations, and has been expressed to both Ofgem and Government in various government-industry fora. Ofgem should review this policy and re-engage industry as soon as possible on a more suitable way forward.
- A DNO is inappropriate to operate EVCPs for several reasons. Firstly, the imposition of a DNO as a last resort does not address the issue that led to its imposition to begin with; an area being deemed as too high a risk for CPOs. The assumption is that after five years under DNO-service, CPOs will come forward to take over operation. However, Government and Ofgem have not provided sufficient evidence that all measures will be exhausted under collateral work over these five years to ensure that the area is de-risked, and that chargepoints do not remain under DNO provision for longer than necessary.
- Rather, it is likely that DNO provision will in fact further increase the business risk to that location given the likelihood of such chargepoints falling short of required standards. Unlike the Supplier of Last Resort (SoLR) procedure which is predicated on transferring responsibility to an actor which by necessity has the competency to manage transferred consumers, a DNO does not have the specific competency to appropriately manage chargepoints. Without a 24-hour service and lack of pricing transparency, DNO-provision of chargepoints falls in direct conflict with Ofgem's legal obligation to protect the interests of current and future consumers.

Q2. What are your views on our two proposed options, and do you agree with our preferred option of a DRS?

- Once again, it is inappropriate for DNOs to build and operate EV chargepoints, just as it is inappropriate for a DNO to operate energy storage assets or deliver energy retail services. It is concerning to consider the potential for DNOs to be incentivised to create barriers to connection of EV charging in order to enable them to become the PoLR. Gaps in the development of public EV charging should be resolved by tendering to the market for a provider to own and operate EV charging as a PoLR, and this could be managed by DNO, Local Authority, Ofgem, or BEIS. A competitive process would increase efficiency for consumers and remove the need for DNOs to invest in systems and hardware that they are as of relatively unfamiliar with.
- Government and the regulator are yet to define the role of local and regional authorities in the delivery of Net Zero, and this addition to DNO responsibilities may increase complexity and confusion if not integrated into a framework for local delivery of low carbon infrastructure like heat networks and public EV charging.
- If this provision is to go ahead with DNOs acting as the last resort provider, reimbursement through DRS is appropriate. However, as stated, Energy UK do not agree with this provision and urge Government and Ofgem to review.

Core Methodology Questions

Core-Q4. Do you agree with our proposed secondary reinforcement volume driver and LV services volume driver and the associated controls?

- The secondary network volume driver should have an accompanying monitoring framework to justify the need for investment upfront and before the funds are released, rather than annually (as is the intent in the DDs)
- Utilisation banding should definitely be reported upfront, and DNOs should not be allowed to reinforce when utilisation is low (as there is too much uncertainty about where LCTs will connect that this is inefficiency investment)

Core-Q24. Do you agree with our proposed design of the DSO incentive?

- As noted above, the 0.2% level of the incentive is proportionate to the importance of developing effective DSO functions, and there should be more ambition in this area.
- The 20% incentive weighting given to outturn performance metrics is also insufficient. Our response highlights the importance of flexible solutions when considering reinforcement, and this should be given greater weight in the DSO incentive.
- The network visibility metric should be reworked to effectively focus on outcomes. At present, it is restricted to how much visibility there is on the LV network, rather than a true output measure such as accuracy of load forecasting which would improve with better visibility.