

Greater London Authority Response to Ofgem RIIO-ED2 Draft Determinations August 2022

This response has been submitted by the Greater London Authority (GLA)'s Infrastructure and Environment Teams.

The GLA welcomes several headline messages in the Draft Determinations (DDs). Given the unprecedented pressure on household bills, this includes Ofgem's commitment to ensuring network companies' plans deliver value for money for customers and consumers. Similarly, with London's 2030 net zero target in mind, we welcome the assurance that the networks will not be a 'blocker' to renewables connections and the uptake of low carbon technologies (LCTs). However, we are concerned about the lack of detail offered as to how this will work in practice; particularly in the context of uncertainty mechanisms and reduced baseline allowances for net zero transition.

While investment must be warranted to protect consumers' bills, this must not come at the expense of readying the networks for net zero. Delaying necessary investment presents risks of higher long-term costs to the consumer as well as locking in carbon emissions that could otherwise have been avoided. It also impacts the potential for London's post-pandemic economic recovery.

We argue that an accelerated and just net zero transition is the best long-term approach to reducing consumer bills and maintaining security of supply. The GLA has concerns that Ofgem's proposals pose a delivery risk to the Mayor of London's 2030 net zero objectives and seek assurances that the framework will enable (rather than hinder) this ambition. These concerns have been raised with London DNOs (UKPN and SSEN) who share this view.

London's accelerated target and a net zero reopener

We have concerns about the degree to which London's DNOs are equipped to meet the Mayor of London's 2030 Net Zero Target, with some proposals in support of this rejected by Ofgem. In particular, this relates to the absence of a clearly defined Net Zero Re-opener.

We request clarity on the threshold of evidence required, decision-making factors, and anticipated timeframes to reach a determination. This includes clarity on who can trigger uncertainty mechanisms and under what conditions and circumstances. We understand that oversight for Net Zero Re-opener decisions would come from the Net Zero Advisory Group (NZAG) and have concerns at the lack of local and regional representation on this group, and how this approach aligns with other areas of reform such as the future of local energy institutions and governance. The role of devolved regional governance bodies such as the GLA on NZAG has been raised and discussed twice in recent years by Jonathan Brearley and Shirley Rodrigues (Deputy Mayor for Energy & Environment) and we await feedback from Ofgem.

Given the accelerated ambition of London's 2030 net zero target, the 2023 to 2028 period will require a step change in the deployment of a range of LCTs in London, including the associated network investment at both transmission and distribution network levels. It's essential this is adequately translated into allowances and DNO business plans do not act as a blocker to London's 2030 plans by delaying the necessary supporting infrastructure. At present, it's hard to gauge whether the proposed approach to baseline allowances is even compatible with National Grid's (2050) Future Energy Scenarios, let alone London's advanced target.

We believe this approach risks missing the bigger picture opportunity of bringing consumer bills down in the long term, and limits London's ability to act as a catalyst to UK decarbonisation. Enabling regions such as London to move faster to net zero has potential to bring benefits at the national level, lowering costs for GB consumers, mitigating the imbalances of regions that progress more slowly with decarbonisation.

We are already seeing the consequences of insufficient network planning and delayed investment in West London, where capacity constraints at the transmission level are impacting localised distribution network capacity, which is likely to delay major connections requests for new housing developments, and undermine decarbonisation initiatives such as rollout of Solar PV, heat pumps and EV charging infrastructure. The West London experience has highlighted the fact that reinforcing network infrastructure has a significant lead time – for example long planning horizons, supply chain and system operation factors. These issues can be mitigated to an extent by certainty associated with clear, upfront decision-making around strategic investment, and it is essential that the Final Determinations recognise the trade-offs associated with uncertainty, particularly in the context of timely connections.

Whole-system planning and digital tools

We support the proposed introduction of a licence obligation related to whole system strategic planning and recognise the benefits such approaches to planning will have in terms of unlocking an optimised, decarbonised, bottom-up future energy system in London. Currently, the GLA is developing Local Area Energy Plans across London at a variety of scales; and we are working to identify a preferred approach for undertaking such work on an ongoing basis; with the support of Energy Systems Catapult. We intend to share outputs of this work with Ofgem to inform this licence obligation in the London context and improve clarity on future governance arrangements for whole systems energy planning and would welcome ongoing dialogue to further clarify London's role (and associated resourcing implications).

As a key principle, whole systems planning requires strong collaborative working arrangements with energy and wider system stakeholders. We strongly support proposals put forward by SSEN and UKPN to establish local authority support teams to engage on Local Area Energy Planning initiatives; and see the establishment of such teams as vital in achieving good outcomes. As an immediate priority the GLA is working to facilitate a Subregional Local Area Energy Plan for West London to address constraints outlined earlier in this consultation response; and this will provide an early opportunity to demonstrate what this licence obligation could look like in practice.

We agree that digital tools will be key to facilitating effective whole systems planning processes; and support network monitoring and optimisation, including reduction of losses. In this regard we support proposals to invest in data and digitalisation strategies, agreeing that such tools will drive system-wide benefits. We encourage Ofgem to continue dialogue in this area as approaches continue to be refined; particularly in the context of the Data and Digitalisation Taskforce review recommendations¹, and local authorities increasing their data offers linked to digitalisation of the land use planning system.

A key concern for the GLA is potential for divergence in approach across the wider London region; given that London is covered by two DNOs and two GDNs. It is important that consistency is maintained in the support and data offers across all of London; and we encourage Ofgem to identify principles to drive consistency in approach – in this regard we support proposals for further guidance on whole systems planning.

¹ <https://es.catapult.org.uk/report/energy-data-taskforce-report/>

Measures to unlock flexibility

While we welcome the announcement for new licence requirements for all DNOs to communicate flexibility requirements for the future, we're concerned about the level of support to unlock flexibility in the DDs.

Flexibility is key to deliver Net Zero at the lowest cost to both consumers and the energy system and we have identified that London has an important role to play at the national level². It is therefore essential that ED2 packages are aligned to the strategic objective of encouraging a smart & flexible system to unlock London's potential. This includes incentivising DNOs to adopt a true 'flexibility first' approach, where there is no regulatory bias towards capex intensive activity. As demand from LCTs increases and the use of flexibility grows, it is crucial that DNOs do not inflate their needs or over-invest in assets to the detriment of customers

We are concerned that the DDs do not sufficiently incentivise London's DNOs to invest in flexibility, particularly on the secondary LV network. The secondary reinforcement uncertainty mechanism does not recognise flexibility as a solution and DSO incentives appear to be penalty only. Both mean that companies are not rewarded for being ambitious (in line with a 'flexibility first' mantra).

We view this investment as crucial if we are to fully unlock the potential of domestic flexibility in London. DSOs have a key role in unlocking local flexibility markets which will allow Londoners to fully exploit flexible LCTs (including solar pv/storage, heat pumps and EVs). Coupled with business models which allow this flexibility to be captured, this can further reduce Londoners' bills, while providing a valuable service to the system.

Fuel Poverty and vulnerable consumers

The cost-of-living crisis and soaring energy bills are hitting Londoners hard, and we agree with Ofgem's position that investment plans must be justified, deliver value for money and ensure the energy transition is just and no-one is left behind. In this regard, DNOs should ensure that they have robust, adaptive vulnerability strategies in place which are shaped by local engagement and priorities. Strategies should include targeted support for those on the Priority Services Register (PSR) during power interruptions, and advice and support for those in fuel poverty – for example, investing in energy efficiency measures and supporting uptake in low carbon technologies; which has potential to bring wider system benefits alongside reducing costs for consumers.

We would like to see that the energy industry is more proactive in getting vulnerable households onto the PSR, and that DNOs and energy companies work together to proactively offer support to these households. This can be achieved through strong working relationships with regional and local government; linked to the proposed local authority support offers.

We would like to see the most vulnerable and lowest incomes householders helped by avoiding additional costs being added onto standing charges, and to be spread over unit charges instead. The continued rollout of smart pre-payment meters should see the end of the unfair premium on pre-payment tariffs, meaning that those most in need pay the highest rates and get the least choice.

Collaborative streetworks

² <https://www.carbontrust.com/resources/flexibility-in-great-britain>

We welcome the inclusion of a collaborative streetworks ODI-F as set out in the UKPN annex of the RIIO-ED2 Draft Determination. It will bring UKPN in line with Gas Distribution Networks (GDNs) in London, who have a similar financial incentive in their RIIO-GD2 business plans, and support UKPN to continue delivering significant social and environmental value through participation in streetworks collaborations. We suggest that flexibility be maintained to extend the collaborative streetworks ODI-F to SSEN at a point throughout the duration of ED2 to bring both DNOs into alignment and have full coverage of energy networks operating in London.

Our views and comments on specific components of the incentive are as follows:

- *Geographic scope of the incentive:* We would strongly support that the incentive apply to all of the UKPN service areas which fall within the GLA administrative boundary, not just UKPN's London service area. Please could Ofgem confirm whether this will be the case?
- *Minimum project eligibility criteria:* We support Ofgem's proposition for a minimum length of 0.2km with a minimum of two collaborating parties and a minimum of level 2 collaboration according to the GLA collaboration manual.
- *Strategic project eligibility criteria:* The GLA would be happy to continue administration of the project eligibility 'strategic criteria' for UKPN. The GLA currently already undertakes this role for the GDNs' incentive, allowing projects to be eligible for the incentive which do not meet the automatic eligibility criteria, but which are of strategic importance. The GLA has established guidance and processes for the administration of this criteria and has confidence that the approach incentivises the delivery of the most valuable collaborative schemes for Londoners and the environment. We have engaged with UKPN about our current processes for administration of 'strategic criteria' and would be happy to play the same role for UKPN as for the relevant GDNs.

Next steps

Thank you for the opportunity to respond to the DDs. We would welcome the opportunity to discuss the above topics with Ofgem when appropriate.