
ADE Response | Ofgem RIIO-ED2 Draft Determinations | 25 August 2022

Context

The ADE welcomes the opportunity to respond to Ofgem's RIIO-ED2 Draft Determinations.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, low-carbon and user-led energy system. The ADE has more than 150 members active across a range of technologies, including both the providers and the users of energy equipment and services. Our members have particular expertise in demand side energy services including demand response and storage, combined heat and power, heat networks and energy efficiency.

Overall Evaluation

The ADE welcomes many of the determinations made for the RIIO-ED2 period. In particular, we support the DSO governance reopener. As we said in our Call for Input, we are not convinced that the current approach is capable of achieving Ofgem's stated ends. Given the work being undertaken in the Energy Bill to create an Independent System Operator and Planner (ISOP) and by the REMA team, it seems increasingly evident that local energy governance arrangements are not suitable for reaching net zero.

Relatedly, conflict of interest issues persist with the proposed approaches to both active network management (ANM) and the treatment of CLASS capable assets. Although a final decision has not been reached on the latter, the minded to position seems totally at odds with the principles of network facilitation and neutrality set out here and in the local energy governance work. ANM may also hamper the natural growth of the local flexibility markets that need to mature in the RIIO-ED2 period by precluding a large number of newly connecting assets from participating.

The ADE is highly supportive of the new DSO flexibility incentive and looks forward to engaging on its implementation.

Chapter 4. Ensuring efficient cost of service - setting baseline allowances

The choice of System Transformation to assess the demand driver adjustment is somewhat questionable given its conservatism in demand profiles and therefore lower modelling of flexibility needs. While we appreciate the desire not to add too much speculative funding, this choice may need to be reconsidered as demand profiles change through the price control period or at the very least, both System Transformation and Consumer Transformation should be considered. DSOs ought to have a strong enough funding stream in order to create viable flexibility markets.

Chapter 6. Adjusting allowances for uncertainty

While the ADE does not have a position on the set questions, further clarification on the conditions needed to invoke the PoLR mechanism for EV charging would be helpful.

Chapter 7. Smart Optimisation

The ADE supports the principles supporting the smart optimisation chapter. With regard to the DSO flexibility incentive, greater industry engagement from Ofgem would be helpful in order to ensure all design elements are consulted upon.

We support DSO ambitions to reach 100% coverage during the RIIO-ED2 period.

Improvements to the connections process will be essential during the RIIO-ED2 period as large numbers of LCTs come online. How such improvements will be monitored, advanced and reported will also be essential.

The whole systems LO is very welcome as is the DSO incentive. We also welcome the opportunity to be involved in discussions to advance the design of this feature in time for the commencement of the price control period. Further details on how this LO will be implemented explored via industry engagement would be useful.

Chapter 8. Distribution System Operation arrangements

The ADE supports the introduction of clear DSO baseline expectations and an associated DSO incentive.

We note Ofgem's preference for ensuring that DNOs develop DSO capabilities, but welcome Ofgem's ongoing work to review institutional and governance arrangements and reform options for DSO governance, and the possibility of the DSO re-opener to be used to make any required adjustments.

While we acknowledge Ofgem's proposal to carefully consider measures to address conflicts of interest in relation to deployment of CLASS as a balancing service, we strongly consider that participation of CLASS in balancing services should be prohibited, as this risks undermining the healthy progression of flexibility markets.

Chapter 10. Increasing competition

The ADE agree with Ofgem's intent to consider early (subject to further assessment of the relevance of early competition for Distribution once early competition has been sufficiently developed at Transmission) and late competition for any projects brought forward under re-openers.

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