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Dear Victoria,

Call for Input: Future of local energy institutions and governance

We welcome Ofgem's review into the governance of local energy systems, as now is the time to make fundamental changes to enable a zero-carbon energy system. The systems and processes that were developed in a largely pre-digital age are not fit for the future, and our nationwide system is increasingly out of step with the physical reality of how electricity is generated and consumed, which is ever more diverse and localised.

Our biggest concern in this Call for Input is the omission of IDNOs who are now providing distribution services to a material proportion of customers connected to GB distribution systems. IDNOs have many millions of pounds of investment made and planned, in developing the local networks needed to achieve net zero, and to support electrification of heat and transport at a local level.

Since OPN, as FAL, applied for its IDNO licence, Ofgem has been considering a review into the functioning and benefits of the IDNO market, which has been encouraged by industry participants and consumer champions alike. As far as we are aware this review has not been undertaken. Additionally, recent reviews and consultations into distribution competition have failed to acknowledge the difference between ICPs (who build networks) and IDNOs (who own and operate them), or to differentiate between Competition in Connections and Competition in Distribution. We believe that a review of the IDNO function could identify further benefits that may be achieved for consumers.

OPN is keen to support innovative models to achieve net zero at the lowest cost to consumers, and we would be very happy to engage directly with you on any of the issues raised, and look forward to participating further in the review.

Yours sincerely,

Louise Murphy
Head of Regulation

Appendix: Question Responses

1. Are the three energy system functions we outline (energy system planning, market facilitation of flexible resources and real time operation of local energy networks) the ones we should be focusing on to address the energy system changes we outline?

No comment.

2. Do you agree with the criteria we have set out for assessing the effectiveness of institutional and governance arrangements?

No comment.

3. Do you agree with our assessment of how far the current institutional arrangements are, or are not, well suited to deliver the three key energy system functions?

We agree that there are weaknesses in the current model, but there needs to be a clear definition of the desired outcomes and benefits.

Consideration of interactions between parties should also take into account the increasing prevalence of IDNOs operating within the system, and their ability to support flexibility at a local and sub-regional level.

4. Overall, what do you consider the biggest blocker to the realisation of effective energy system planning and operation at sub-national level?

Procurement of new demand capacity to meet consumer requirements is largely in the hands of property developers, subject to Local Authority planning, and then provisioned by DNOs using flexibility providers where necessary. There is a lack of joined-up energy demand/development planning between developers, local authorities and network operators.

5. Do you agree with the opportunities of change we outline and the potential benefits they may create?

We are hugely concerned from an IDNO perspective that the proposal to link Local Authorities to DNOs means IDNOs will be excluded from conversations across the country. IDNOs have technical capability, and experience of working across different regions and different environments (urban, suburban, greenfield, brownfield etc). Local Authorities are unlikely to have sufficient resource to work consistently with multiple licensed network operators. We fear, therefore, that they are likely to prefer to work with just one local partner, that being their regional DNO. This concern grows in proportion to the extent that the LA/DNO relationship is dictated by the energy market models being discussed.

Ofgem needs to address the future role of IDNOs, who are not mentioned in the Call for Input. The future role of IDNOs needs to be considered in this workstream and taken into account in other network workstreams / consultations including those on introducing competition for onshore transmission and distribution.

6. Are there additional opportunities for change and benefits that we have not set out?

Simplification of the procurement and development of whole-system models, across multiple energy vectors, should be considered. Achieving net zero at the lowest cost to consumers will require maximisation of the synergies that can be achieved through Whole System thinking.

7. We set out a number of risks associated with change. Do you agree with these risks and the potential costs they create? Are there additional risks of change and costs that have not been set out?

The need to procure new systems to facilitate new market participant types is real, however the industry data systems are aging and need to be updated. An overhaul of this would be costly, but necessary for genuine digitalisation.

The proposals could introduce significant risk to the business models of IDNOs, and could put at risk many millions of pounds of investment in new network infrastructure.

8. For each model, we have set out the key assumptions which need to be true for the model to offer the right solution. Which of these assumptions do you agree with?

We agree that "There is a case for integrating planning across energy vectors at a sub-national level" though the definition of "sub-national" needs to be clear.

9. Out of the framework models we have developed which, if any, offer the most advantages compared to the status quo? If you believe there is another, better model please propose it.

At this early stage the models are sufficiently high level that any of the frameworks could deliver advantages depending on the frameworks around it. More important is establishment of the criteria by which the framework models should be judged, and how each model delivers for energy consumers from a cost and decarbonisation perspective.

10. What do you consider to be the biggest implementation challenges we should focus on mitigating?

All industry participants must be given fair consideration for their roles now and in the future, especially where these roles might change. A period of uncertainty could lead to reduced investment, and it is therefore important to mitigate this in order not to delay the investment required now to achieve net zero.

11. Taking into account the varying degrees of separation of DSO roles from DNOs under framework model 1, do you consider there are additional measures we should consider implementing, in particular in the short term (e.g. changes in accountability etc)?

No comment.

12. Are there other key changes taking place in the energy sector which we have not identified and should take account of?

BEIS reviews of Competition in Onshore Distribution and Transmission and Licence Exemptions; Ofgem's upcoming wide-ranging review of DUoS to support implementation of Access SCR; landowners and property developers increasingly looking for onsite generation and storage to reduce connection costs and time, and to meet decarbonisation goals.

13. What do you consider to be the most important interactions which should drive our project timelines?

Interactions with energy consumers looking to move to net zero systems through integrating local renewable generation with electrified heat and transport should be at the forefront of considerations for any new models.