

Dear Victoria and the Flexibility team,

OVO and Kaluza welcome Ofgem's review into the effectiveness of institutional and energy governance arrangements at the sub-national level to support the delivery of net zero at least cost.

Across the OVO Group, we are working hard towards the delivery of Net Zero, by engaging our customers in the role they have to play, and building the tools and systems to optimise decarbonised, decentralised assets at the grid edge. However, we face a number of blockers in our efforts. We hope this review will help to resolve these, and we broadly agree with the majority of Ofgem's conclusions so far.

In particular, we are pleased that Ofgem explicitly note the importance of advancements in data and digitalisation as a critical enabler of net zero. This is particularly relevant in the context of energy network monitoring and data sharing. In the context of consumer data, it is important consumer interest and protections are appropriately considered at all stages.

Furthermore, we note the importance of improved co-ordination with local government institutions. For example, action to deliver the 2028 600,000 per year heat pump target outlined by the government needs to be taken at local geographic areas, most likely at city region level. This is for two reasons. Firstly, the labour market for installers, and supporting teams (builders, joiners and the like) is inherently local. An installer living in Essex is unlikely to take a job in Exeter. We know from analysis of the 2011 Travel to Work areas by the ONS and Professor Mike Coombes of Newcastle University that self employed individuals, those in skilled trades, and those with medium level qualifications (which are defined here as Level 3 or Level 4 qualifications), have smaller Travel to Work areas across the country – that is, their jobs are more locally based¹. However, a market signal that showed a significant increase in demand in a local area would provide a stronger incentive to retrain and upskill, and for new entrants to move into the labour market. Secondly, demand is easier to generate locally. This can be led by the convening power of local political leaders, and can also play on an increasing sense of place and local pride that many people have. Calling on everyone in England to consider heat pumps, and a macro target of 600,000, can be conceptually difficult to grasp. Saying that your local city region is going to take a lead in decarbonising homes, and that over the

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/traveltoworkareaanalysisingreatbritain/2016#occupation>

next 5 years this area could have X thousand homes built or retrofitted with heat pumps, and it would have this level of specific impact for their local area, is likely to be far more significant.

At this stage, we do not hold a strong view on which of the options outlined is the “best”. However, we have a number of concerns applicable across all options which we note here to support Ofgem’s thinking.

Key points:

- Whichever option is pursued, it is crucial that progress is made quickly. We welcomed the recommendation of the Smart Systems and Flexibility plan in 2017, and 2021, on the topic of DSOs, and Ofgem’s Position Paper in 2019. However, we have yet to see meaningful progression on the definition of DSO roles and responsibilities, and ownership. We sympathise with our DNO colleagues in developing their ED2 business plans in the absence of clarity over this fundamental system design. This Review is therefore warmly welcomed, and we urge Ofgem to move at pace to deliver clarity and unblock progress in this area. We note the protracted Access and Forward Looking Charges SCR, and the ongoing detrimental impact of the Targeted Charging Review on flexibility in the interim. It is important that clarity on roles and responsibilities is achieved quickly, so that related and dependent workstreams (such as Open Networks Flexibility workstream, and the Forward Looking Charges SCR) can be progressed, and suitable resourced.
- In particular, we note the significant deadline of Market Wide Half hourly Settlement in 2025. This represents a fundamental step-change in how consumers understand and interact with their energy usage and, particularly, their flexible demand. It is crucial that suitable frameworks are in place ahead of this point to enable domestic consumers to access the value of their flexible demand. A delay to revenue streams being available at this point has the potential to “turn off” consumers to engaging in flexibility - especially those who could benefit themselves, and the grid, the most.
- System monitoring and digitalisation are critical, whichever path is chosen. There are some no-regrets actions that can be taken now (better network monitoring, upskilling etc)
- We recognise that this review necessarily needs to be focused in order to deliver change in a timely manner. However, co-ordination within policy-makers is increasingly important, especially given the scale and ambition of changes being considered under BEIS’s REMA. We urge Ofgem to outline how you will work with your colleagues to ensure alignment. In addition, we would appreciate clarity on how this work links into the network SCR.
- A mature flexibility market is not a natural progression of DNOs, it requires a fundamental shift in culture, capability and perspective - whichever option is chosen needs to be properly resourced and prioritised
- We agree that change can be disruptive and costly, but we also note the significant (and hard to quantify) cost of barriers to innovation and delivering Net Zero. We note that some change required will be necessary regardless of whether

full separation from DNOs is needed, because of the perceived conflicts identified by Ofgem; the requirement for an evolution in price control and incentives; and the skills and resource gaps identified.

Kind regards,

Elizabeth Allkins