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Dear All

Consultation on frameworks for future systems and network regulation: enabling an energy system for the future

The Flexible Generation Group (FGG) represents the owners of and investors in small scale, flexible generation and storage. These power stations are embedded in distribution networks and provide a variety of vital services to the system operator and the DNOs to help them deliver secure, economic supplies to electricity customers.

Introduction

FGG welcome work by Ofgem to try to drive a more efficient and flexible energy market. However, we are concerned that this work and the Future of Flexibility work are moving in parallel workstreams, rather than Ofgem offering a more coherent strategy for the future.

FGG has not answered all of the questions Ofgem pose as we do not think we have enough information to on some of the overlapping policies to make an informed input into this consultation. Instead we have tried to draw out the key policy areas we believe need greater clarification.

FSO

FGG has supported the creation of the FSO. However, our understanding is that this expanded organisation will be advising Government and Ofgem on many of the issues that Ofgem seem to suggest could be within the scope of the Regional System Planners. The FGG therefore supports having the FSO as the regional planner. However, the FSO's role seems to go across fuels and will also address issues around the location of generation, hydrogen, etc., but how it works and the powers it has remains poorly defined. Ofgem therefore needs to bring forward changes to ready the FSO to undertake the many roles apparently assigned to it, notably where the current ESO has no expertise.

There will be a clear need for the DNOs, the DNs, etc. to feed into the work of the FSO, but there is no benefit from having multiple planners in the market. FGG recognise that the exact nature of the FSO is not defined and we feel we need greater clarity around the FSO's

new role before deciding if other local planners are required. For example, how will all of the other energy companies feed into the FSO and will the FSO have the power to force networks to invest in a certain way in a specific area? It is not obvious to FGG that the FSO has any powers, so how will the FSO move from planning to implementing? What is Ofgem's role?

Many of the decisions on location of developments will be outside of the control of any specific energy market actor. For example, the Government has chosen the CCUS hubs and the first hydrogen projects. Wind generation must locate where it is windy, the long duration storage we expect to be located where the assets offer most system support, and locations for new nuclear plants are set. Then we have the NGESO pathfinders, putting assets to address specific operational issues where they are needed. So what are the planners left to decide on? As the FSO will be part of Government that feels like the logical place to put further planning activities, but we remain concerned about implementing the plans.

Planning Laws

FGG recognises that the planning system can work against the timely delivery of energy assets that will be required to deliver net zero. However, the regional planning process is far better than the very long national planning process. As we deliver a lot of local assets we find, the majority of the time, local authorities (LAs) want to work with businesses to deliver new investment in their areas. They seem to work relatively well with the energy network companies, while needing to balance the interests of those they represent. It is not clear how the type of regional planner Ofgem proposes would improve the work with local planning bodies. From their responses to the first consultation, the LAs clearly also have concerns around resourcing. This needs to be addressed.

It would appear to us that the DNOs could align their activities, aiming for best practice by all, under the auspices of the Open Networks Project without the need for another level of bureaucracy within the process. For small companies how is having yet another body to deal with likely to make the development process quicker or more efficient? We would still need to work with the DNO and LAs and how the FSO fits into this relationship will be critical in ensuring they are a help and not a hinderance.

Connections

While Ofgem is looking at future planning, it needs to focus on the need for greater transparency and efficiency around the network connections processes now. FGG assumes that planning is, at least in part, about connecting and managing flexibility, either via assets such as power plants or storage, or DSR such as EVs and heat pumps. These assets have in common the need to easily connect to the energy networks. FGG is concerned Ofgem is not trying to resolve these issues now.

We have had c4 years of Ofgem's access and charging reviews coming and going. When we apply to DNOs for connections they are often then lost in the process where the DNO seeks

capacity from the TO. This process needs to be more timely and more transparent. The DNO must pass requests to the TO as they are being submitted and should have an obligation to report back to the connecting parties on a regular basis.

Further, many connections are now coming with active network management (ANM) requirements. There is no benefit to the asset connecting from these arrangements, though they are allowing DNOs to defer investments. The customers should be paid for flexibility they are required to give. We are not going to get significant uptake of EVs if the DNOs are simply allowed to cut them off to manage their networks with no compensation. Sorting out these sorts of signals now is critical.

Without a move to more anticipatory investment the planning that could be done at the edges around asset locations (setting aside things like CCUS hubs) needs to be implementable, which then requires that there is network. At the moment parties build where they can get capacity. We suspect that rows of houses will also discover that DNOs will not allow unlimited numbers of EVs to charge or heat pumps to be installed as they also run out of capacity. Putting the networks in a position to allow flexibility in connections to locate assets in the optimal place is a time critical activity that Ofgem must get on top of.

Digitalisation

Digitalisation is a word that gets significant use with no clear definition. As we have noted in other responses to Ofgem's consultations over the years, the key is to get the core data right and then to build on this. For example the DNOs need to be providing more real time data on the energy flows on their systems. We need to know how much demand and generation there is in each region each half hour. Both TOs and DNOs need to publish real time information on constraints and the state of their systems. The DNOs need to publish the equivalent to the TEC register, so parties can see what is planning to connect, where and when. This data can then inform planning based on facts.

Market Facilitation

FGG is disappointed that the market facilitation issues Ofgem raise are ones we have been raising with Ofgem for years, such as the need to have easy access to markets across multiple regions, with well defined products, and primacy rules. These all appear to be issues that the Open Networks Project is meant to be addressing, but progress has been incredibly slow. For example, the DNOs are planning to take all year to work up primacy rules which seems an inconceivably long time. Likewise, FGG has raised with Ofgem our concerns that the contract terms are one-sided and overly onerous. Ofgem must therefore get on top of the Open Networks work.

Adding in a market facilitator to the Open Networks Project, unless it had significant power to overrule all the DNOs, is unlikely to make anything better or quicker. Again this may be a role for the FSO, but we would need to understand their power before suggesting this is necessarily the answer. What Ofgem needs to explain is what has stopped it pushing this work forward as the regulator and why it believes another party can achieve what it has

failed to do? Are Ofgem pushing DESNZ to give the FSO the powers to achieve this level of change?

Ofgem also needs to be careful that we do not get a multitude of platforms and/or exchanges which will reduce the transparency in the market as tender results become published in a variety of locations in varying formats. The fact that we already have the BMRs, Elexon Portal, NGESO Data Portal, Piclo for some DNOs, etc. is already an issue. Ofgem needs to make sure data is presented in the same format and in one place wherever it is possible. FGG fully support open data and have been persistently disappointed that NGESO has not published far more data, for example around constraints, the operation of interconnectors, etc.

Resourcing Change

Some of the changes Ofgem proposes would basically require who new layers of governance, changes in roles and responsibility, and ultimately require new ways of working. FGG does not believe that we have time for such a major overhaul if we are to meet the government's environmental targets. As noted above, we are c5 years into a charging review and the Open Networks Project and very little has been achieved by either. Ofgem's team will change, the system delivery will take longer than expected, etc., so it is vital we build on what we have, but with a greater degree of urgency if we are deliver the scale of change needed. It is not good enough for Ofgem to make sweeping changes with no cost benefit analysis or a clear delivery plan.

We welcome Ofgem's commitment to stakeholder engagement. However, this has to be balanced with the need for consultation to be meaningful. For example, the Open Networks Project produces reams of papers which most parties, LAs and customers have no time to read. NGESO seems to tick boxes on who it has talked to rather than it is clearly responding to the consultation responses (no one is supporting LMP, but still it is pushing it). DESNZ on the other hand tends to run very concise consultations which are far easier to engage with, than being drowned in paper work, and seem more focussed on pragmatic solutions.

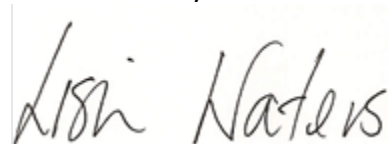
DSOs

FGG agree with Ofgem that a separate DSO role is unnecessary and likely to add very little to any wider arrangements. We agree the DNOs should retain operation of their regional networks. However, there is a need to iron out the primacy rules so parties, as many FGG members do, can easily contact with their host DNO and the ESO. The ENA's initial proposals are entirely unacceptable allowing no flexibility for providers to stack revenues near to real time.

We have also noted above, there is a need for the DNOs to pay parties for the services they provide where they reduce the DNOs' need to invest. There is an energy market for the services, but no recompense for the system benefit some of these services provide. FGG see this as part of being able to stack revenues, as DESNZ and Ofgem have often said needs to happen, to better reward flexibility.

We would be happy to discuss this with you further if that would be helpful.

Yours sincerely

Lisi Waters

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