

Open Networks Challenge Group

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Dear Ofgem

Consultation: Future of local energy institutions and governance
Call for Input: The future of distributed flexibility

I am writing this response in my capacity as Chair of the Open Networks Challenge Group. The Challenge Group comprises 20 stakeholders (a mix of flexibility service providers and stakeholders with broader customer or policy interests) who are there to provide challenge to the Open Networks programme and to hold them to account for delivery. In my capacity as Chair, I also attend the Open Networks Steering Group.

We have discussed the two consultations – on local governance and distributed flexibility – and there is broad consensus across the Challenge Group on the points made in this letter. However individual members will in most cases be submitting fuller responses and may take slightly different positions on some of the issues.

While we share Ofgem's view of the problem in terms of a lack of a pace and the need to drive standardisation, we are concerned that Ofgem is too dismissive of the progress that has been made by Open Networks and in particular the Challenge Group see it as vital that momentum is not lost while any longer-term solution is put in place. As Ofgem themselves say "there is no time to lose". In particular the Group are clear they do not want Open Networks to "down tools" while waiting for an Ofgem decision – and would welcome Ofgem itself reiterating that message.

Understanding the root causes of the slow progress on Open Networks is important both in thinking about the longer-term solution and in seeking to accelerate progress in the near term. Simply passing responsibility to another body will not address all these issues and hence they need to be thought about now.

The Challenge Group had identified the need for more pace in our annual report¹ at the end of last year and had urged a focus on outcomes rather than outputs (eg whether DNOs were using standard contracts rather than whether a standard contract had been produced by the ENA). Open Networks responded to this challenge in their latest programme of work with more outcome focussed metrics.

However, the latest Ofgem consultation has encouraged us to think further about what could be done to accelerate progress and we have identified a range of actions for Open Networks and Ofgem to consider:

- **Resources:** Open Networks is largely dependent on the distribution networks providing staff to lead pieces of work. While this ensures relevant expertise there can be issues of

¹ <https://www.energynetworks.org/newsroom/open-networks-challenge-group-looking-back-on-2022>

competing priorities with internal work. Either networks need to make a firmer commitment on resourcing or more external resource needs to be brought in.

- **Stakeholder input:** The Challenge Group has been running for just over a year and was an attempt by Open Networks to improve stakeholder input to the programme. While the conclusion in our annual report was that the Challenge Group was an improvement over the previous Advisory Group there clearly is scope to further strengthen the role of the Group including the interactions between the Steering Group and Challenge Group. There are also challenges around how smaller players (who do not have the resources to engage) can best be represented in dialogues on issues like primacy that can still be material for them.
- **Governance:** The Challenge Group recognise the problem that Ofgem articulates of Open Networks needing to proceed by consensus which tends to slow progress and means things move at the pace of the slowest. We have encouraged the ENA to take a more proactive role to try to address this.
- **Ofgem involvement:** We are aware that Ofgem has very significantly wound back its involvement in Open Networks over the past year. We understand that Ofgem does not wish to be too close to the programme in a way that might compromise its ability to regulate. However we feel that the pendulum has swung too far. Ofgem has the ability to help drive progress by being more closely involved (and also needs to understand the complexity of the issues to inform its thinking on the way forward). We would therefore encourage Ofgem to re-engage with the programme through, for example, re-joining the Steering Group alongside DESNZ (who have continued to engage throughout).
- **RIIO ED2 DSO incentive:** We flagged in our annual report the concern that Ofgem have highlighted about individual DNOs carrying out their own consultations on flexibility. In our view one of the drivers of this is the competitive approach that is embodied in Ofgem's RIIO process whether through the Business Plan Incentive or the new DSO incentive. While the DSO incentive does reference the importance of collaboration, the qualitative assessment and survey still risk motivating companies to try to distinguish their offerings rather than standardise. More generally, Open Networks requires companies to take steps that are in the collective interest but which may not serve their own interests in terms of relative performance under RIIO. We would encourage Ofgem to test how well the new DSO incentive aligns with what they are now looking for from DNOs and to ensure it is not inadvertently driving unhelpful behaviours.

Overall we would like to see a strengthened Open Networks in the near term. Having the “stick” of more fundamental reform if this does not happen should help focus minds.

Across the Challenge Group there are mixed views on how far the sort of radical reform envisaged by Ofgem is ultimately required. In general there is a shared view on the factors that need to be considered but potentially different views on where the right balance lies.

Local governance – market facilitation

As noted above, the Challenge Group recognise the problem that Ofgem articulates of Open Networks needing to proceed by consensus. As such there is merit in the FSO being given a leadership role where it can take decisions and drive progress. However, in defining exactly what that role should be, thought needs to be given to:

- The fact that the FSO does not yet exist and the skills, resources and capabilities it will have are unclear. It will as a minimum take time for new capabilities to be developed and Ofgem should be wary of assuming that it is the answer to everything;

- Assuming that the FSO essentially builds on the existing ESO there are concerns in particular about that organisation's historic bias towards larger generation resources (noting for example the difficulties for domestic DSR in participating in the balancing market) – a point that Ofgem itself makes;
- The need for the FSO (if it takes on that leadership role) to continue to work closely with DNOs, to take on board their needs and practical experience, as well as with wider stakeholders;
- The linkages with Ofgem and DESNZ work on code governance reform² which could provide a model for a future way of working with the FSO as the licensed Code Manager, taking decisions on modifications but having to have regard to the views of a Stakeholder Advisory Forum (comprising code parties and wider stakeholders). Whether or not the market facilitation role does equate to a code manager role, there has been significant thinking around governance in that context (with changes now being progressed through the Energy Security Bill) which Ofgem might usefully draw on;
- It is unclear even in this model, how enforcement would happen as this is not understood to be an FSO role.

In my personal view there are options as to how deep or shallow any future FSO market facilitation role might be. A final decision on this should depend on the progress made by Open Networks over the coming year and a more rounded debate on the roles, priorities, resources and capabilities of the FSO.

Local governance – regional system planning

While the links with Open Networks are less clearcut for regional system planning, some of the same issues arise and the intention seems to be that the plans would provide the basis on which levels of flexibility required would be determined. Again, while there is value in the FSO driving a consistent and coherent approach, in my view it is far from clear that the FSO is best placed to take on the role of regional system planning with the local knowledge that requires.

Flexibility providers with a particular focus on smart local energy solutions or community energy are particularly concerned about both local / regional planning and market facilitation being driven by a national body. With both heat and transport being inherently place based, my personal view is that the DNOs as DSOs have a vital role in developing local flexibility markets that should not be downplayed.

Call for Input on distributed flexibility

While the Challenge Group recognise the importance of digitalisation, it is hard to determine at this point what the correct technical solution is.

Before any solution could be implemented there would need to be standardised data and processes – which is what Open Networks is working to deliver. If this were delivered then it would seem that a lighter touch digital solution with common APIs would be sufficient. Paying a lot of money for a software solution would not in and of itself solve the underlying problem.

² <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-code-reform>

More generally there are questions about the timeframe for this work and how it sits alongside, for example, the project that has just been announced with ESC and Arup looking at the feasibility of a digital spine for energy.

Finally, there are concerns about Ofgem itself seemingly taking the lead on specifying / developing software solutions.

In my personal view, where there are clear no regret / minimum requirements, Ofgem should be asking Open Networks to take them forward *now*, with any decision on the long term solution being left for the FSO to take (in discussion with wider stakeholders) as a part of its market facilitation role.

In summary the Challenge Group welcomes the chance to input on these important issues and shares Ofgem's concerns about the need for more pace. However we would like to see more thought given to how to drive this in the near term while any longer term solutions are considered and put in place.

Maxine Frerk

Chair Open Networks Challenge Group