



By email: flexibility@ofgem.gov.uk

Flexible Generation Group
13 Thornton Hill
London
SW19 4HU

Telephone: 020 8239 9917
e-mail: mdraper@peakgen.com
www.flexgengroup.com

10 May 2023

Dear All

Call for Input: The Future of Distributed Flexibility

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 to help it deliver secure, economic supplies to electricity customers.

Introduction

FGG is extremely disappointed by Ofgem slow approach to improving flexibility. We have been engaging with Ofgem on many of the issues this document outlines since 2018. We are surprised that Ofgem has funded so many innovation programs looking at small scale flexibility provision without first addressing the key issues facing the current flexibility providers.

Ofgem makes a lot of assertions in this document, but has Ofgem undertaken any cost benefit analysis? FGG believes that automated responses from smaller customers could be beneficial to the market, but there are two critical issues: they cannot be relied on; and the cost is high. On the first point, a fully automated response may be more reliable than the response we have recently seen from the Demand Flexibility Service (DFS) where response fell over the three periods the scheme was used over the winter). We also now know that DFS costs a minimum of £6,000/MWh, significantly more than it would cost to meet that peak demand with generation. So Ofgem we think needs to refocus on meeting the needs of customers in the most economical way.

We have tried to answer Ofgem's questions below but would urgently like to hear from Ofgem now about what they are doing to address the issues of today's flexibility providers.

Section 1

1. What do you think distributed flexibility could contribute to the energy system?

DER and CER will be critical in achieving secure supplies of energy at an economical cost to customers. However, one should not be pitted against the other. The question is what can

provide the response and service level required and what does that cost? As noted above, FGG expects fully automated DER, such as the ability to get fridges to switch off briefly to provide frequency response, could be a cheap and effective addition to the energy market.

2. Will a focus on CER flexibility also help enable other forms of flexibility, especially distributed flexibility?

No. We think Ofgem is going about this the wrong way. DER is reliable and economic. It is therefore vital that Ofgem steps up the pace at which DER becomes part of the energy market. For example, it should require the DNOs to move far faster in delivering better market access under Open Networks. Ofgem should make NGESO speed up its onboarding for new BMUs and investigate if NGESO's actions are unduly discriminatory towards, or fairly reward, smaller parties, for example with high skip rates, or calling the most flexible assets last. Given the potential gains from increased market penetration by DER are so much greater than for CER, this should be Ofgem's priority. Any perceived favouritism towards CER over DER will be seen as a threat and deter future investment in DER and should be avoided.

FGG notes the number of consultations on flexibility that have been issued. However, so little has been achieved. We think some of this is down to the way Ofgem seems to view the market. FGG members face not oligopsonies, we face monopsonies. Only NGESO buys Dynamic Containment (DC), NGESO is the sole pathfinder counterparty, etc. Ofgem is right in saying that market coordination and access is a huge problem, but if a 10MW generator cannot get through the market entry process, how will CER?

Section 2

3. Is there a 'case for change' and a need for a common vision for distributed flexibility?

The important thing for Ofgem to do is to concentrate efforts on making changes that capture the "low hanging fruit", by allowing existing flexibility providers better market access. It is not that the systems need huge amounts of changes, but rather that changes need to happen far faster. We have been attempting to work with NGESO and the DNOs for years and the progress, such as it is, is incredibly slow.

4. What is your vision for how to accelerate the delivery of accessible, coordinated and trusted markets for distributed flexibility?

The work being done by the Open Networks Project needs to be accelerated. Ofgem's document lists many changes that could be made, but does not seem to recognise that this work has already started. Yet another project seems highly unlikely to make changes happen faster. Unless Ofgem can resolve market access for larger assets, then it is wasting its time trying to get CER involved on any scale that would be meaningful.

FGG wants to see energy markets, national and local, that have easy access on a level playing field. This means contract terms that align across all networks, with clear primacy rules and market transparency to allow parties to be active players. Signing up to markets like the BM should be quick and easy, not take months. In our experience DNOs are

incredibly variable in their approach and the amount of services that they procure. It is not obvious why this is the case, so Ofgem should be pulling the laggards up on their slow progress.

For starters FGG would want to see:

- A review of the DNOs' contracted terms to make them less onerous;
- A mirroring of ESO and DSO contract terms, so signing up to of the same service is under the same rules irrelevant of who the services are sold to;
- Primacy rules that are easy to understand and more flexible than the ENA's current proposals with only weekly updates between DNO and ESO;
- A greater ability to stack services with clear communications systems to make that stacking work;
- NGESO being penalised for poor service provision, such as the late rollout of services, failure of its auction platforms;
- A full list of all assets connected to the DNO networks down to 0.5 MW;
- Each DNO to produce the equivalent of a TEC Register, so the market can monitor connections;
- A better way to report on live and forecast constraints than the heat maps;
- A real time constraint level reporting system from the TOs;
- A "state of the system" report;
- Real time data on DNO connected meters published in the same way as BMU data is published;
- Where Active Network Management (ANM) is used by DNOs the customers affected are paid as this is delaying the cost of system reinforcements;
- BEGAs rewritten to make sense and to be signed in a timely manner;
- Better auditing of NGESO's skip rates.

5. Will certainty of an end vision help accelerate enabling work and make it cohesive?

Ofgem's document seems to have an end vision, but no strategy to get there. So much of what is noted as a good outcome with which FGG would agree, but there needs to be a route to get there. For example, the whole of the energy market would like to see more transparency on the constraints on the transmission and distribution systems, the state of the systems, the operations of the interconnectors and all of the embedded generation assets, but this is old news. What we still lack is any strategy from Ofgem as to how this type of data is going to be shared, by whom and when.

6. When should a common digital energy infrastructure be in place? And therefore, when should development begin?

FGG does not understand what this infrastructure is going to achieve compared to building on the systems we have. Having a "vision" is one thing, delivering it is another. Until the market has data on what the larger assets and the networks are doing there is little benefit in diving down to CER.

Section 3

7. What should a common energy digital infrastructure look like, and why? Please consider the archetypes or develop your own proposition.

8. What is your view on the desirability and feasibility of the archetypes or your own alternative proposition?

FGG has no interest in the how, but we are concerned about the what. Some of the archetype descriptions are unclear, for example all the data must flow into and out of central systems for energy balancing purposes. So as that flows there is no reason it cannot be published centrally even if it is coming from different sources. The “thin” model, where parties settle bilaterally, still relies on central data flows, albeit that the two parties then settle as happens now. In reality we have to build on existing business as usual, get to thin and then hopefully medium as you described.

Our understanding is that Open Networks is currently working towards a system that is most similar to the “medium archetype” that Ofgem describes. So a party could sign a central framework agreement that then allows its assets in different regions to offer the same service to each DNO, which are settled bilaterally. Building on this regime would be sensible as at least we would not have to restart the clock on system/contract developments. This could be developed towards a thicker model, but FGG feels different regions and the ESO may need different services. For example, the pathfinders are a way to role out a new service to cover a specific regional need. FGG supports these types of developments.

Section 4

9. Should a common digital energy infrastructure be new-build, or should it buildout from existing infrastructure?

There is no realistic hope of starting from scratch. It would take too long and be too expensive. The system still needs to operate reliably 24/7 whilst any changes are being made.

10. What are the important areas for consideration when designing institutional delivery models for a common digital energy infrastructure?

FGG would like to see the ability for smaller parties to raise rule changes to facilitate flexibility, without having to come to Ofgem for approval. Further, we would like to see the bodies that oversee the data on flexibility being those that are the most responsive. For example, if national constraint data were to be published, getting Elexon to provide the platform (as they do with BMRS) and requiring all the monopolies to provide data to them, allows Elexon to report back to the market how the monopolies are performing.

Ofgem’s document seems to fail to recognise we already have enormous amounts of digital infrastructure that is common or feeds into common systems. For example, metering registration and demand data. What we need is for the monopolies to be told how to develop, structure and manage this data. For example, if the DNOs had real time data on embedded generation then that could be separated out by the ESO and “demand forecast”

data could be real underlying demand by region, not net demand on the TOs. This would be far more useful for the whole market, but the DNOs do not collect such data.

Some of the models in Ofgem's document seem to be abandoning what we have now and starting again. This is neither practical nor sensible. It is extremely disappointing to see Ofgem consult on ideas such as private contracting for energy data, when the whole market is based on central data requirements on data accuracy, provision, reporting. Where data is collected and where it is reported this has been the subject of years of market developments.

There is simply no explanation as to why Ofgem is bothering to consider such things. What has changed that we have all missed? This should not be an academic exercise, but a pragmatic approach to the issues we see today. We already have mandated entities that are licenced and controlled by Ofgem. Why would we add in more? Further, the Government and Ofgem have supported having a new FSO and that may well be the party in future collecting more data, but the current divisions between who collects and published data need to be built upon, not torn down.

11. What are the important areas for consideration when designing financial delivery models for a common digital energy infrastructure?

Each of the parties collecting data are either price controlled (DNOs, TOs and ESO) or funded by the industry (BSC, REC, SEC). As noted above we see no reason to change any of these models, but instead Ofgem could concentrate its efforts on getting the data delivered. We have given some examples of data we believe the market should be seeing and the monopolies should be collecting. However, no new archetype is needed for that, just a will from within Ofgem to push the pragmatic solutions forward. The best is the enemy of the good. We need more focus from Ofgem to drive to get better results from what exists now, and less dreaming of what might be neglecting the existing difficulties and barriers.

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

Yours sincerely



pp Mark Draper
Chairman