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RECCo response to: Ofgem's Call for Input on the future of Distributed Flexibility

We welcome the opportunity to respond to this consultation. Our non-confidential response, appended to this letter, represents the views of the Retail Energy Code Company Ltd (RECCo) and is based on our role as operator of the Retail Energy Code (REC).

RECCo is a not-for-profit, corporate vehicle ensuring the proper, effective, and efficient implementation and ongoing management of the REC arrangements. We seek to promote trust, innovation and competition, whilst maintaining focus on positive consumer outcomes. We are committed to ensuring that RECCo is an "*intelligent customer*", ensuring efficacy and value-for-money of the services we procure and manage on behalf of REC Parties, including those which constitute the REC Code Manager. More recently, we have taken over responsibility for the oversight and funding of the Central Switching Service.

A key challenge to developing a trusted, coordinated, and successful flexibility market will be demystifying this relatively complex activity for consumers, making it as straightforward as possible to both understand and access. Clear consumer information and independent advice will be critical to build consumers' understanding of the need for system flexibility, the part they as consumers can play, and how they can go about it. This should include where they can go for help when they need it. Therefore, whilst the focus of this consultation is understandably on the transformation of the distribution networks, we consider that this must go hand in glove with improvement of the retail energy sector, ensuring that consumers have trust in and are sufficiently prepared to engage with the market, to register their energy assets and ultimately to consent to their use for flexibility.

It seems clear that by either allowing the status quo to persist or waiting upon the development of the proposed *Thick model*/solution, would risk missing a key opportunity to develop a timely, accessible, and open energy resource flexibility market. Whilst understanding the archetypal models set out, we encourage Ofgem to explore further hybrid archetypes that may draw from the beneficial features of each model, whilst avoiding the likely trade-offs that have been identified. This may further facilitate the realisation of the significant future value consumer energy resources, such as electric vehicles, as well as the larger and more traditional distributed energy resources.

Whichever archetype, delivery model or solution is determined by Ofgem, it will need to work alongside the existing energy market and with minimal change to the regulatory framework, to ensure that connected activity is managed effectively and without placing at risk existing investment and planning, at least to the extent that investment and planning is consistent with the overarching objectives of the system transformation. The flexibility regime and model will need to be underpinned by clear, customer-centric processes and a consents regime, where the consumer retains control and can manage their everyday or transitory needs either within pre-agreed parameters or on a more dynamic basis.

We welcome consideration of how these new flexibility consents will fit with existing energy consumer consent regulatory regimes in place (like the Data Access & Privacy Framework or the New Data Access for

MHHS), and how these will be managed in concert to foster consumer confidence and deliver the best consumer outcomes. Consumers are unlikely to distinguish between different energy activities, and would benefit greatly from a simple, user-friendly, interaction with the flexibility market, and a clear way to make and update their choices. We are currently conducting work looking at Open Data and Consumer Consent, where we have started to consider the role of a central consumer consents approach, what this might deliver and how this might be achieved. Our work is currently agnostic of the end solution or who might deliver, but we are cognisant that a successful regime will in all probability need to be set out in the regulatory framework. The regime management, security and monitoring will be key to establishing consumer trust. We are already engaging with Ofgem and DESNZ on this work and are happy to discuss this further with the Ofgem flexibility team.

We are happy to discuss any of the points raised in this response.

Yours sincerely,

Jon Dixon
Director, Strategy and Development

Appendix – RECCo Response to questions posed

Section 1 – the Imperative, potential, and challenges of flexibility.

Q1. What do you think distributed flexibility could contribute to the energy system?

Distributed flexibility should contribute as follows:

- Increased and more variable renewables, balanced on additional, enforced network, can help balance whole system requirements against variable generation and increasingly variable customer demand patterns. Ultimately though, the system is limited in how much it can physically and financially add. It is vital therefore to unlock the aggregated volume of flexibility which consumers and distributed energy resources are likely to provide. Especially with the anticipated electrification of heat and transport.

- Enabling consumer and distributed resource flexibility has the potential to minimise the need for, and dependence on, wider system capacity increases and reinforcement, by making a consistent use of distributed resources to better serve a smarter system and balance use across the system. Minimising system cost increases consumers have to pay for, and potentially compensating those who offer and provide flexibility.

- A concerted effort to gather near-real-time data and make it readily accessible to consumers and flexibility service providers will increase transparency of consumer energy resource (CER) action. Providing clear information to consumers on the cost and operational implications may, if made sufficiently accessible, increase consumer trust and confidence.

Q2 Will a focus on CER flexibility also help enable other forms of flexibility, especially distributed flexibility

Building an accessible, easy to understand flexibility system (processes, data, systems) which allows consumer control, via unambiguous decision making, with clear specification of their rights and responsibilities, should ensure simplicity by design. This will increase the likelihood of a system being developed which unlocks access to an increasing nationwide set of assets delivering valuable aggregated distributed flexibility.

Section 2 - An approach pivot: The case for change

Q3. Is there a 'case for change' and a need for a common vision for distributed flexibility

We are yet to see the full impact of distributed energy resources. By 2035 we are likely to see an additional 20 million+ CER assets within the market, primarily electric vehicles and heat pumps. Retrospective coordination and alignment to a common vision at that time would be problematic, complicated and potentially costly. We therefore need to take the opportunity now to develop a clear, common, governed vision and way forward, rather than continue to use disparate siloed systems and approaches.

The future vision needs to overcome existing market access and cost challenges, mitigating the competitive difficulties faced by both new and existing participants, when trying to work out which markets they might qualify and interact with, and understanding potential market conflicts. Identification of a clear vision and solutions will be key to securing the funding routes, so that providing CER flexibility is an option for all retail consumers - even if individual circumstances and the need for supply security mean that option is not taken. The difficulties faced by new entrants today may restrict competition and diminish value to consumers.

Whatever vision is developed, it needs to deliver a market open to all, flexibly, which ensures consumers are not negatively impacted or penalised if they do not, or cannot, actively engage in offering CER, where their participation may be beyond their economic means, capability or understanding.

Q4. What is your vision for how to accelerate the delivery of accessible, coordinated and trusted markets for distributed flexibility

Defining common data, communications and security standards, formats (data, API etc), and principles up front will ensure a firm common foundation, which allows for plurality of solutions developed in parallel, as the market grows and tests what works best. The commonality allows the market to utilise and reuse existing and forthcoming services, where desirable, to accelerate delivery and avoid re-work, e.g., consumer consents, automated asset registration, market-wide half hourly settlement. This will support new entrants and competitive innovation within the market, whilst minimising the sunk cost of any solution that may prove to be sub-optimal in light of technological developments or other changing circumstances. It will be important to foster a 'no regrets' environment for network investment.

Q5. Will certainty of an end vision help accelerate enabling work and make it cohesive?

A clear end vision will support multiple parties to work towards the same goal, however to ensure cohesiveness clear principles and standards need to be established. This is an enabler which allows plurality of technology solution for accelerated results, without affecting future competition or interoperability or the flexibility for development to switch course without losing ground. This nationwide end vision needs to allow flexibility for local network needs, without overly prescribing options which limit future flexibility to adjust as technology moves forward and the network evolves.

Q6. When should a common digital energy infrastructure be in place? And therefore, when should development begin?

The take up of rooftop solar panels, is well established, and we are on the verge of a approaching a tipping point for accelerated take up of newer, smarter energy resources, like electric vehicles & heat pumps, which will vastly increase the number of established CERs. With this comes a growing and more imminent need to build a clear understanding of what is connected to the network, and to trial ways for consumers and distributed parties to enter into agreements and offer these for flexibility, if we are to meet the fast approaching net zero targets.

However, determination of an achievable, proportionate, economic development programme of work, requires consultation on a clear set of proposed requirements, solution(s) and delivery model. This will provide the evidence-based assessment of the required activities and timescales to inform a credible development, build, test, and implementation plan.

Whilst it is reasonable to encourage the industry to work at pace, and indeed deadlines such as those set out in legislation for legally-binding reductions in carbon emissions can have a galvanising effect, we have also seen the detrimental effect and unintended consequences that impracticable deadlines can have on the market. It seems premature to be considering the *when* until there is absolute clarity on the *what,* but it may be possible to model the impact of timing options based on the projected role out of CERs and the consequences of trying to retrofit those volumes into a holistic digital energy infrastructure, rather than it being part of the design and investment case from the outset.

Section 3 – What the future could look like.

Q7. What should a common energy digital infrastructure look like, and why? Please consider the archetypes or develop your own proposition?

The common energy digital infrastructure will evolve over time. Perhaps starting with something similar to the thin archetype and maturing towards a medium archetype, to ensure a regime is available sooner and can evolve with learnings on the needs of users. Reusing central platforms already in existence to build a centralised service, rather than duplicating functionality provides cost efficiencies which will ultimately benefit the consumer.

Q8. What is your view on the desirability and feasibility of the archetypes or your own alternative proposition

Maintaining the status quo does not appear to be a desirable solution, nor does the the development and implementation of the thick archetype. That archetype would risk taking too long to implement, restricting active competition within the market in the meantime, and increasing the risk of being superseded by technological or market developments.

We believe that Ofgem should consider a hybrid of the thin and medium archetypes. Thin enough initially to foster innovation, learning and evolution, with the aspiration and flexibility to build into a medium solution, providing a single, central, exchange, with common open, governed access, prequalification, registration, participation, and visibility to understand discrepancies and conflicts.

Whichever is used, it needs to benefit from robust governance, oversight and monitoring, to build a trusted track record of good performance. Further, the flexibility service should be cognisant of other energy industry data, communications and security standards, interpretations and approaches[1]. The common energy digital infrastructure should be designed for the whole market, and understanding whole-system impacts. Aiming to deliver accessible, searchable data assets (where appropriate), to better inform

[1] Like the evolving Ofgem "Data Best Practice Guidance, Digitalisation Strategy and Action Plan Guidance" standard requirements networks are mandated to

more efficient planning, building, operation and flexibility trading on our networks, on our journey to net zero.

Section 4 – Delivery considerations

Q9. Should a common digital energy infrastructure be new-build, or should it buildout from existing infrastructure?

We believe there is merit in Ofgem exploring both options of new-build and extension of an existing infrastructure, to determine the best fit for the final or shortlisted model archetype(s), one which helps foster evolution, innovation and user friendly design. A clear cost-benefit analysis should be undertaken identifying the least cost option which also reconciles the scope and quality of the goal solution with the intended timeline for implementation.

Q10. What are the important areas for consideration when designing institutional delivery models for a common digital energy infrastructure?

Given the impact of flexibility on the existing regulated energy market, it will be important to ensure that the institution that delivers, manages and evolves the infrastructure and supporting processes, works to ensure whole market cohesion and best value for those bearing the costs. Its institutional objectives much therefore consider the whole of system, not simply the efficiency of the distribution network(s).

Whichever institution delivers this, it needs to be able to deal with both informed commercial market participants, and be able to guide, advise and interact with retail end consumers. However complex the nature of the common data infrastructure, there needs to be clear easy to understand arrangements which ensure all consumers have clear expectations, know their rights, responsibilities and know where to go if things don't go right or they need help.

Q11. What are the important areas for consideration when designing financial delivery models for a common digital energy infrastructure?

Whichever model is taken forward care is needed to avoid this service creating perverse incentives or creating excessive value for individual parties. The financial delivery model must consider the full life cycle of development, design, build, operation and in life change at least cost.

Where there is uncertainty in the final outcome, price controlled, licensed parties who are investing should be able to recuperate reflective, reasonable costs, to encourage early investment and avoid unsustainable penalties. This may mean a level of no-regret spend as the service evolves.