

To the CEOs of the Energy
Networks Association, the
Distribution Network Operators
and National Grid ESO

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Open letter regarding the Open Networks Project

Dear all,

Why the Open Networks Project progress is important to unlock flexibility

I am writing to you to emphasise the importance of the Open Networks Project¹ and the flexibility-enabling activities it is driving forward, which remain a priority for Ofgem.

Flexibility at scale is essential for achieving net zero. We recognise there has been progress made in recent years in developing flexibility markets, but we are clear that further significant changes are needed to unlock the full value of flexibility.

In recent publications² we proposed reforms to help unlock this value. We set out the need for fair and transparent rules and processes for procuring flexibility services, which are standardised to minimise friction. Flexibility service providers must be able to stack revenue and participate easily in open, transparent and coordinated markets.

There is strong support for the case for change and for our proposed direction of travel, however respondents raised concerns about a risk of hiatus in the growth of local flexibility markets.

We wish to emphasise that we see no reason for there to be any deceleration in progress and we strongly expect the Energy Networks Association (ENA) and Distribution Network Operators (DNOs) to continue to progress key flexibility enabling activities through the Open Networks Project. We are confident from our recent engagements that you, the ENA and DNOs, share this view too.

The importance of growing local flexibility markets and standardising rules and processes for procuring flexibility services is reflected in RIIO-ED2 arrangements and the Distribution

¹ <https://www.energynetworks.org/creating-tomorrows-networks/open-networks/>

² <https://www.ofgem.gov.uk/publications/consultation-future-local-energy-institutions-and-governance> and <https://www.ofgem.gov.uk/publications/call-input-future-distributed-flexibility>

System Operation (DSO) incentive. Any loss of momentum could impact DSO incentive performance, through both the stakeholder survey and the performance panel assessment.

The Open Networks Project has been pivotal to the growth of local flexibility markets in the UK and building on that to drive further, faster success is very much a priority for Ofgem. We look forward to seeing the progress it makes over the coming year.

How we propose to engage with the Open Networks Project

Stakeholders have emphasised to us that Ofgem representation and participation in the Open Networks Project is important. Alongside the ENA and DNO role, we want to support the programme to help maintain progress.

We therefore intend to rejoin the Steering Group where, alongside the Department for Energy Security and Net Zero, we will look to provide steer on regulatory and policy issues where required. Specifically, we will primarily look to:

- Clarify regulatory or policy questions that may otherwise block progress;
- Flag interdependencies between Ofgem’s work and the Open Networks Project;
- Support the implementation of the new monitoring framework to track and enforce the adoption of Open Network Project deliverables; and
- Input on priority and target setting, to ensure the programme delivers at pace.

While we will look to provide input and steer, the Open Networks Project remains an industry-led project. Your organisations, with wider industry input, are responsible for delivery and the quality of outputs.

Our expectations for the Open Networks Project in 2023 and 2024

For 2023:

We welcome the changes made to the programme in the 2023 workplan. In particular we are encouraged that the workplan recognises the importance of:

- Reinstating a sense of urgency in delivering outcomes;
- Focusing on areas that lead to tangible results;
- Delivering a consistent user experience; and
- Greater standardisation of flexibility products and processes.

These priorities reflect what we have heard from stakeholders. The priority must now be to deliver the workplan in full, as set out. To ensure this is the case, progress must be monitored and transparently reported. This is particularly true in relation to how deliverables and outputs are being implemented, which is an area of industry concern.

As a minimum we expect you to deliver the 2023 workplan in full. We will provide support wherever we can.

For 2024:

For 2024 we will look to work with the Open Networks Project and wider industry to ensure that the direction of travel is reflective of industry needs with stretching targets in place that deliver tangible progress.

At a minimum, for the summer 2024 flexibility tenders at the latest, we expect you to have:

- Agreed upon and implemented standardised products, contracts and dispatch APIs³; and
- Implemented iteration-2 of primacy rules for service conflicts.⁴

We will ensure there is clarity regarding the direction of the project in relation to our proposed reforms and a smooth transition to any future arrangements. We intend to publish a decision on future governance arrangements in autumn this year and welcome your continued constructive engagement in reaching this decision.

It is clear from the recent changes in the programme and from our engagement that your organisations remain motivated, open to change and outcome-driven. We hope this letter demonstrates the value we see in this work and we look forward to seeing the progress throughout the rest of the year.

Yours faithfully,

Eleanor Warburton

Interim Director, Energy Systems Management and Security

³ As defined in the Network Operations and Market Development workstreams in the 2023 workplan: <https://www.energynetworks.org/industry-hub/resource-library/?search=Open+Networks+2023+Detailed+Work+Plan&id=267>

⁴ In addition, standardisation between DNO and ESO flexibility procurement, operations and reporting is a core objective of the Open Networks Project and a key enabler to unlocking distributed flexibility. Any continued discrepancy in these processes post-Summer 2024 must be well-justified, else standardised.