

ED3 Sector Specific Methodology Consultation¹
Piclo Response

Dear Ofgem,

Thank you for the opportunity to respond to Ofgem's Sector specific methodology consultation: electricity distribution price control (ED3). We are happy for this response to be published.

Given the length of the consultation document, we have focussed our response on issues where Piclo has greatest interest as Britain's largest and most experienced independent flexibility marketplace.

First, we welcome Ofgem's acknowledgement in the Consultation that clumsy wording in its Framework Decision undermined confidence in the flexibility ecosystem, impacted investment and damaged Britain's reputation as the leading country for harnessing flexibility as part of a modern, resilient grid. We would again reiterate that headline messages were a significant miscommunication and an indication of lack of join-up within Ofgem, and with DESNZ policy.

The assertion within the consultation that "DNO use of flexibility will remain a critical tool for DNOs in ED3 and beyond" is a positive step.

Q64. Do you agree that changes are required to the CEM tool to implement our proposed approach in ED3? Are any other changes needed?

Yes, we agree that revisiting the CEM tool would be beneficial. The tool is still one of the better methodologies in Europe, however, can be opaque to certain stakeholders and perhaps does not reflect the learnings and experience of ED2 of using flexibility markets in earnest.

Q64. How can we best ensure that flexible connections aren't deployed at the expense of network reinforcement?

We would also add that it is important to ensure that flexible connections aren't also used instead of flexibility markets. A clearer cost for DNOs to utilise such connections should be

1

<https://www.ofgem.gov.uk/consultation/sector-specific-methodology-consultation-electricity-distribution-price-control-ed3>

factored in, so CBA can reflect the poorer outcome for consumers that flexible connections represent.

Q66. How can we best ensure that DER/CER are not prevented from accessing wider flexibility markets due to the use of ANM or lack of NESO-DSO coordination?

We have consistently highlighted that existing incentives under ED2 to reward NESO-DSO coordination are ineffective.

Whilst certain individuals and teams within the DSOs are actively exploring these issues, real action, broader corporate buy-in and willingness to lean-in to investments are lacking. Evidence in Performance Panel reports is limited to tokenistic references to projects and discussions.

Q67. Are further incentives required to incentivise and encourage the use of flexibility in line with our approach for ED3?

Properly enforced incentives, based on firm evidence, should be sufficient to encourage the use of flexibility. We would note the important role of the Market Facilitator, and active engagement by the DSOs (and NESO) with it, will be crucial for the evolution of flexibility.

Q68. Do you agree with the proposed voltage management responsibilities, for DSOs? Are there any aspects you disagree with, or any additional responsibilities we should consider?

Q73. Do you have any comments on the proposal for the creation of a new incentive for the provision of flexibility through demand reduction?

For these, and the broader questions around voltage management, the focus should be on encouraging DSOs to harness flexibility markets to source reactive power. There have been limited examples of this being done under ED2, which therefore should be augmented.

Q81. Do you agree that the proposed aims for the DSO incentive framework appropriately reflect the core functional areas for ED3 (flexibility services, network planning, voltage and loss management)? Are there any additional priority areas that should be included, and how should these be measured?

Yes, we broadly agree with the proposed aims, particularly around flexibility services.