# OVO Energy Response

## Getting more out of our electricity networks by reforming access and forward-looking charging arrangements

September 2018

**Introduction to OVO**

OVO is the UK's largest independent energy technology company and supplier. Across the group, OVO serves nearly one million customers with intelligent energy services. Founded in 2009 by Stephen Fitzpatrick, OVO redesigned the energy experience to be fairer, greener and simpler for all.

Today OVO is no longer simply an energy retail business: it is a group of innovative, dynamic companies, all striving to harness technological advances with great consumer propositions to create more, affordable clean energy for everyone. Our commitment to putting the customer at the heart of everything we do is reflected in the recognition we have received as uSwitch Energy Supplier of the Year and our number one in the 2015 and 2016 Which? energy customer satisfaction surveys.

OVO firmly believes in the opportunities that emerging energy technologies present for addressing the complex challenge of providing reliable, affordable, balanced, and renewable energy at scale. Vcharge software being developed by OVO, is the first platform to deliver ancillary services and energy arbitrage. Innovations like these will be critical in changing demand flows, balancing the system and preventing under-utilisation and over reinforcement of the grid.

**OVO response**

**1. Do you agree with the case for change as set out in this chapter? Please give reasons for your response, and include evidence to support this where possible.**

Yes. The UK's energy landscape is changing at an unprecedented pace. Via the establishment of robust and competitive markets for flexibility, an intelligent energy system will emerge that achieves whole system outcomes for consumers and reduces constraints on the grid. As we move towards this consumer centric, distributed system, access rights and forward looking charges should be amended to accelerate change for the better in the energy system.

We are pleased that Ofgem's case for change in chapter one of this consultation recognises the valuable role that flexibility will play, including through EV smart charging, vehicle to grid (V2G) power flows and behind the meter (BTM) technology.

The opening chapter of the consultation outlines that Lower Carbon Technologies (LCTs) could contribute to network constraints if the correct signals are not introduced to change behaviours and minimise the costs to the consumer. OVO want to emphasise how important the role of residential

flexibility is in ensuring network use is optimised. Analysis conducted by Imperial College London has demonstrated that prioritising greater deployment of residential flexibility onto the system could ensure the UK meets necessarily ambitious carbon targets, while saving up to £6.9 billion a year. Distributed equally, this equates to £256 per household.

Imperial College London's research shows that the power sector is capable of cost effectively supporting the electrification of road transport on a massive scale, while undergoing near complete decarbonisation. Even in relatively high carbon scenarios, modelling from Imperial shows that electric vehicle smart charging and V2G can be used to offset distribution network upgrade costs. In low-carbon grids, the benefits go even further, and flexibility shifts to enabling the replacement of expensive low carbon generation with lower cost renewables.

We fully support reform designed to encourage the networks to procure flexibility services and welcome Ofgem's reference to the Open Networks project being driven by the Energy Networks Association in 1.16.

### 2. Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.

In our role as a domestic supplier, OVO support the emphasis placed on making sure that the complexity of charging arrangements for customers and the efficiency of use of network is balanced. We want to work with our customers to make sure they have the right incentives to see the benefits of contributing to balancing the grid and reducing carbon on the system. That's why the outcome of this reform and the effect on customers is so important and why companies like OVO, who can ensure these changes benefit customers will play such a critical role.

We agree that there is a need to review access rights to encourage flexibility where users are more able to shift demand to off peak, or times of greater network capacity. We agree that under current arrangement the uptake of EVs and LCTs could lead to higher electricity demand and believe that access and charges should be reviewed to ensure that flexibility is prioritised. Technologies like VCharge, already exist to co-ordinate new assets and respond to price signals, what is required are changes to access rights that bring the benefits of competitive flexibility markets to domestic customers.

The urgency of making sure this approach is adopted is significant, while the uptake of EVs currently stands at around 150,000, the government's future diesel and petrol car ban, the falling cost of EVs and increase in associated infrastructure will all lead to increased momentum in the uptake of EVs. In the UK alone, 11 million EVs are expected to be on the roads by 2030. EV and LCT owners will become the norm in a matter of years, for this reason, viewing "core" access as the norm, and EV ownership as above normal requirements is unsustainable. It would be better to encourage domestic flexibility from all customers from the onset.

### 3.Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:

### a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have

**views on how a core threshold could be set?**

**b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?**

**c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial? d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?**

**A)**The consultation sets out the intention to provide access right variation above a core level (e.g. varying in firmness or time of access). There are two options suggested in which customers can provide signals to the networks about their expected access. One, requiring the smaller users to specify their capacity, the other, placing principles-based obligations on suppliers to determine the access that a small user needs.

We fundamentally disagree with the idea of introducing a “core capacity” for users. “Core capacity” would be difficult to define, difficult to enforce and confusing for users who may not understand why, for instance, having an EV could result in a bill for a higher connection charge. Having customers communicate their usage levels directly could be a difficult, worrying and onerous. We are aware that many customers already have difficulty understanding and engaging with the system. Suppliers or intelligent platforms like VCharge, are better placed to understand their customers' usage and could provide rewards to their customers to more efficiently use their capacity.

With the additional BTM products that suppliers and third parties are bringing into the market, suppliers who have full knowledge of their customers' BTM technologies and smart meter data will be in a good place to communicate usage and required capacity to networks.

By encouraging small domestic users to self-assess and predict their usage, this will likely lead them to overestimate their usage (taking a more cautious approach to avoid being limited by their initial projections) rather than responding flexibly to the incentives suppliers can provide in real time. This could lead to unnecessary over-investment in grid reinforcement or over projection on capacity onto the network.

**4. Do you agree with the key links between access and charging we have identified in table 1? Why or why not?**

**Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views**

OVO agrees with the links made in table 1 between access choices and charging and the shift towards charges based on capacity rather than volume of electricity consumed.

When considering the balance between different charges, it’s important that what is communicated to customers about how they should shift demand is logical. Customers will be better able to understand why charges are going up or down based on seasonal rates, peak times and conditions that reflect the weather.

**5.Do you agree with our proposal that targeted areas of allocation of access should be reviewed?**

**Please give any specific views on the areas below, together with reasons for your response.**

**Where possible, please provide evidence to support your views:**
**a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?**
**b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?**
**c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?**

**6. Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position**

We strongly support the review of network charges, as it's important DNOs capitalise on emerging technologies. Network companies should be rewarded for making better use of the existing network, rather than building new infrastructure. One mechanism to achieve this is to make the ratio between maximum capacity and the average load on a network ('load factor') a primary metric for adjusting network company revenues.

A rebalance towards capacity based charges would help reduce the need for reinforcement and ensure those users driving need for new network investment pay a larger proportion of these costs. Additionally, correct pricing signals can be passed on through suppliers so that customers can balance their energy usage efficiently within an optimum capacity, rather than being charged on total consumption. We believe this will be better facilitated if added pressure is placed on the transition to Half Hourly (HH) metered settlement.

We agree that there should be a limit on the extent to which domestic and small users should be subject to cost-reflective locational signal, as this could create inequitable charges between customers based on where they live. As outlined it would not be appropriate for the full extent of granular locational charges to be applied to geographically specific customers as this could adversely impact those in vulnerable situations.

However, it's important that energy charges reflect the capacity of the grid in local areas and as such, we believe that as charges are altered, companies like OVO can ensure certain groups of customers aren't disproportionately affected by fixed costs, suppliers would be in a good position to socialise (to a certain extent) the network costs beyond providing incentives for those more engaged customers.

As charging signals are introduced, they should be borne by the supplier, who can manage these on behalf of the customers (as is the case with wholesale prices). Suppliers can use smart technologies to respond to these signals efficiently and automatically on behalf of the customer without the need for the consumers to manage their response directly. Sharpening these charging signals provides incentives for technological progress, not changes in customer behaviours.Cost reflectivity should not be weakened to protect vulnerable customers as these should be considered and addressed through, different, tailored mechanisms.  We believe that the regulator has a role to play to ensure checks are

in place to prevent any group of customers being disproportionately affected by charging methodologies.

An additional area for consideration is the number of payments that are faced only by suppliers that, if charged at demand level, could better incentivise uptake of domestic flexibility. These include payments for the Capacity Market, Renewable Obligation, LECs, FiT, CfD, ECO and WHD.We have observed that some of the value created by importing at periods of low system demand/price and then exporting at peak periods from a domestic smart meter, is eroded by these charges. The rates of some of these payments are significant and have a big impact on the value that can be delivered to customers with flexible technologies. A review of the network charges could provide the opportunity to shift this charge to a net demand level, helping to unlock the value of domestic flexibility and storage.

**7.Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.**

There are a number of different consultations open or expected in the coming months related to pricing, reforms to the energy system and access. We believe it would be more efficient to review all energy system charges together, and rather than instigate incremental change, re-imagine the system as a whole to better incentivise efficient use of local energy, storage and flexible technologies.

**8. Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas?**

**If you have views on whether we should review the following specific areas please also provide these:**

**a) Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?**

**b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27?**

**Please provide reasons for your response and, where possible, evidence to support your position.**

Ofgem should review TNUoS charges and define the difference between “forward looking” and “residual” charging, ensuring TNUoS charges are considered across both. The current 1600-1900 charging (NHHH) or triad (HH) windows are arbitrary and will not remain fit for purpose in the future. The definition of peak time should be reviewed to be more to dynamic and avoid discrepancies between DUoS and TNUoS incentives.

**9. Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.**

In line with our answer to Question 7, we believe that forward looking charges should be reviewed.

**10. Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?**

We would suggest that more emphasis be placed on the value of ancillary and flexibility services and the benefits these can bring to the system.

**11. What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.**

We believe Ofgem is better placed than industry to lead the review, not only to prevent incumbent stakeholders being influenced by current incentive mechanisms but because Ofgem is better placed to conduct a holistic review of the system.

**12. Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.**

**13. Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.**

**14. Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.**

**15. What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?**

The number of consultations overlapping is a problem for many industry participants, as there are a number of competing areas of attention that stakeholders need to respond to, including feedback on the proposed methodology of the SVT cap. Nonetheless we think these changes are important for incentivising the effective development and introduction of technologies that could help to balance the grid and reduce consumer bills we would call for clear and timely changes to be introduced with effective transitional arrangement to ensure a smooth change.

**16. What are your views on our proposals for coordinating and engaging stakeholders in this work?**