



Faraday Grid Limited

Ofgem's Consultation on the Evaluation Process for 2019-20 ESO Regulatory & Incentives Framework

Date: 13-March 2019

Response to Ofgem’s Consultation on the Evaluation Process for 2019-20 ESO Regulatory & Incentives Framework

Faraday Grid Limited

Introduction

Faraday Grid Ltd (FGL) welcomes the opportunity to respond to Ofgem’s final consultation on the evaluation process for the 2019-20 ESO regulatory and incentives framework.

FGL are developing an entirely new technology, the Faraday Exchanger (FE), to address short term volatility and frequency, which when deployed across the existing electricity grid will create a Faraday Grid, enabling significantly greater integration of renewable energy; increased grid stability and resilience to cyber-attack; as well as contributing to reduced cost of energy for consumers through reductions in the costs of balancing and ancillary services.

We make the following comments in response to Ofgem’s Framework Consultation, published in February 2019.

Overall Approach to ESO Regulation

We are broadly supportive of the move to a more ‘principles-based’ approach to ESO regulation – and regulation of the industry in general - and its aim to encourage the ESO to work flexibly with its stakeholders in order to maximise consumer benefits.

We are also supportive of the principle of describing roles and behaviours expected of the ESO, and of requiring it to engage with stakeholders to identify how best to meet and exceed these expectations.

Our main concern with the proposal is how consistent the description of the roles and principles as set out in the document is with the desired outcome of maximising consumer benefits.

A System-Wide Perspective on Centralised vs. Distributed Solutions

The regulatory framework currently applied in Britain was developed in the context of a centralised energy system. As the system becomes more de-centralised, the lines drawn between different levels of the industry become increasingly blurred. Distribution Network Operators (DNOs) are beginning to take on more system operator roles, and their ultimate role may be as providers of transactive platforms for distributed energy services.

We see a pressing need for regulatory arrangements to define, and incentivise, approaches that result in the most effective and efficient outcomes across the whole energy system, in particular in the area of transformative technologies capable of delivering significant consumer benefits. There is a risk that these benefits could be lost if the ESO is not incentivised to do anything other than procure predefined solutions such as ancillary services from existing players in synthetic markets.

Delivering Consumer Value

The ESO’s Forward Plan for 2018/19 states that it aims to establish more efficient markets “that reduce costs to consumers today, and pave the way for a more affordable system in future”. However, this consultation describes the question of analysing the ESO’s delivery of consumer value as a “long term” issue.

It is our view that the interests of consumers should be more highly prioritised in the near term than seems to be proposed.

Given that an increasing proportion of the generation mix is from renewable sources with a (near-) zero marginal cost, and that (before its suspension) the capacity market was delivering progressively lower year-on-year costs for security of supply, it seems incongruous that consumers should still be seeing increases in the cap on Standard Variable Tariffs, and increased charges from their energy suppliers. The explanation generally offered is that the cost of wholesale energy is actually a relatively small (and decreasing) part of a consumer bill, and that other costs – such as those of balancing the system – are increasing. Rewarding the ESO for “promoting competition in wholesale markets” would therefore seem to be unnecessary. Similarly, given that the capacity market is currently suspended, there seems to be very little scope for the ESO to promote competition within it.

Comments on Evaluation of ESO Performance

The consultation states that the performance panel will use five key inputs to evaluate the ESO’s performance and determine a score for each principle, and these inputs include evidence of delivered benefits and evidence of future benefits/progress against longer term initiatives. This suggests that simply promoting competition itself is a benefit, whereas the real benefit is actually the targeted outcome for consumers.

Overall, we consider it important that Ofgem continues to develop regulatory frameworks with a view to enabling the transformative innovation which will be necessary to deliver the transition to more sustainable, affordable and secure energy.

In this instance, we would like to see more emphasis on incentivising and evaluating the ESO on its performance in facilitating and delivering fundamental, yet far-reaching, network innovation (such as the Faraday Grid), and not simply to show that it has “promoted competition” as a proxy for delivering real consumer benefit.

For further information, please contact:

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