

Ofgem Consultation on licence conditions and Guidance for network operators to support an efficient, coordinated, and economical Whole System

Consultation response

February 2019

This is a response to the 'Consultation on licence conditions and Guidance for network operators to support an efficient, coordinated, and economical Whole System'. It has been compiled by RenewableUK with input from our membership.

RenewableUK is a membership body with a mission to build our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We are a UK membership body with a mission to ensure increasing amounts of renewable electricity are deployed across the UK. We support over 400 members to access UK markets and to export all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

Together, our members employ a quarter of a million people and will invest more than £20.6bn in UK infrastructure between 2017 and 2021 – over 90% of which will flow to regions outside of London and the South East. In 2017, 29.3% of the UK's electricity generation was from renewable energy sources. 52% of this was generated by onshore and offshore wind, which provided 15.5% of the UK's electricity needs.

Question 1: Do you agree with the proposal to clarify Whole System responsibilities through licence and supporting Guidance? Where possible, please provide evidence and examples to support your views. In particular please describe:

- a. The potential benefits you might expect to result from these proposals?**
- b. If there are any material costs or issues for you in relation to these proposals?**

We agree with the proposal.

Ofgem is right to recognise the need for network operators to embed a whole system approach to their network coordination by providing clear guidelines. We see this as a welcome development in the near term which would benefit stakeholders across the system and at the same time support the objectives set out in the Smart Systems and Flexibility Plan and the Clean Growth Strategy.

Current licence conditions do not specify how networks can explore co-ordinated action between traditional system boundaries. This has so far limited the extent networks could



coordinate with others, sharing information and taking actions which could be much more efficient. We believe this has been a barrier to identify non-traditional options when making informed decisions to system issues.

The main benefit from adopting whole system practices to decision making will be increasingly lower whole system costs to consumers. Distribution-connected renewable energy resources will have more choice when it comes to supporting system actions leading to increased competition for certain types of networks assets to the benefit of consumers.

We would like to note that the current processes by network operators will need to be revised, particularly Network Option Assessment (NOA) planning, as well as Future Energy Scenarios (FES) forecasting, in order to embed the technology to account for the increased exchange of information and data sharing between networks. NOA has a direct impact on the network share of consumer bills, which according to latest Ofgem data represent about 25% of average energy bill¹. Work under the ENA's Open Networks programme is making progress in whole system planning and forecasting through its work on the FES and assessing options for expanding the NOA². Examining interactions with the NOA recommendations, which are based on FES, will have implications to contract dates, delays and efficient timing of works. We are concerned that the requirement to make economic whole system decisions will indeed require significant effort to allow TOs to invest and contract in a different way than the current practices.

We also have significant concerns how the transition to Distribution System Operator (DSO) model of network coordination will account for the changes. It is not clear from the suggested licence changes and the draft guidance how a DSO would ensure increased consideration of the whole system. As the Electricity System Operator (ESO) has its own objectives to facilitate coordination and deliver efficient network planning, development and operation, it will become increasingly important to understand if a whole system objective is needed to be put in place for the new DSO. With the future model of DSO not yet established, any changes to the current DNO licence conditions will have to recognise the change. Ofgem should give due consideration to introducing a whole system objective for DSO, enabling people to be customers and producers – prosumers – is a complex transition. The impact of the DSO role on our new low-carbon world mean that clear whole system objectives and an outcome focus for DSO is necessary.

We do not see a reason why the guidance needs to be limited to whole electricity sector as the interdependencies between transport, heat and gas continue to blur. For example, collaboration between gas and electricity networks could become increasingly important with the emergence of more hydrogen networks across the country. This may lower the overall cost of the transition to a decarbonised heat system and bring opportunities for flexibility. Clearer licence conditions will help DNOs, IDNOs and TOs to play an important role in furthering the electrification of heat and transport through cost efficient grid reinforcement solutions incorporating whole system thinking. An approach could be laid out accounting for the actions of different market parties across vectors as the energy transition accelerates

¹ Ofgem, 'Infographic: Bills, prices and profits', January 2019
https://www.ofgem.gov.uk/system/files/docs/2019/01/bills_prices_profits_-_january_0.pdf

² Energy Network Association, 'Investment Planning Processes', December 2018
<http://www.energynetworks.org/electricity/futures/open-networks-project/open-networks-project-workstream-products.html/workstream-1-t-d-process.html>

and new business models and technologies bring closer the boundaries between different sectors. Thus, we believe the guidance needs to recognise not only what is expected of networks in the near term, but also make provisions for cross-sector boundary coordination in the longer term.

Question 2: Do you agree with the proposed scope and content of these licence conditions and Guidance? Please provide any specific comments you have on the attached draft, including illustrative examples, and where possible, please provide reasons and evidence to support your response, in particular:

- a. **Are there other examples or areas of activity which you consider should be highlighted, or do you see the need for further clarity in any area?**
- b. **Do you consider these would be beneficial and proportionate? Are there any aspects which should not be included?**

We agree with Ofgem's comments that all parties need to take appropriate actions and participate fully in delivering benefits to network users.

The draft licence conditions aspire to identify alternative, more economically efficient outcomes for investment planning. However there is little clarity on what changes need to be made by companies to existing processes. Particularly, it is not clear which current practices by network owners will have to be adjusted in order to comply with the requirements in the licence. Therefore, we would like to note the need to make a specific recommendation to processes involved in network planning, operations, market interactions and forecasting with particular reference to aspects which need to be revised/amended.

We are concerned that it would be challenging for distribution companies to build a shared understanding of relevant network requirements at transmission level and potential impacts of actions at distribution which could help alleviate transmission pressures. Processes will need to be put in place to allow for shared understanding of relevant network requirements and potential impacts of actions. These new practices need to be enforced consistently across transmission and distribution regardless of the start of the new price control regime for both networks.

Question 3: These proposals require licensees to engage and coordinate with Stakeholders. This recognises that a range of parties may have an interest in different aspects of the system, and the licensees should seek to engage with those with an interest in a given situation. Do you agree with this approach?

We believe the licence conditions should include 'low carbon' as a consideration, recognising the Government's Clean Growth Strategy, and the UK's binding 5th Carbon Budget. The Committee on Climate Change advises would be equivalent to a zero carbon power sector by 2032 (or grid intensity of 50g-100g CO₂e); it is notable that this is a pathway commensurate with a 50% likelihood of staying below 2 degrees of warming versus the 1990 baseline year, whereas the Minister of State has recently asked the CCC³ to advise on a 1.5 degrees pathway (hence action can be expected to be necessarily more ambitious).

³ Committee on Climate Change, 'Lord Deben welcomes news that Government will seek CCC advice on UK's long-term emissions targets', April 2018 <https://www.theccc.org.uk/2018/04/18/lord-deben-welcomes-news-that-government-will-seek-ccc-advice-on-uks-long-term-emissions-targets/>

Question 4: Do you consider any changes or clarifications are needed in relation to industry code objectives, notably the Distribution Code and the Grid Code, to support the delivery of Whole System outcomes? Specifically,

a) Do you see the need for further change or clarification to the code objectives themselves, or their interpretation, eg through introduction of a specific relevant objective in relation to Whole System actions?

b) Have you identified any interactions of these provisions with wider aspects of industry arrangements which should be considered in developing them?

We believe there is a need for a specific whole system objective to be in place.

Currently, networks' objectives require licencees to carry out economic operation of their own network. If left untouched the system will produce sub-optimal levels of co-ordination which mean the aggregated cost across the system is higher than it needs to be. A specific whole system objective would make provisions to the secure exchange of data and information across traditional network boundaries and encourage effective coordination of activity between different licencees.

We believe a whole system objective is particularly needed for DSO licencees as the transition to a DSO accelerates (see answer to Q1).

The code objectives will have to be amended with the changes to processes and reporting clearly linked to whole system actions. This would allow for consistent interpretation to be applied across the network codes.

Furthermore, there is a merit in measuring performance in achieving economically efficient whole system outcomes for which network operators would be able to take accountability of their actions.

Question 5: Do you believe further, specific guidance in any area, and in particular in relation to efficient connections and constraint management (eg in preparedness for electric vehicles or increasing distributed generation) would be beneficial? Please provide reasons and, where possible, evidence to support your answer.

We do not believe Ofgem should lead work in this area.

The Energy Network Association Open Networks project has made a great progress in addressing the current mismatch between networks' practices in relation to connections and constraint management. They have published a feasibility report looking at the potential for a system wide resource register to capture information on flexibility providers across the system in a streamlined way. However, if it is decided that there is a need for a specific guidance on preparedness for electric vehicles or increasing distributed generation, it might be more appropriate for the ENA Open Networks, Office of Low Emission Vehicles or a separate taskforce be established and lead work in this area.

Question 6: For which relevant datasets or information do you consider the need for availability and accessibility is greatest, in order to deliver Whole System benefits? Do you consider there to be any significant barriers to sharing these? Please provide specific suggestions for what you consider to be effective sharing arrangements,



including required enablers and governance, such as the development of any industry standards?

No comment.

Question 7: Do you agree with the proposal to apply these provisions to all electricity distribution licence holders, including IDNOs, and onshore TOs, and to exclude the ESO, offshore TOs and interconnectors? Where possible, please provide reasons and evidence to support your response.

We agree with the proposal.

With regard to offshore transmission owners, we do not believe the current regime would benefit from consideration of the whole system when carrying out activities. However, if the nature of their role is to evolve in the future the guidance would need to recognise this.

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