

Flexibility First Forum

Response to Ofgem's RIIO-2 Sector Methodology Consultation, March 2019

Introduction

The Flexibility First Forum is an affiliation of organisations who span the energy flexibility services supply chain. From manufacturers to trade associations, to suppliers to generators, the organisations have come together to promote the value and benefit of flexibility to the energy system and to customers. For a flexible energy system to become a reality, network company incentives need to improve so that network operators are rewarded for effective grid utilisation and procuring flexibility services as a first measure.

The Flexibility First campaign began with a call for RIIO 2 to create the right incentive structures to accelerate change in the energy system and prioritise the procurement of flexibility services over alternative options such as investment in new network infrastructure.

The approach we continue to recommend is centred on six key principles including procuring flexibility services as first measure, targeting 'whole-system' outcomes, rewarding grid utilisation and making the cost and availability of new connections for renewable generators an output category for network companies.

Some proposals presented in the sector methodology are aimed at improving flexibility, however what is proposed will not realise the full value of what flexibility can offer to the customer and energy system. We would call on the RIIO team to ensure that the sector methodologies, RIIO-ED2 proposals, and the network charging reforms under SCRs create the pricing structures needed for a flexible energy system. This should be underpinned by an obligation for DSOs and TSOs to increase average utilisation rates across all infrastructure assets. This type of outcome driven approach would deliver material benefits to consumers and place an implied obligation on the industry to improve productivity levels.

By creating clear pricing for market participants Ofgem and Government can enable deep decarbonisation of our power, heat and transport sectors and create significantly better value for overall consumers.

Consultation response

Section 5 Enabling whole system solutions

The Flexibility First Forum supports the greater focus Ofgem has placed on unlocking the whole system benefits that the networks can offer. In order to get the most out of reform, Ofgem should take this approach further and ensure that whole system benefits are valued over an appropriate timescale. Pricing incentives should avoid short-term value being prioritised over long-term efficiency, which would undervalue the role of flexibility.

We would also note, that because distribution companies are not considered as part of this sector specific consultation, there is a risk that whole system benefits are not appropriately assessed. Specifically, the definition of the role of a "DSO", and the outcomes of the SCR may have significant impacts to the ESO/TO funding model. Ofgem

should consider what structures will be in place across the piece to ensure ED2 is aligned when it comes to review, and be prepared to adjust these frameworks appropriately as required

We would call on Ofgem to provide clarity in their licencing review on the role National Grid TO will have in enabling whole system benefits and how it might be incentivised to achieve these outcome. These incentives should be performance based with savings from a more efficient system passed on to consumers.

Section 8 Driving Innovation through competition

We strongly support section eight's approach to encouraging more innovation as "Business As Usual". We understand that RIIO-ED2, which has not been launched, intends to contain measures to remove barriers and improve the price signals for flexibility, and we recognise that consideration has been made in the sector specific consultation to promote flexibility through the early and late competitions section.

Linked to the above, Ofgem should consider that "BAU" activities may be changing on a more fundamental level, and therefore appropriate performance incentives should account for this. Flexibility should be considered at all decision points, not just when making a reinforcement decision, and should rapidly be considered a "BAU" activity.

The Flexibility First Forum is pleased that specific consideration has been made in Chapter 8 towards competition incentives aimed at procuring flexibility. However, we would say that this model - funding for a project, or a single event - would not lead to a dynamic competitive process through the price control period, and would result in uncoordinated change. We would advocate instead, introducing a robust overall framework, something along the lines of a "flexibility market" that could take place every day, not every year.

Flexibility should be considered at the point the constraint on the network is identified as an ongoing management activity. A price signal should be ongoing to ensure the industry continues to invest.

RIIO-2, offers an incredible opportunity to transform the incentives for the better, by implementing these changes, Ofgem and the Government can play a major role in facilitating the transition to a smart, flexible energy system that could lead to whole system savings of up to £6.9bn.

For more information please contact lizzy.roberts@ovoenergy.com

This consultation has been sent to you on behalf of the following companies

- The ADE
- Caplor Energy
- Chameleon Technology
- ECO2Solar
- Electron
- Eneropp
- geo
- Lux Nova Partners
- Octopus Energy
- OVO
- Passiv Systems

- Powervault
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