

Ofgem Consultation on licence conditions and guidance for network operators to support an efficient, coordinated and economical whole system.

BEAMA Response

BEAMA is a trade association representing manufacturers of electrical infrastructure products and systems, from transmission and distribution equipment to the environmental systems and services in the built environment, with over 200 members ranging from SMEs to large multinationals. BEAMA members' products provide a sustainable, safe, efficient and secure UK energy system. We support our members in ensuring that the UK has a strong electrotechnical industry that is recognised as an essential part of modern society and brings invaluable economic, social and environmental benefits.

Overall BEAMA fully supports this move to ensure system operators are actively working together to maintain and develop a more efficient end to end system. We do believe the current regulatory system and market structure is not conducive to a whole systems approach, and while it is good to see licence conditions being changed to reflect a greater need for this we hope this will not distract from reviewing more fundamental aspects of the regulatory structure across the system and how this can be radically changed to better suit a systems approach. Here we refer to recent work – ReDesigning Regulation¹- for which BEAMA and Ofgem were key contributors.

BEAMA recently responded to the review of the Smart Flexibility Plan. In our response we call for a greater need to co-ordinate actions being undertaken as part of this plan as we currently see actions being undertaken within the constraints of an existing regulatory framework and this is in some cases resulting in solutions counterproductive to the overall Government ambition for a flexible and decarbonized energy system.

BEAMA have identified that the definition of whole system in this review is not truly reflective of a 'whole system'. By definition in the guidance this refers only to electricity and distribution. To truly recognize whole system efficiencies, we need to be looking at the whole power system, in addition to heat provision and gas. The current system may make it easier to think in electrical transmission and distribution terms only but referring to our previous statement a more radical review of how we do this at a system level needs to be applied. Therefore, we do not support the scope and definition of the license condition and guidance changes being proposed, or at least these cannot be presented as a truly 'whole system.'

Within the guidelines it is explained that for the licensees to achieve an efficient system they need to understand and communicate system requirements. BEAMA fully support any move to improve the transparency and openness of reporting relating to system requirements, and in particular network planning and investment operations, with forecasting (ref Page 19, para 2.4). Given the changing needs of the system our members recognise the technologies, services and solutions needed in the coming years may be different, and it is hard to know based on RIIO plans alone quite what the system, not just stand-alone network operator needs will be. Better forecasting will help the supply chain gear up for the change needed and our members continue to produce innovative solutions and offerings as a result.

¹ http://www.challenging-ideas.com/wp-content/uploads/2018/12/ReDESIGNING_REGULATION-final-report.pdf

Furthermore, we have been working with our EU Trade Association T&D Europe to ensure the new EU Electricity Directive, now finalised under the Market Design Package, includes requirements for monitoring and assessing the performance of the transmission and distribution systems in relation to the deployment of smart grids and the associated efficiencies that could be provided. This includes a requirement for reporting on a two-year, rather than four-year basis. This is all outlined in Article 59 of the new Electricity Directive. BEAMA see this as a strong legal basis, that would be supported by Ofgem's changes to the license conditions and guidance, in support of monitoring and planning for smarter system functionality. It is now down to member states to determine how this is implemented and BEAMA would be keen to discuss this with Ofgem and particularly, whether there is scope to develop an indicator that can aid the planning for more efficient system management.

Our final observation from the consultation relates to how value and benefits are shared across the whole system. We acknowledge in the guidance it states that funding transfers between licensees may be appropriate in circumstances where material additional costs would be incurred', but for an effective approach to managing the system there needs to be clearer ways of sharing costs and value across the whole system. This is equally important when considering how to optimise flexibility on the system which is another element within the guidelines. More detail is perhaps needed here for stakeholders to aid understanding in terms of how network operators will be sharing costs and funding for the implementation of system efficiencies, especially where one might be implementing measures to the benefit of another. It should be recognised that in some energy system cases, the network company may receive less income if it opts for the efficiency whole system option. Ofgem must ensure that DNOs are incentivized to choose the whole system option.

In our response to the Smart Flexibility Plan review BEAMA highlighted the need to prioritise action associated with market design and particularly the need for a more effective charging methodology and reflective pricing for the system. We appreciate Ofgem are already undertaking a review of targeted and forward charging, and BEAMA will be responding to the Targeted charging review consultation as well as this one. In our response to the targeted review we will be highlighting the urgent need for all elements of the charging regime to be reviewed together and changes implemented at the same time. We will also be launching the next report in our Electrification by Design series which will focus on the need for innovation in charging regime in order to enable a truly smart system, and a system that delivers value and opportunity for consumers and market participants.

Question 1: Do you agree with the proposal to clarify Whole System responsibilities through license 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?

Effective whole system coordination could open-up new opportunities for distribution connected flexibility providers to provide services at a local level, either aggregated or provided by a single asset.

Provide visibility of network needs at distribution and transmission boundaries and better inform needs here in terms of flexibility requirements, generation visibility and network management and better inform system needs and requirements at those network locations. This

should in principle allow network operators to more efficiently manage their networks and underpin the potential for new services and opportunities for market participants, with the caveat that this is very much a first step in the wider whole system developments required.

b) If there are any material costs or issues for you in relation to these proposals.

Questions 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:

- c) 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?**
- d) b. Do you consider these would be beneficial and proportionate? Are there any aspects which should not be included?**

BEAMA view this as a positive first step in the longer-term potential of whole system coordination and the value that it can enable at local, national and regional levels, although more work is required over the next few years.

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 encourage engagement with market participants on whole system approaches and wider aspects of the energy system transition including the RIIO 2 framework development and including (but not limited to) network operator business plans to ensure that they are suitably developed and appropriate for the system and fit for all market incumbents, and more importantly reflect the system development we need to see in the coming years.

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?

Generation output/ constraint

Visibility of fixed flexibility assets and capacity – Storage / CCGT

Transmission/ distribution boundaries

DNO/ DNO boundaries

DNO/ IDNO boundaries

LV data at feeder level

Demand turn down

Demand turn up

Question 7: Do you agree with the proposal to apply these provisions to all electricity distribution license holders, including IDNOs and onshore TOs, and to exclude ESO, offshore TOs and interconnectors?

Yes