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Sent by email to: Flexibility@ofgem.gov.uk

Dear Nathan

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

Thank you for the opportunity to share our views on the draft conditions and Guidance. We welcome Ofgem acting to ensure that network companies will contribute to delivering efficient Whole System outcomes.

Although we support the proposed changes to the network companies' licence conditions, on their own, these will not be enough to deliver whole system outcomes. Further action is needed to ensure full neutrality of network companies when taking actions that impact the whole system. As we set out in our responses to the Smart Systems and Flexibility Plan Update and Ofgem's September 2018 consultation on storage-related changes to the electricity distribution licence, we remain concerned that wider conflicts of interest for Distribution Network Operators are not being removed. Whilst these initiatives represent a step in the right direction, more action is needed.

In the context of this consultation, we believe it needs to be complemented with:

- A strengthening of the DNO unbundling regime to ensure all commercial activities – not just storage - are separated from the regulated business.
- Shorter-term action from Ofgem to end the DNOs' ability to use their regulated network assets to provide commercial ancillary services to the Electricity System Operator (ESO).

Without these actions, there is a risk that market investment in flexible assets will be held back, limiting the availability of flexibility to support whole system outcomes.

We note that the Open Networks Programme's work plan for 2019 intends to look at conflicts of interest. However, we feel DNOs need more guidance and accompanying action from Ofgem in this area and it will be difficult for the Open Networks Programme alone to deliver a solution.

1. Do you agree with the proposal to clarify Whole System responsibilities through licence and supporting Guidance? In particular please describe a) the potential benefits you might expect to result from these proposals and b) if there are any material costs or issues for you in relation to these proposals?

We agree it is important to clarify Whole System responsibilities. We mostly agree with the approach. Investment in Distributed Energy Resources (DER) would be facilitated by a more joined-up approach to congestion management, improved data-sharing between networks and better-quality data provision to market participants.

Conversely, as a DER market participant, we could face material costs if the new licence conditions do not ensure that licensees consider impacts of their decisions on the market and competition.

If the ESO is excluded from the proposed licence changes, then the Ofgem ESO Roles and Principles guidance must be updated to ensure consistent obligations.

2. Do you agree with the proposed scope and content of these licence conditions and Guidance? Please provide any specific comments on the attached draft. 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?

Engagement, consultation and coordination with Licensees and Stakeholders

The draft licence conditions would benefit from an obligation to ensure that the licensee also considers the impact of its actions on the market, especially the competitive market for flexibility services. The general references to the impact on 'other persons' in 2.a) ii. and 'alternative actions' 2. a) iv. are not specific enough.

Information sharing and data provision

Whether information is provided, should not solely depend on whether the licensee considers it useful. Network companies should not be withholding data based on a preconception of market participants needs. 'As it considers useful' should be replaced with alternative wording e.g. 'as **supports the delivery of paragraph 1 of this condition**'.

Guidance – main text

- Scope - This would benefit from a standalone paragraph explaining the potential role of market-based solutions and the need for licences to consider the impact of their actions on markets.
- 2.7 and 2.9 – should also identify where actions could have detrimental impacts on markets

Guidance – illustrative examples

In the first bullet 'Coordinating with the ESO to help identify opportunities to reduce balancing costs...', 'provision of flexibility' should be replaced with something like 'enabling provision of flexibility through markets.' The current wording is ambiguous and the DNO should not be providing flexibility services. Alternatively footnote 27 could be expanded to read 'This does not include commercial activities such as DNOs **providing** or aggregating services for onward provision to the ESO.'

Conflicts of interest

This proposal needs to be complemented by tighter provisions elsewhere in licence conditions to remove DNO conflicts of interest – in particular, preventing DNOs from participating in competitive markets for flexibility services. Otherwise the DNO cannot be impartial in supporting whole system outcomes.

Subject to ensuring the impact on the market is considered as part of whole system decision making, we believe the proposals are beneficial and proportionate.

3. *These proposals require licences 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 see to engage with those with an interest in a given situation. Do you agree with this approach?*

Yes, but paragraph 2 of the draft licence conditions would benefit from an obligation to ensure that the licensee also considers the impact of its actions on the market, including the competitive market for flexibility services.

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, e.g. 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?*

There could be some clarification to the interpretation of the Distribution Code and Grid Code objectives. This could be used to ensure that objectives relating to 'efficient, coordinated and economical development of the system' include whole system considerations.

Code modifications that support whole system outcomes will have increasing importance for the GB electricity industry and this should be considered as a factor in prioritisation decisions by the Code Administrators. For example, we are frustrated by the slow progression of CMP298 on Updating the Statement of Works.

5. *Do you believe further, specific guidance in any area, and in particular in relation to efficient connections and constraint management (e.g. in preparedness for electric vehicles or increasing distributed generation) would be beneficial?*

Network companies should seek to use market-based solutions to constraint management where possible. We are concerned about the proliferation of Active Network Management (ANM) schemes. Whilst ANM has a use, it does not always meet customer needs and market solutions should also be considered.

Improved provision of data to market participants will improve the quality of connection applications and could therefore reduce the need for constraint management. Rollout of LV and MV monitoring will help the whole system prepare for the mass uptake of EVs. Draft guidance paragraph 4.5 says licensees should 'identify and reasonably fill any gaps in data'. This must capture situations where licensees need to carry out investment to obtain the data fill those gaps.

We expand on further on data answer to Q6.

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 an industry standards?

Improved provision of system data is essential for the development of a smart flexible whole energy system. Better quality data provision to market participants will enable investment in flexible and other energy assets in the right place at the right time.

Data should be shared and provided in a consistent form across all networks. Network owners and operators should provide data to market participants in the most granular (detailed) form possible. Network companies should not be withholding more detailed data based on preconception of market participants needs and capabilities - we believe that by being transparent this will enable innovators to flourish and thereby enabling a more flexible energy system to emerge and better-quality data provision should lead to better quality applications and bids from market participants.

Several products from the Open Network Projects 2019 Project Initiation Document are relevant to this question e.g. Workstream 2 Product 1, the System Wide Resource Register. These products will help deliver whole system benefits if they are properly delivered and improve information provision to network customers.

From a whole systems perspective, we would ideally like DNOs and the ESO and TOs to work together to provide heatmaps in a form that show both the distribution-related and transmission-related constraints for a given area. Whilst this is complex given differing system architectures, we do not believe that it is unreasonable. This request closely aligns to the 'Information sharing and data provision' illustrative examples in the draft Guidance.

DNOs must do more to roll out LV and MV monitoring, so that they can see how their network is operating and identify where flexibility services can contribute. LV and MV monitoring is also needed to allow the whole system to accommodate the mass uptake of EVs. We hope that paragraphs 4.4 and 4.5 of the Guidance imply an obligation on the licensee to invest in installing network monitoring where it is needed.

If the licence changes do not apply to the ESO, then the 'ESO Roles and Principles' Ofgem guidance document should be updated to reflect the findings of the Energy Data Taskforce. The ESO also has a role to play in sharing best practice with DNOs, given the ESO's current experience in providing data and information to market participants to support their investment and operational decisions.

We don't believe there should be any significant barriers to networks sharing information, including with market participants. Technical complexities can be overcome. We note that Ofgem stated that it saw no regulatory barriers to DNOs sharing information at the ENA's 'What is the policy framework for delivering Britain's Internet of Energy?' event on 1 February 2019. We therefore hope that DNOs will work to ensure the additional data market participants are asking for can be shared as soon as possible.

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 believe it is appropriate to apply the provisions to IDNOs, as well as DNOs and the onshore TOs. The Guidance gives good examples of the actions that an IDNO would be required to take.

We don't see a need to apply these conditions to offshore TOs' and interconnectors' licenses at this stage.

Ofgem states that the ESO already has complementary requirements under standard condition C16 of its licence. There are limited references to whole system outcomes in C16 itself. We believe this statement is only valid when supported by effective Ofgem guidance. The existing Ofgem guidance does provide a reasonable level of detail, but would benefit from the further review planned by Ofgem.

If you would like to discuss anything in further detail please contact me at helen.stack@centrica.com.

Yours sincerely

Helen Stack
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