
FINAL ADE Response | Ofgem Forward Work Programme 2021/22 | February 2021

Context

The ADE is the UK's leading decentralised energy advocate, focussed on creating a more cost effective, efficient and user-led energy system. The ADE has more than 140 members active across a range of technologies, they include both the providers and the users of energy equipment and services. Our members have particular expertise in heat networks, combined heat and power, demand side energy services including demand response and storage, and energy efficiency.

Response

The ADE supports Ofgem's strategic priorities for 2021/22. In particular, we strongly support the greater focus on the development of a clear full-chain flexibility strategy and of decarbonisation pathways, including heat networks.

The ADE would raise the following areas of work that should be included in these strategic work programmes.

Overall system design

Going forward, infrastructure costs for electricity, heat networks and hydrogen are likely to increase as we build more infrastructure. In addition, the burden on those connected to the gas grid may also increase as users switch from gas to other vectors and thereby, reduce the population over which these costs are recovered. It is critical that any Ofgem action to protect consumers from these rising costs does not disadvantage customers moving to lower carbon forms of heating.

It is extremely important that these costs are recovered in a way that firstly, does not distort decisions regarding the best decarbonisation pathway and secondly, does not dampen flexibility signals. The current system of recovering these costs within each system (e.g. the electricity, gas, heat networks) will not achieve this.

We ask that Ofgem and BEIS to put in place a solution in explicit accordance with Net Zero commitments.

Flexibility and its interactions with broader Ofgem work

The ADE strongly welcomes Ofgem's focus on setting out a clearer strategic view of full-chain flexibility.

Within this work and in addition to the areas of work already identified, we would also ask that the following are included –

- Through the Smart Systems and Flexibility Plan 2.0 with BEIS and Ofgem's own work, there is a need for a much clearer vision for the state of the flexibility sector (both contracted markets and implicit response to pricing signals) in 2025 and 2030.

- Similarly, through the Smart Systems and Flexibility Plan 2.0 with BEIS and Ofgem's own work, Ofgem and BEIS should work with industry to ensure that the right balance is found between protecting consumers and exposing volatile pricing to support flexibility; especially at domestic levels. The ADE considers that this is best achieved through Ofgem focusing on cost-reflectivity and overall lowest cost to consumer, and BEIS focusing on the social policy needed to protect consumers. This is not currently the case, for example, in the Access and Forward-looking charges review where Ofgem is considering dampening the charges themselves across the customer base to protect consumers.
- As part of this vision, network neutrality will be integral to deliver flexibility. A full assessment of the impact on the market of CLASS should be explicitly considered; given that the minded-to decision.
- Through RIIO-ED2, ensuring that any anticipatory investment is only used in limited circumstances and does not remove the market (including, in particular, local constraint markets) for more cost-effective demand response. This will require very close coordination between the criteria and expectations around strategic investment and the cost-benefit analysis of market measures and reinforcement. It is also important to note that the current paucity of network monitoring means that DNOs cannot know when networks are becoming constrained and lead to them taking a very precautionary approach.
- Ofgem should ensure networks write and release appropriate policy on operational metering for transmission and distribution services, to support widening access to market. At present, operational metering policy is largely drafted without industry consultation and tends to have overly burdensome requirements.

Finally, we would note that the Engineering Standards Review has been underway for some time and is directly frustrating the ambitions of important programmes; including the Access and Forward-looking Charges reform. The conclusion of this review should be expedited.

The future of role of smaller distributed generation

There are currently several changes underway that may impact distributed generation which is currently too small to be licensed. This includes, in particular, BEIS' reform of class licence exemptions, the ongoing Accelerated Loss of Mains Programme and the recommendations from the 9th August event report.

We are concerned firstly, that these changes may create retrospective regulatory changes on businesses that have invested and complied with the regulation in good faith as it was when they invested. Secondly, changes made through the license exemptions reform could create immediate knock-on requirements for License and Code compliance. This could again create retrospective impacts that businesses will find difficult to manage. Further, it may lead to inappropriate requirements being required of such generators because the licenses and codes are still largely written with larger generation, distribution and supply in mind; as has been acknowledged by Ofgem through its recent work on potential derogations to the Supplier License and License-lite.

It is important that Ofgem works with BEIS on these reforms to ensure that the outcome reflects the impact on the system that such smaller distributed users have and creates appropriate requirements that can be complied with.

For further information please contact:

Caroline Bragg

Association for Decentralised Energy

Caroline.bragg@theade.co.uk
