

Ofgem
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LONDON
E14 4PU

By email only to: FWP@ofgem.gov.uk

19 February 2021

Dear Sir/Madam,

Draft Forward Work Programme 2021/22

Thank you for the opportunity to comment on Ofgem's draft Forward Work Programme for the 2021/22 regulatory year. This letter should be treated as a consolidated response on behalf of UK Power Networks' three licensed distribution companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. It is not confidential and may be published on Ofgem's website.

We are supportive of the strategic priorities set out in the document and believe that Ofgem is focusing on the right issues for the year ahead. Our comments are therefore mainly concerned with how these priorities should be addressed and a reminder of some of the issues needing attention within them. You will find our detailed observations in the appendix to this letter.

We hope that our feedback is helpful and look forward to engaging with Ofgem on the detail of many of its actions in the coming year.

If you have any questions, please do not hesitate to contact me.

Yours faithfully,



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UK Power Networks

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Appendix

UK Power Networks' observations on the draft Forward Work Programme 2021/22

1. Enabling investment in low-carbon infrastructure to deliver net zero

This is rightly front and centre of the new programme. We welcome in particular the aspiration on “[connecting] ... the increasing demand needed to meet Net Zero targets” and “in our price controls, to establish an approach to facilitate cost-effective, strategic investment to meet growing demand from electric vehicles and heat pumps”.

We also welcome the recent RIIO-ED2 Business Plan Guidance, which helps anchor Ofgem’s expectations about the scenario planning which DNOs are expected to observe when putting forward Business Plan targets and demand expectations.

UK Power Networks nevertheless supports the need for Uncertainty Mechanisms, since technologies and markets are evolving rapidly, consumer demand is not entirely predictable and it is hard to gauge the likely effects of both market failures and government attempts to remedy them. Clear starting points will allow DNOs to plan with some certainty and allow adjustments to be calculated off a clear pathway. Ideally, Uncertainty Mechanisms should also have clear (and where possible, automatic) triggers and predictable effects so that they can operate seamlessly, without requiring further extensive in-period negotiation and consultation, allowing the most nimble DNOs to deliver for customers irrespective of the outturn.

We expect market failures to continue to weigh on demand for all the necessary electric vehicle (EV) charge points and electric heat pumps to meet government targets. Unless regulatory policy supports DNOs to take remedial action, some government targets may not be met:

- As noted by the Climate Change Committee in its Sixth Carbon Budget Report (December 2020)¹, recent government policy initiatives for establishing a network of public “on-the-go” charging stations are welcome, but it is also vital to create sufficient “home” charging stations, especially for those motorists who lack driveways. Four out of five of our London consumer households do not have a driveway, so this issue is particularly important for us. We would like to work with local authorities proactively to deliver the infrastructure to make far more on-street installations cost-effective, but need a regulatory regime which supports this.
- Government policy for heat is still being developed and measures may be put in place to develop the necessary demand for electric heat pumps, to enable targets to be met. However, our current market expectations suggest a shortfall and it may well be necessary for DNOs to invest strategically in network enhancement in order to make the required number of connections cost-effective.

It could be argued, of course, that it is for the government, rather than Ofgem and DNOs, to remedy market failures and ensure that government targets can be met, but we would argue that this perspective misses the strategic imperative of the moment. All hands need to be “on deck” to meet this challenge of our times.

¹ <https://www.theccc.org.uk/wp-content/uploads/2020/12/Policies-for-the-Sixth-Carbon-Budget-and-Net-Zero.pdf>

Furthermore, it can be much more economically efficient in some cases to allocate support through socialisation of network upgrade costs, rather than subsidies to end users.

In our Charge Collective pilot project, we are working with five local authorities to run a competitive auction process to establish how much chargepoint operators are prepared to invest in connections to install and operate chargepoints in particular locations or sets of locations with high upfront connection costs. This will help us to find out where these key areas of market failure are and how large the market failure is, to tailor our approach to funding upfront reinforcement. We would then cover and socialise the gap where the costs outweighed the willingness of any commercial operator to pay. Any subsidy programme aimed at end users would find it impossible to match this allocative efficiency and local authorities lack the manpower, financial resources and expertise to run such contests by themselves.

We have an overarching commitment to take a “flexibility first” approach with regards to meeting load-related requirements. This translates into maximising the utilisation of existing network capacity by using flexibility resources and then only reinforcing when utilisation data shows this is truly necessary.

Finally, the case for strategic investment is sealed by the cost advantages of only “touching the network once” to upgrade capacity, where such investment is justified, for both electric heat and EV charging at the same time. The relatively modest pace of movement towards electrification of heat to 2028, compared with the rapid move to EVs, makes this more challenging, but we as a business have a long-standing commitment to efficiency of investment and would like to be authorised and incentivised to pursue such efficiencies in the transition to net zero as well.

2. Delivering full chain flexibility in generation, storage and use of energy

UK Power Networks is enthused by the potential for smart markets to drive down costs for everyone and therefore thoroughly welcomes this entire area of focus for Ofgem. We are focused on empowering consumers to drive market efficiency.

In respect of EVs, one aspect that has probably not received sufficient attention is that flexibility benefits rise in proportion to the length of time each EV is plugged into the network. Home and work-based charging is therefore expected to deliver the vast majority of the potential flexibility benefits. “On-the-go” and especially rapid and ultra-rapid charging will remain usually a one-way flow transaction, with flow required to be immediate and maximised to save time.

This puts a premium on “home” charging connections and makes our aspiration to increase the number of close-to-home, on-street connections through strategic investment even more important, especially in London.

3. Delivering a retail market that works for all consumers and the planet

UK Power Networks is again supportive of Ofgem's efforts in this area. The Citizens Climate Assembly showed how important it is that the costs and burdens of adjustment to net zero are seen to be shared fairly across the country and by all sections of society.

As noted above, we would like to draw Ofgem's attention to potential risks for two groups of customers during the next phase of transition to net zero.

Off-gas-grid households have long been at a disadvantage, tending to pay more for their energy, especially heating, as government has prioritised low gas prices. This may have been justified in the past, but it could be seen as anomalous that differential public support for gas continues now that carbon emissions per unit of heat generated from electricity are lower than for gas.

The expectation is that off-gas-grid customers will be the focus of the earliest efforts to convert existing properties to using electric heat pumps. Nearly 20 per cent of our customers are off-gas-grid, so this could have a major impact. More work will be needed on the economics of meeting the government's targets for heat pumps, once the shape of future subsidies and policies for balancing costs across networks become clearer.

As explained above, **motorists without access to driveways** face the prospect of being significantly less able to benefit from smart charging of EVs. Recent research by Which?² suggests the cost of EV charging is already nearly twice as high for consumers charging "on the go" as for consumers charging at home using their domestic electricity supply contracts. Smart charging benefits could widen the gap between urban, suburban and rural drivers still further, unless policy is activated to enable more "home" charging on-street in towns and cities.

In the meantime, our Communiheat research project³ is looking at the costs and options for converting a typical off-gas-grid community from principally oil-based home heating boilers to electric, focusing on the village of Barcombe in East Sussex. The relative affordability of different options for the individual consumers will depend critically on the upfront costs of switching to electric, including the cost of network upgrades and who pays for them.

4. Unlocking the benefits of data and digitalisation

UK Power Networks fully recognises the importance of this topic and is undertaking significant work to adopt the Electricity Data Taskforce recommendations and work with Ofgem, industry and wider stakeholders to enable the full benefits from unlocking energy data and embracing digitalisation to flow to our customers and communities.

² Source: Which? Car Guide, February 2021

³ [CommuniHeat info page on the Innovation website](#)

5. Ensuring energy system governance, including Ofgem itself, are fit for the future

UK Power Networks supports this objective and looks forward to commenting on the detail of how best to achieve it in due course, as Ofgem's and the government's plans mature.

6. Reducing burdens

We note that Ofgem is currently reviewing its activities from 2019/20 and considering what further actions it can take to reduce regulatory burdens in 2021/22. As stated in our letter of 14 February 2019, regarding the 2019/21 Forward Work Programme, we would welcome increased consideration from Ofgem regarding the number and frequency of the consultations it issues to stakeholders. We believe that Ofgem should give careful consideration to the timing of such publications and be mindful of the impact on stakeholders when volumes of these are high. For example, in the five working days preceding the Christmas break in 2020, UK Power Networks received seven consultations which overlapped in terms of the time available to manage them and such instances are likely to be even more impactful for organisations and stakeholders whose primary interests do not sit within the energy sector. More strategic planning and oversight from Ofgem would enable stakeholders to provide considered, comprehensive responses.