

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

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Dear Sir/Madam

Draft Forward Work Programme 2019-21

Thank you for the opportunity to comment on Ofgem's draft Forward Work Programme for the extended period 2019-21. 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 two-year scope of the programme and of the priority areas and related activities detailed therein. We agree that an extended view of Ofgem's planned work is more conducive to stakeholder planning and engagement.

We were pleased to attend the 'Future of Energy' conference on 10 January 2019 and to hear Ofgem present its longer-term strategy for the energy sector. We look forward to working with Ofgem and the industry over the next two years to develop this strategy further and deliver a programme of work that is consumer focused.

Our comments on particular aspects of the Forward Work Programme are set out in the appendix to this letter. We would also reiterate a point previously made in our response to the consultation on Ofgem's Forward Work Programme for 2018/19: that it would be helpful for key activities to be presented in quarterly segments wherever possible, to assist stakeholders in their planning processes and help them respond effectively to Ofgem.

We hope that you will find our comments helpful. If you have any questions, please do not hesitate to contact me.

Yours faithfully



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Appendix

Draft Forward Work Programme 2019-21

1. Making retail markets work for all

On page 6 of the document, Ofgem observes that a number of suppliers exited the market in 2018 and indicates that it will continue to review the supplier licensing arrangements in 2019-21 to ensure consumers are protected from potential supplier failure. We are supportive of the continued focus in this area, but recommend that Ofgem's review includes an assessment of the changes implemented, to determine if these have been effective. This should specifically include the Supplier of Last Resort (SOLR) arrangements.

2. Enabling future markets and system arrangements

UK Power Networks has been at the heart of the energy transition. We have connected over 6GW of renewable generation to our networks, were the first DNO to offer Flexible Distributed Generation connections and have led the way on the transition to DSO by committing to market test all load-related reinforcement. Thanks to the progress we have made as an industry, 75 per cent of total emission reductions in the UK have come from the power sector since 2012.

We therefore welcome Ofgem's commitment in its Forward Work Programme to enable future markets and system arrangements, in line with the Smart Systems and Flexibility Plan jointly issued by BEIS and Ofgem. As part of this, it will be particularly important for Ofgem, DNOs and the wider industry to work together to develop smarter distribution networks, which will be central to realising the estimated £8 billion a year of consumer benefits that flexibility can unlock from 2030.

For example, our analysis shows that the electrification of transport will result in significant new demand across our LV network, as consumers increasingly charge electric vehicles (EVs) at home or on the street. To help enable this transition cost-efficiently, our DSO and EV Readiness Strategy is focused on improved forecasting, enhanced monitoring and control, and supporting new local flexibility markets. We strongly believe that by progressing this alongside the reforms Ofgem is proposing – for example, on network access and forward-looking charges – we can stimulate greater competition down to the domestic level in a way that keeps the system reliable and protects wider consumers. Crucially this will reward those who deliver system benefits through their flexibility, whilst ensuring that there are no free riders that avoid paying their fair share. At the same time we are mindful that no customer is left behind in the energy transition and as we build our plans for RIIO-ED2 will be actively engaging with all our stakeholders to ensure the transition delivers for all.

We welcome Ofgem's Forward Work Programme including a commitment (page 13) to look at the role of network owners and operators. In addition to working closely with industry through the ENA's Open Networks Project, which is investigating the merits of different future market structures, we are delivering on the commitments made in our Flexibility Roadmap. Firstly, as noted above, this includes a pledge to market test all our future load related reinforcement requirements. Secondly, it provides assurance to our stakeholders that we are a neutral facilitator by agreeing to an independent review of our procurement processes and progress.

To summarise, we are working hard to stimulate local flexibility markets and we are pleased to have 27 flexibility zones up on the Piclo platform at the time of writing. We are also keen to work with Ofgem and BEIS to address any concerns around conflicts of interest around our role as both a DNO and a DSO. Our forthcoming response to Ofgem's sector specific consultation for the RIIO2 price controls will provide more detail on this subject and we would welcome the opportunity to meet with Ofgem to go through our thinking in more detail.

3. Network preparedness and performance

Using competition to deliver value for money

- On page 17, we note Ofgem's intention to prepare for further tenders for RIIO-2 to 'build and run' sections of the network, to promote appropriate competition. We consider that any approach to encouraging competition must:
 - Ensure the complexity of the process used is proportionate to the value and time-sensitivity of the project or system need
 - Ensure there is clarity between delivery and ownership/operation of assets
 - Ensure the recovered costs are split equitably across current and future customers
 - Ensure the methodology to encourage competition does not unduly favour third parties through allowing differing financing arrangements or lower standards
 - Ensure that whole system solutions are not precluded from bidding into competitive tenders
 - Ensure that network operators are appropriately incentivised to search out efficient and innovative solutions to projects/system needs

- We also note from page 17 that Ofgem is considering a review of long-established areas of competition such as independent networks. In our response to Chris Brown's letter of 24 July 2018 (Independent Distribution Network Operators – licence applications from affiliates of existing licensees), we stressed the importance of a level playing field being established between service providers, both at the immediate connection level and ultimately at the regulated network level. In this regard, we believe that the following elements must be addressed:
 - Differences in the licence conditions that are in effect between DNO and IDNO licensees
 - The ability for IDNOs to reduce the capital cost of the connection by recovering a proportion of the connection charge through ongoing Distribution Use of System charges

Consistency in regulatory treatment will ensure that consumers connected to IDNOs' networks are afforded the same protection as those connected to DNOs' networks. With the above in mind we were pleased to receive Eleanor Warburton's letter of 20 December 2018, outlining the next steps, and look forward to working with Ofgem in this area.

Preparing networks for the future

- On page 19, Ofgem states that one of its key activities in 2019-21 is to develop an effective approach to ensure that network companies respond to the challenges of the future and deliver a resilient, cost-effective network for consumers, by April 2023.

We note that timescales for the development of RIIO-2 for the transmission and gas distribution companies have and will continue to be challenging. We therefore recommend that sufficient time is built into the Electricity Distribution process to allow for enhanced stakeholder consultation to be undertaken and for responses to be reflected upon. The time taken to develop, evaluate and appropriately consult on new policies and incentive arrangements for RIIO-ED2 should not be underestimated. Furthermore, to ensure DNOs are not unduly committed to inappropriate mechanisms or frameworks, it is important that the Electricity Distribution sector is fully engaged on all aspects of the Gas and Transmission controls that could be applied to Electricity Distribution.

- Mindful of the increased risk of cyber-attacks and the wider societal focus on cyber security, we have proactively engaged with Ofgem in its new role as the Competent Authority for Downstream Gas and Electricity in Great Britain and have submitted our initial self-assessment as required under the new NIS Regulations.

We recognise that no system can be completely resistant to an evolving threat and have taken steps to ensure we are ready to respond. For example:

- We have integrated cyber as part of an overall organisational resilience strategy and periodically hold events to test our readiness
- We are working as part of an overall industry and security services exercise to simulate a live attack to test our readiness
- We have identified a need to work with partners to establish cyber standards in charge points and other IIOT devices to defend at the Grid edge

With the above in mind, we would welcome clarity on the timing and requirements of any future data submissions so that we can ensure we plan appropriately and meet Ofgem's expectations.

- We recognise the importance of ensuring that Diversity and Inclusion (D&I) is integrated within our organisation, to sustain our business in the long term and ensuring that we can meet the wants and needs of our diverse customer base. Part of our goal to remain the best DNO relies on us attracting and developing the best talent, which is diverse, and creating an inclusive environment that every employee can be proud to be part of. We believe that D&I is key to a positive, productive workplace and ensures all employees feel valued, respected and supported and can deliver the range of services and outputs desired by all our customers.

Last year, we achieved the National Equality Standard, which is a hallmark of equality and diversity; proof that our policies and practices have created a culture that supports every employee, without prejudice.

4. Excellence in statutory and core functions

Reducing burdens

- **Information Requests process**

On page 26, Ofgem refers to the continued streamlining of the Information Requests process in 2018/19 to help reduce burdens on the industry and establish smarter, more efficient processes. Our recent experience is that Ofgem has continued to issue a number of data requests, some with challenging timescales. To ensure volumes are maintained at a manageable level, it would be helpful if Ofgem could track and publish the number of Information Requests issued to DNOs each year – both under standard condition 6 (Provision of Information to the Authority) of the Distribution Licence and as ‘informal’ data requests.

As mentioned previously, enhanced forward visibility of ‘one-off’ pieces of work and engagement with industry on timing would facilitate a smoother, more efficient way of working and keep regulatory burdens to a minimum, without fettering Ofgem’s ability to undertake new and important activities.

- **Number and frequency of consultations**

We note from page 26 that Ofgem has continued to reduce the number and frequency of its consultations to stakeholders. While we are wholly supportive of this approach, we believe that Ofgem should give careful consideration to the timing of publications, and be mindful of the impact on stakeholders when volumes of these are high.

For example, in the six working days preceding the Christmas break in 2018, UK Power Networks received six consultations and data requests. Some of these had challenging deadlines (in two cases 12 working days, at a time known for annual leave) and overlapped in terms of the time available to manage them. More strategic planning and oversight from Ofgem would help to avoid such issues in the future and ensure stakeholders can provide considered, comprehensive responses to Ofgem.

Electronic licensing

We note Ofgem’s intention to explore the potential for electronic licensing in 2019/20. While we are supportive of this in principle, we believe that care should be taken to ensure that the governance and processes around licence modifications are not inadvertently weakened. We would be willing to participate in a trial and will work bilaterally with Ofgem to achieve this.

The UK’s planned withdrawal from the European Union

We responded to Ofgem’s statutory consultation (January 2019) setting out the licence modifications that Ofgem proposes to make in the event the UK leaves the EU without a deal, to ensure licences are fit for purpose and appreciate the focus Ofgem has given this subject matter.

It is worth noting that in order to ensure that our normal business operations can continue in the event of any disruption to the supply of materials as an impact of Brexit, activity is nearing completion to mitigate delays and increase stockholding, both within UK Power Networks' facilities and within the supply chain.