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

Dear Flo

Statutory consultation on the proposed Whole Electricity System Licence Condition for Electricity Distributors and transmission owners

Thank you for the opportunity to comment on Ofgem's Statutory consultation on licence obligations to ensure coordination and cooperation in the efficient and economical operation of the electricity system. This response is not confidential.

Centrica responded to Ofgem's December 2018 informal consultation on "licence conditions and guidance for network operators to support an efficient, coordinated, and economical Whole System". We continue to support a whole systems approach. We agree with the high-level principles contained in the proposed licence conditions D17 (transmission) and 7A (distribution) but believe they will need to be supplemented with more prescriptive regulation or guidance elsewhere to avoid divergent network approaches.

Since the its December consultation, Ofgem has watered down certain requirements in the licence conditions – including on data and stakeholder engagement. On data Ofgem needs to compensate for this by ensuring the other regulatory routes identified in its covering letter ensure networks deliver on transparency and incorporate stakeholder views in network decisions. Stakeholders will be concerned that these other routes are lagging the licence change. The proposed whole systems coordination register should be updated and published on at least a monthly basis.

We have the following comments on the detail of the statutory consultation.

Data requirements – replacement of specific whole systems data plan with a coordination register

Ofgem has reduced the data requirements in the licence change. The December 2018 draft required networks to produce a specific whole systems data plan. This has been reduced to a requirement to publish a coordination register once a year.

We agree there is some potential for duplication, but this must not result in:

- Further delay to networks delivering improved transparency, or
- Replacement with non-binding sub-standard data plans or strategies.

Centrica supports the recommendations of the BEIS/Ofgem Modernising Energy Data (MED) initiatives to implement the recommendations of the Energy Data Taskforce (EDTF), and the data improvements planned by Ofgem in the LTDS consultation. However, these are lagging this licence change.

The energy networks did individually publish the digitalisation strategies requested by Ofgem. However, these are non-binding. The DNO plans lacked detail and each network used different approaches.

Ofgem should only reduce the data obligations in the licence condition if it is confident that its alternative regular routes will deliver rapid improvements for network users and end consumers. Centrica believes that the published coordination register should be updated monthly. Monthly publication should not require any further work by the networks, given the licence obligation will require them to maintain it in real time.

The principles-based approach must not lead to divergence between DNOs

The licence condition and guidance apply a principles-based approach. Further prescription will be needed to ensure network users' proposals are properly considered. Lessons should be learnt from the ENA's Open Networks Programme (ONP). Ofgem accepted that allowing DNOs to apply different methodologies acted as a barrier to market participants and the development of distributed flexibility. Following Ofgem and BEIS's instructions, a core focus of the ONP has been on standardising approaches across networks.

The proposed licence condition only requires the degree of consideration given to users' proposals "to be proportionate to the strengths of proposal" and that networks "should be transparent in its justification for the degree of consideration given." Centrica believes this will not deliver efficient outcomes and experience in from DNO connections and flexibility procurement suggests that standardisation will be needed.

Procurement of flexibility services

Ofgem's recognises networks should consider market-procurement of flexibility services when planning whole system outcomes. Markets and independent platforms can be used to support co-ordination. Centrica's Cornwall Local Energy Market has demonstrated an auction system that resolves conflicts between the DNO and ESO.

In the guidance Ofgem says “An example of coordination could be an electricity network licensee approaching relevant Electricity Distributors and Transmission Owners to identify the benefits of procuring market services in their networks in a coordinated fashion to achieve a more efficient and economical outcome.” We stress that any coordination around procurement must be to enable open competitive markets in which monopoly networks are not allowed to compete because of their privileged position.

DNOs must focus solely on their network role and not use their network assets to enter competitive flexibility markets. We set our reasoning on this in our recent submission to Ofgem’s minded-to position on CLASS participation in ESO balancing service markets. These licence conditions will increase the privileged information DNOs receive about the transmission network – a further reason why DNOs should be active in these competitive ESO markets.

Wording in the guidance document on remuneration transfers

We support the broad concept of remuneration transfers. The current arrangements prevent such transfers and act as a blocker to whole systems solutions. Ofgem and industry are still working on how remuneration transfers can be implemented in RIIO-2 in the best interests of consumers. The wording in the guidance must not prejudice this work.

Centrica proposed a solution in its 14 March 2019 response to Ofgem’s consultation on the RIIO-2 Sector Specific Methodology. In our answer to Cross Sector Question 11 we said:

It is proposed that outputs and, by extension, expenditure allowances could be transferred between licences, to balance financial incentives. This approach may be less effective in removing commercial barriers since transferring expenditure allowances away from a network results in reduced growth in the Regulatory Asset Value (RAV). Transferring funding between networks using the ‘directly remunerated services’ route could be more effective in removing commercial barriers since expenditure used to fund the ‘delivery’ network to deliver outputs can be added to the RAV of the ‘funding’ network.

Decision not to extend the licence condition to the Electricity System Operator (ESO)

Ofgem says it is not expanding the proposed licence condition to the ESO because the ESO licence is under review as part of the RIIO-2 price control and there is existing wording in the ESO’s licence referring to the “total system”. We agree with Ofgem’s reasoning but feel there will need to be further changes to the ESO licence.

The ESO will have a key role in managing whole system outcomes. Pending clarification of the ESO’s licence via the RIIO-2 process, Ofgem must use that existing wording to ensure the ESO maintains a public equivalent of the Coordination Register and “consider actions and processes proposed by network users that advance the efficient and economical operation of their networks”.

I hope you find this response useful. If you would like to discuss anything in further detail, please contact me at helen.stack@centrica.com.

Yours sincerely

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