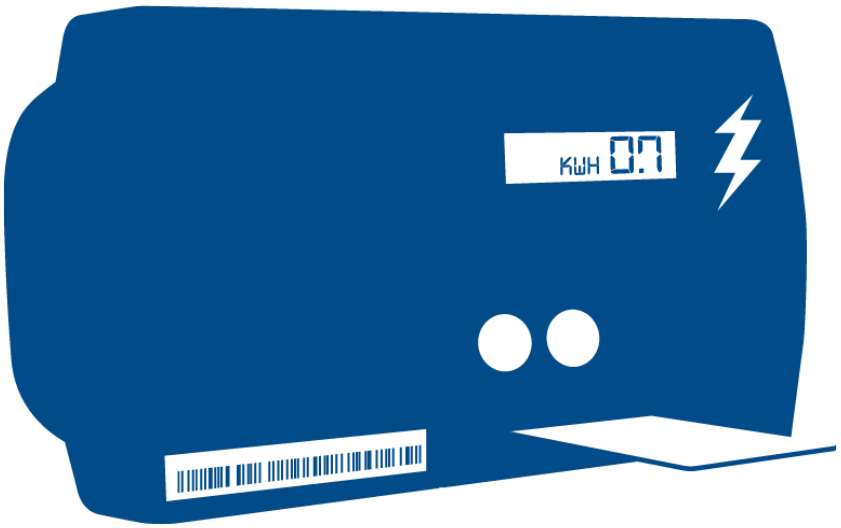
Citizens Advice response to the Ofgem Call for Input: Future of Distributed Flexibility 2023



citizens advice

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Key messages

We welcome the proposals to establish a market platform for distributed flexibility. The current market and platform arrangements are too disparate, lack standardisation, and are not easy to use. The result is an overly slow progression to developing an efficient flexibility market with the maximum numbers of participants.

The development of the new market platform should be undertaken at pace to ensure that the fullest benefits from distributed flexibility can be realised for Great Britain's energy system and its consumers. We are, however, concerned by the lack of analysis as to how the transition from current arrangements will be achieved. The development of an efficient market for flexibility, including trading platforms and standardisation of contracts, procurement, and dispatch, cannot be left in abeyance until the new platform is designed. Ofgem will need to work closely with the Energy Networks Association Open Networks project and other stakeholders to ensure that progress in market development continues as rapidly as possible. Ideally, a timeline and detailed plan should be established to show how the current market platforms and trading arrangements can evolve and converge with the new platform.

Questions

Section 1: The imperative, potential, and challenges of flexibility

Q1. What do you think distributed flexibility could contribute to the energy system?

We agree that the use of distributed flexibility will have substantial positive benefits for the energy system. The use of flexibility will reduce the need for generation, balancing costs, and infrastructure upgrades. It will also have benefits for domestic consumers and businesses by saving on their bills from using demand reduction and being paid to do so, as well as everyone saving on bills through reduced energy system costs. The use of distributed flexibility can also be used to increase the resilience of the energy system in reducing outages.

We will not achieve net zero in a cost-effective manner without the extensive use of distributed flexibility. We also point to the evidence provided within the Call for Input[1] (page 15) from the Carbon Trust and Imperial College London which shows the potential savings per year by 2030 of between £3.2 billion and £4.7 billion, and around £5 billion per year in 2050 from the use of distributed flexibility for the above mentioned reasons.

Q2. Will a focus on CER flexibility also help enable other forms of flexibility, especially distributed flexibility?

Engaging customers and aggregators of Customer-owned Energy Resources (CER) will require development of systems and processes to ensure that customers are confident in their use, systems are straightforward to use, and everything is as automated as possible. We support the focus on CER development as the full engagement of CER resources may be a more difficult

[1] Ofgem, Call for Input - The Future of Distributed Flexibility, March 2023

task than for DER resources, so systems and processes that work well for CER should also work well for DER. **We recommend that the focus on CER also includes small and micro-business participation, as the current emphasis appears to be solely on residential consumers. Small and micro-business customers will need to be included within CER development to ensure the maximum uptake of flexibility resources in the energy system.**

We also believe that the project should include consideration of the use of demand flexibility using 'standard' energy resources. The Call for Input tends to refer to smart devices and Electric Vehicles whereas turn down of ordinary energy-using products should also be considered for inclusion. For instance, the Electricity System Operator (ESO) has been undertaking a Winter Demand Flexibility Service (DFS)[2] which uses suppliers and aggregators as an intermediary with domestic customers. Those customers, at prompts from the supplier or aggregator, turn down usage of their electricity-using assets at certain times for a payment. Those assets can include any electricity-using products including ovens, hobs, washing machines, dryers, lighting, TVs, etc. which do not have to be smart technologies. It appears that the Winter DFS uptake has been higher than expected and it is likely that many customers would be willing to engage in a similar way in the future. It is essential that the energy system maximises the use of all CER and DER and is inclusive to those that may not be able to afford smart technologies but can participate using standard energy-using products. If there are specific barriers to the inclusion of these devices within future flexibility markets, it is important to draw these out in more detail explicitly.

It would be suitable at this early assessment phase when considering demand flexibility to assess the value that customers using Time of Use (Time of Day) tariffs could provide, particularly if dynamic TOU tariffs become widespread.

[2] National Grid ESO Winter Demand Flexibility Service

Section 2: An approach pivot: The case for change

Q3. Is there a 'case for change' and a need for a common vision for distributed flexibility?

We agree that there is a case for change given the slow progress in development of an inclusive and deep flexibility market. At present, the market is only accessible by larger players, and is fragmented in approach with a range of buyers operating in individual capacities with limited coordination or alignment of processes, contracts, and systems. This will have meant lower volumes of flexibility being used in the energy system currently, less competition to drive down prices, and this will negatively impact the growth of flexibility in the future unless corrected.

Coordination across the transmission and distribution boundaries, and between distribution boundaries, is currently being developed but there are clear risks of duplication or of conflicted dispatch. A single market and platform should assist in alleviating these risks, especially if there is an exacerbation of boundary issues at the distribution level due to the development of locational pricing models.

A common vision would focus minds upon the outcomes required from such a platform and enable a more coherent plan to emerge to reach the end goal. At present, the incrementally-focussed Energy Networks Association Open Networks project is working with disparate stakeholders with their own views and no common vision. While there is opportunity for stakeholder input to the Open Networks project through consultations, workshops, and the Challenge and Steering Groups, the ultimate decision-making on progress and outcomes is in the hands of the energy networks. This lack of a common vision and appropriate governance within the Open Networks project has led to a slow evolution and too little progress to establish common standards, processes, and platforms.

Q4. What is your vision for how to accelerate the delivery of accessible, coordinated and trusted markets for distributed flexibility?

An effective platform acting as a comprehensive and inclusive marketplace for flexibility involving businesses, micro-businesses and domestic resources will be a required part of GB's energy system and necessary to achieve net zero at lowest cost for consumers. As the flexibility market will be needed in perpetuity in our energy system, there is a case for moving to a single platform to offer standardised processes, products and services, and to provide cheap and easy use. A single platform should aid in the continued development and implementation of the flexibility market. We believe that such a market platform will need to be adaptive to future needs, with appropriate safeguards on governance and ownership to provide confidence to users.

We believe that Ofgem will need to consider these points in more depth:

Stakeholder engagement and governance arrangements

Stakeholder engagement will be a key enabler of an efficient and effective flexibility market. The market facilitator role as proposed within the Ofgem consultation on local energy institutions and governance[3] will need to ensure that there is comprehensive stakeholder engagement to ensure that all relevant views are captured and taken into account in market design and evolution.

The single and neutral market facilitator body will need to have robust governance arrangements and the ability for market participants (whether networks, aggregators, business flexibility providers, etc.) to influence change to the market. We recommend that the governance and change processes are considered early in the development of the market facilitation body. There should be opportunity for market participants and other stakeholders to input to the chosen governance and change process via consultation.

[3] Ofgem, Consultation on the future of local energy institutions and governance, March 2023

Improved market monitoring

In a future where there are many more flexibility products and smart tariffs available, we see that there is a far greater need for market monitoring to ensure consumers are not being mistreated. This could include a range of initiatives to avoid gaming in balancing and ancillary services markets, ensuring consumer data is treated securely by suppliers and TPIs, and that tariff designs are clear, with smart products and services made as inclusive as possible. With a fragmented and opaque series of markets and aggregator systems this job is significantly harder. A single and trusted platform should enable more rigorous and transparent monitoring of the market.

Reducing risk of lock-in

A common infrastructure would have the benefit of ensuring that there is ease in moving flexibility resource provision to different or multiple buyers, reducing the risk of a flexibility provider being locked into a specific platform.

Consumers are more likely to benefit from the value that their flexibility can provide to the energy system

By facilitating participation of CERs across multiple markets and aiding their ability to stack these different sources of revenues, a common digital infrastructure can ensure that consumers are more appropriately rewarded for their flexibility.

Consumer protections in aggregation and flexibility market provision - a key enabler

While the consultation document lists a number of enablers that will help develop the flexibility market and this new proposed platform, there is insufficient emphasis upon enablers within the domestic and micro-business consumer space.

Our recently updated risk register for domestic DSR, published jointly with the Association for Decentralised Energy (ADE) and Energy UK, points to the range of

risks that should be mitigated to improve consumer participation in flexibility.[4] The report outlines where there are protection gaps or barriers to participation across the whole customer journey, from the pre-contract stage, to providing flexibility, and to when something goes wrong. It assesses the current state of protections for each stage and where improvements are needed.

In 'Smartening up', we drew on evidence to set out the key priorities that the government must get right to help people feel confident about smart energy and flexibility.[5] We specified 3 outcomes we want to see for consumers; they need to feel confident about the contracts they sign up to, know where to go for help, and have control over their data. Under these, we recommended a range of regulatory provisions that could achieve these outcomes.

We are pleased that Ofgem and the Department for Energy Security and Net Zero (DESNZ) have been working together in various forums, such as the working groups tasked with supporting the development of the SSES regulations for companies with a role in load control.

As this work progresses, there must be a clear strategy for engaging consumers in flexibility. In the latest 'Bridging the gap to net zero' report, National Grid ESO outlined the key enablers for making flexibility from domestic consumers at scale possible by 2035.[6] In addition to better understanding of different consumers and the development of new tariffs and products facilitated by new market structures, they point to the need for an effective information campaign about how households can contribute to net zero, with consistent messaging about energy flexibility alongside energy efficiency. They also call for consistent, joined-up advice services across Great Britain offering action-orientated, tailored guidance.

These areas may be beyond the remit of the Ofgem Flexibility team and the current consultation, however, it is important for domestic and micro-business consumers to be confident in participating in these markets. As such, **we**

[4] Citizens Advice, ADE, and Energy UK, 'Demanding attention: A risk register for domestic demand-side response', September 2022
[5] Citizens Advice (2021) Smartening up: How to improve people's confidence in smart home technology
[6] National Grid ESO, Bridging the gap to net zero, March 2023

recommend that the Ofgem Flexibility team continues to work closely with DESNZ, as well as the Ofgem retail teams, to ensure that appropriate consumer protections are in place to increase consumer confidence and participation in domestic flexibility.

Q5. Will certainty of an end vision help accelerate enabling work and make it cohesive?

A clear end vision will provide the benefit of having a common pathway and timelines for participants (both buyers and sellers) to drive more rapid development of flexibility markets.

Q6. When should a common digital energy infrastructure be in place? And therefore, when should development begin?

It is essential that the pace of development to a comprehensive and inclusive flexibility market is increased. The slower that its delivery takes, the more likely it is to cause confusion or disruption, particularly in the operation and evolution of systems that have organically developed. We believe that there is a case for implementation as soon as possible to ensure that the full share of system value is achieved. We can compare the imperative for the development of flexibility markets with the similar need for strategic network planning reforms and speedier implementation. An effective common platform will act as a driver for the uptake of low-carbon technology as it will enable flexibility providers to discover greater value and make investing in such resources more attractive, thereby deepening the market and lowering the cost of flexibility overall for energy system users.

Transitional arrangements

We have concerns regarding the transitional arrangements that will need to be in place between now and when such a common market platform is operational. The consultation does not address how this transition will be managed. It is critical that the development of common processes, procedures, and the

deepening of the flexibility market continues and does not wait until the finalisation of a common platform.

We recommend that this aspect of transitional arrangements is given a high focus. Liaison with the Energy Networks Association (ENA) Open Networks project and other industry stakeholders will need to be undertaken rapidly to determine the continued scope of the Open Networks project, its ongoing governance arrangements, and how to transition as smoothly as possible from the current state of play to the end vision of a common platform. The interaction with the Ofgem consultation on Local energy institutions and governance will also need to be considered to ensure the proposals on market facilitation dovetail with the development of the market platform.

Section 3: What that future could look like

Q7. What should a common digital energy infrastructure look like, and why? Please consider the archetypes or develop your own proposition.

We have welcomed the additional webinars and provision of the IBM reports and appendices that are now available since the publication of the consultation document which has provided further information on the archetypes.

We believe that a single platform would be the ideal solution to ensure ease of accessibility and standardised processes and procedures.

The tables at 3.5 and 3.6 in the consultation document provide an overview of the archetypes and the presumed costs and benefits. We agree that the simple directory (Thin archetype) does not offer sufficient benefit or value, and therefore a more comprehensive system is required.

While we note the presumed negatives of cost and time to build the Thick archetype, we believe that a flexibility market platform will be needed within GB's energy system in perpetuity and therefore a full service platform should be the ultimate aim. The additional value of 'solving for the best' outcome for CER (and DER) within the Thick archetype may be greatly welcomed by users

although this aspect is not well explored within the consultation. We believe this functionality could offer substantial benefits for determining the optimal solution when considering different aspects such as cost, carbon emissions, etc.

As such, we consider that a modular system would be the best means to achieve the development of a working Medium archetype (perhaps with an incremental first step of a minimally viable product). The ultimate goal should be to create a Thick platform including providing solutions for different desired outcomes.

Any full service platform, with a modular design, could benefit consumers by incorporating information that would be useful in considering flexibility provision. For example, a smart meter data dashboard could be incorporated within such a platform which would show who has accessed data a consumer's data and for what purposes[7]. These additional elements on the platform would engender confidence and familiarity in its operation.

We recommend that an impact assessment is undertaken for the most welcomed archetypes following this consultation. The impact assessment should also consider how best to transition from current arrangements to the platform solution (see also our response to Q6 regarding concerns relating to transitional arrangements). We recommend that whichever platform is preferred by consultation respondents and Ofgem, we would recommend that the impact assessment ensures consideration of the Thick platform, if that is not the immediately selected option. A Thick platform could be more effective in achieving our net zero goals with a focus on the requirement to meet the 2035 target for the net zero energy system. As the platform will be needed in perpetuity, a Thick Platform may provide longer-term benefits than a Medium archetype.

Q8. What is your view on the desirability and feasibility of the archetypes or your own alternative proposition?

See our answer to Q7 above.

[7] Citizens Advice, Smart Metering Data Dashboard: Helping consumers see what their smart meter data is used for, 2018

Section 4: Delivery considerations

Q9. Should a common digital energy infrastructure be new-build, or should it build-out from existing infrastructure?

It would be valuable to consider this point once all responses have been received within an impact assessment, including from active users of the current platforms and systems. It is possible that some existing platforms developed by the ESO and DNOs may have value in being retained or to form the basis of a new system. As previously mentioned, the transition from the current scenario to the new platform will have to be managed effectively, and there may be benefits in incorporating existing systems into a new platform for continuity and familiarity purposes.

Q10. What are the important areas for consideration when designing institutional delivery models for a common digital energy infrastructure?

We do not have a firm view on the ownership and delivery model, however, whichever platform operator or provider is chosen, it will be important to ensure that the governance and ownership arrangements provide confidence to users in the operation of the platform, the costs of its development and operation, as well as ongoing amendments to the platform.

We note that as an asset-light business, there would be limitations to what could be achieved through financial incentives and penalties - this can be seen with the current Data Communications Company (DCC) licence framework. This has led to cost overruns and insufficient service delivery, the impacts of which have been ultimately borne by consumers. As such we would express some caution around moving towards a private ownership model.

Regardless of the ownership model, there would need to be sufficient consumer representation at board level to align the strategic direction with the interests of consumers. We note the proposal that the Future System Operator (FSO) could be the operator and develop of the new platform. As previously stated, transparency and appropriate governance is key, whichever the provider,

including the FSO. We are aware of the large number of proposed roles for the FSO and the additional role of market platform provider should be viewed in its entirety with these other potential FSO roles. It would not be efficient for a FSO to take on this platform oversight or development role if it is insufficiently resourced or lacks capacity to take it on appropriately.

Accountability will be key and robust governance arrangements need to be put in place. Stakeholders, key users, and those paying for this platform must have the ability to hold the platform provider to account for the usability, cost, and evolution of the system. In particular, there must be a ready way for users to input to enable change to the system, perhaps using a code reform-style methodology.

It would also be valuable for the entity running the platform to be regulated with appropriate interested oversight by Ofgem and DESNZ given the high importance this platform will have for the costs of the GB energy system, its ability to facilitate net zero, and the security of energy supply.

Q11. What are the important areas for consideration when designing financial delivery models for a common digital energy infrastructure?

Development costs

Development of the platform may require initial funding, and this could be provided in a number of ways (commercial borrowing, consumer levies, government-funded, etc.). The choice of how the entity will be constituted will lead to more suitable alternatives for funding development costs. For instance, a private profit-making entity may use commercial borrowing, however, external oversight from a regulator and/or governing body would be appropriate to ensure that borrowing costs are reasonable (as with energy network price control debt costs). Paying for these costs through socialisation may be suitable, however, we would advocate against adding costs to bills via a levy as this is regressive and impacts low income and vulnerable consumers more heavily. A general taxation option is preferred.

Other funding arrangements may be more suitable for a publicly-owned or not for profit entities, although the socialisation of any costs should also be designed so that low income and vulnerable consumers are not adversely impacted.

Ongoing running costs

It would appear reasonable for the users of the system to pay for its ongoing running costs (buyer and seller levies). The risk of churn (to generate levies) appears less likely given that the platform will be responding to the flexibility needs of the energy system and offers from flexibility providers, and there may be limited opportunity to create churn. Any regulator and/or governing body will need to be mindful of this risk and set up appropriate monitoring processes.

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