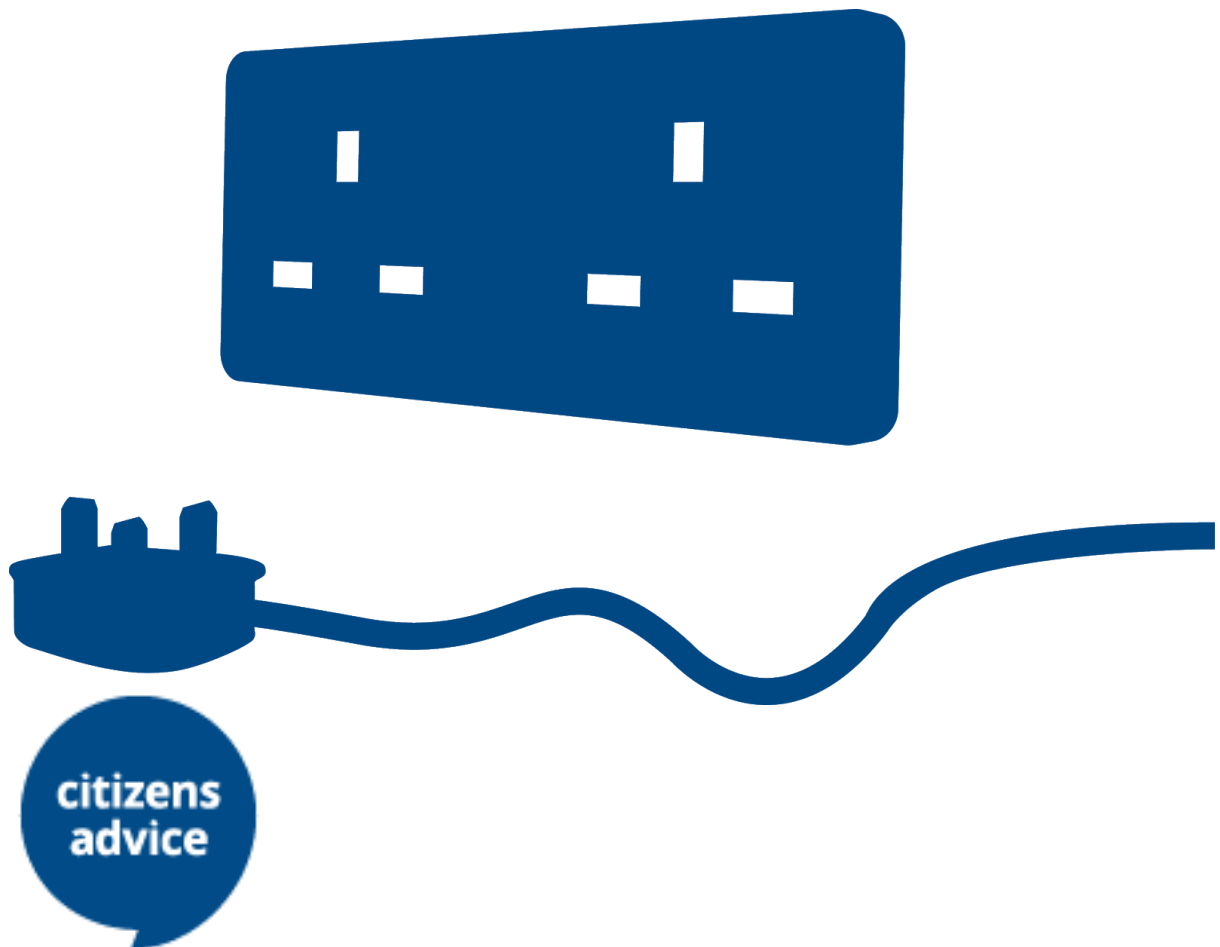


Energy Networks Association Open Networks Project: Flexibility consultation

Citizens Advice submission
August 2019



Introduction

Citizens Advice welcomes the opportunity to respond to this consultation as part of its statutory role to represent domestic and small business energy consumers in Great Britain.

We have previously contributed to the Open Networks project through responding to the Commercial Principles consultation¹, the September 2018 Open Networks: Future Worlds consultation², and the February 2019 Open Networks Future Worlds consultation³. We also sit as a member on the Open Networks Advisory Group.

We support the work of the ENA Open Networks project and highlight the need for rapid development of the flexibility market as representing a vital element to enable the United Kingdom to meet its 2050 carbon reduction targets. Lower costs for consumers should also be an outcome of a deep and active flexibility service market. The joint Ofgem/BEIS Open Letter to the ENA Open Networks project⁴ in July 2019 recommended the progression of least regrets actions. We uphold the same view while also recommending that there is continued and further engagement by network companies with stakeholders, consumers and network customers to confirm the correct direction of travel and to support the implementation of actions.

We note the increased focus on standardisation and simplicity within this workstream and support the drive to common contractual terms and conditions. We would welcome a speedier outcome to this particular aspect of the Open Networks project as standardisation of branding and naming of services, and the use of common legal terms and contractual arrangements should facilitate participants entering the market and being able to easily contract with multiple DSOs and the ESO.

¹ [Citizens Advice response to ENA's Open Networks Commercial Principles paper, October 2017.](#)

² [Citizens Advice response to ENA's Open Networks: Future Worlds consultation, September 2018](#)

³ [Citizens Advice response to ENA's Open Networks: Future Worlds Impact Assessment consultation, May 2019](#)

⁴ [Ofgem, Open letter to the ENA Open Networks project - Upgrading our energy system, July 2019](#)

Consultation questions

Q1 - Do you agree with these six steps and if not, please provide us with any rationale?

We are pleased to see that the ENA publication 'Building a more efficient, smarter, cleaner system: Our six steps for delivering flexibility services' is supported by all the Distribution Network Operators (DNOs), National Grid Electricity System Operator (ESO), National Grid Transmission Operator (NGTO) and also BUUK Infrastructure (representing an Independent DNO). Given the need for whole systems thinking to make the transition to Distribution System Operator (DSO) role a success, it is welcome to see the backing that these companies are providing to the Open Networks process, including the flexibility aims.

We agree with these six steps and support their further development.

Q2 - Are there any steps that you believe are missing or any elements of these steps that are not covered by the Open Networks Project developments and products?

One element that may need more emphasis is the role that the DSOs will be playing in enabling smaller, non-traditional or non-commercial entities to participate in flexibility markets. A number of the steps can be seen to incorporate the element of accessibility through championing a level playing field, standardisation and removing barriers. However, it would be beneficial if there was an explicit focus upon ensuring that smaller or non-commercial entities (such as social housing projects or community groups) could participate easily. Information about flexibility opportunities and application systems will need to be easy to understand by non-industry specialists. DSOs will almost certainly need to proactively communicate with and assist community groups to provide flexibility. A specific commitment to provision of highly accessible DSO services, including a service support element for smaller and/or community group participants, would be welcomed.

Step 3, 'Conduct procurement in an open and transparent manner', notes that the overriding consideration should be to ensure that decisions are made which are most cost-effective, while meeting the needs of all customers, the system,

and the networks. As noted in our response⁵ to the Open Networks Future Worlds Impact Assessment consultation in February 2019, a DSO may wish to pursue the cheapest and most efficient option for the network, whether reinforcement of infrastructure, smart grid solutions, or by using a distributed energy resource. However, we believe that there is a case for a wider policy discussion as to whether the DSO should be required to consider local and national environmental and social implications surrounding the operational and investment choices. It may be relevant, for instance, for a DSO to consider issues relating to:

- meeting low carbon and air quality targets,
- positive economic impact in a local area and community benefit, and
- sustainability of the energy mix.

We would welcome further consultation by the ENA on this topic.

Q3 - Which elements do you believe should be prioritised and are there any suggestions to amend our workplan as a consequence?

Each of the 6 steps is a vital element to achieve an effective, neutral and transparent flexibility market. However, Step 5, 'Providing regular, consistent, and transparent reporting', arguably has primacy. Open reporting provides clarity on whether the other steps are being implemented efficiently and effectively. As such, the commitment to regular, thorough, and open communication should be prioritised to enable scrutiny of progress and suggest improvements.

Q4 - Do you agree with these six principles underpinned by simplicity and if not, please provide us with any rationale?

We agree with the 6 principles as providing suitable grounding for the establishment of an effective flexibility market.

We agree that the 7th theme of simplicity should underpin the 6 principles. As mentioned within our answer to Q1, to make the transition work effectively and cost-efficiently, participation by a wide range of flexibility providers is needed. These providers may include non-industry specialists or those new to the sector and therefore simplicity in the implementation of each step will be critical to enable new and existing providers to rapidly offer their services, connect to the networks, and undertake active flexibility services.

⁵ [Citizens Advice response to ENA's Open Networks: Future Worlds Impact Assessment consultation, May 2019](#)

The 1st principle, Neutral Market Facilitation, notes that System Operators must run their businesses in a way that reflects reasonable expectations of network users and other stakeholders, including new entrants and new business models. It would be useful for this 1st principle to include a commitment for DSOs to be proactive in enabling new entrants to enter the flexibility market (i.e. in a similar way that Elexon onboards entrants to the balancing mechanism). This proactive onboarding would facilitate more flexibility providers to enter the market, thereby potentially lowering overall network and energy costs and providing revenues to new participants (such as non-commercial community groups), as well as widening the market.

The 2nd principle, Market Boundaries, notes that there may be circumstances where bilateral arrangements might need to be entered into due to the illiquidity of providers in the market. There is also a provision for emergency conditions to permit a control-led solution rather than a market-led solution. For transparency purposes and to facilitate the widening of the market, there should be a strong commitment to publish details of these transactions in a timely manner. At present, the principle refers to periodic reporting of bilateral contracts, however, we believe that rapid and public reporting should be made of these contracts and associated dispatch. We note that part of this principle also refers to making efforts to reduce illiquidity and the instance of bilateral arrangements, which we support.

The 4th principle, Rights and Obligations, notes the relationship requirements between System Operators and Market Participants. System Operators will be entering into a potentially high number of new commercial arrangements with varying types of Market Participant with complex arrangements for pricing and contract delivery. There may be stacking of revenue where a flexibility provider may contract with multiple DSOs and/or the ESO. There may also be added contractual complication should third party platforms provide registration, application processes, selection of contracted entities, enable dispatch, or payment calculation and deliveries. It is inevitable that there will be occasional disputes arising between these various parties. It would be valuable for DSOs and the ESO to start considering now the mechanisms by which such disputes could be managed, including whether an independent arbitration body or appeal mechanism will be needed, and how the costs of disputes could be managed between the various parties. A poor dispute resolution mechanism could create a potential blocker for an effective flexibility market and could put off consumers from taking part.

In the same light, it may be suitable to address the issue of potential poor delivery by flexibility providers and how data about inadequate performance could be shared between DSOs and the ESO to forestall a low quality provider being able to continue to contract with other System Operators. This will need legal input to ensure appropriate data and competition safeguards for the flexibility provider.

The 5th principle on Interoperability of Systems, is strongly supported to ensure standardisation between systems and to reduce costly mechanisms to transfer data or resolve data issues. We further support the publication of the progress towards interoperability as per 5.ii.

The 6th principle on Coordination and Information Exchange does make reference to system integrity and the avoidance of harmful interference by Flexibility Platforms. It is noted at 6.iv that the System Operators carry system responsibility to ensure security of supply and system stability. However, we would welcome a higher focus upon the need for system security in this section with specific reference to the potential for cyber-attacks or errors in systems potentially caused by Flexibility Platforms or from other System Operators' systems. At present, the language of this principle appears to underplay the potential risks from system interoperability.

Q5 - Are there any other principles that you believe we need to encourage more participation in flexibility?

An effective flexibility market and transition to DSO will have a likely considerable expense to build the various systems and pay for the operational personnel. It is important that there is widespread support for the expenditure and actions to be taken by the DNOs within the current RIIO-ED1 price control period and in the forthcoming RIIO-ED2 business planning process to facilitate the flexibility market. We would therefore recommend that network companies have a principle that there is wide support by stakeholders for their plans and actions. 'Stakeholders' have been defined by Ofgem⁶ within the RIIO-2 enhanced engagement process as individuals, organisations or communities that are impacted by the activities of the network company. This includes existing and future consumers.

⁶ [Ofgem, Enhanced Stakeholder Engagement Guidance, April 2018](#)

Q6 - Is there anything in these principles that you think would compromise your ability to participate or should these principles be applied differently from the way set out in our paper?

No response provided.

Q7 - We will apply these principles to all of our future development work – do you believe that there are any elements that are not covered by Open Networks Project developments or elements that should be prioritised?

See answers to Q4 and Q5.

Q8 - Do you agree with the learning and 'good practice' highlighted in the report and can you provide any suggestions for any additional points to be considered and/or steps to implementation?

We support the continued development of the learning and good practice as highlighted within the Workstream 1 (T-D Processes) Product 2: DER Services Procurement Review. We note the evolving nature of the work in this workstream and how permitting a degree of innovation and difference between DSOs is welcome, but how these differences may also potentially create barriers to market development. We would highlight the following aspects:

- Regular and frequent stakeholder engagement is key to ensuring that the flexibility market and procurement processes are effectively designed and implemented. The National Grid ESO's project 'Power Responsive' is an example of such stakeholder engagement⁷. There will be a need to ensure that smaller potential participants (such as the named groups of local authorities, Local Enterprise Partnerships, and community groups) are adequately consulted to ensure a widespread provision of flexibility services. There may be an increase in resource requirements to service these groups at first, but readily accessible and consistent systems and processes should facilitate participation and help to build a strong and deep market. As community groups engage with flexibility services, it is likely that existing or new forums may emerge where groups can inform each other of opportunities and methods of participation. DSOs could encourage the development of such information exchange forums or actively contribute to them.
- Standardisation of naming of services (branding) and terminology within contracts is a vital element to ensure ease of participation in the flexibility market. We support the continued drive for consistent contracts and

⁷ National Grid ESO 'Power Responsive' project, <http://powerresponsive.com/>

branding. This also makes it easier for advice organisations like Citizens Advice to be able to answer queries from consumers interested in or taking part in flexibility services if the terms and conditions and names of services are the same or similar across DSOs.

Q9 - What would be your preferred mechanism for engaging with DNOs for specific DSO Service design activities and/or procurement events?

No response provided.

Q10 - In addition to the data set out in Appendix 2, what extra information might DER or market platforms require to support their involvement in the procurement of DSO Services?

No response provided.

Q11 - Do you agree with our Next Steps and the development approach to standardise contract terms and conditions set out in DSO Services Commercial Arrangements – Product 4 and do you have any suggestions to improve our proposed developments?

We support the change from looking to best practice to a commitment to standardise contractual terms and conditions that would be used across all DSOs. It is clear that stakeholder feedback has been taken into account to drive this change. While development of standardised contractual terms may take longer to deliver than establishing core best practice, there are likely to be substantial benefits to the flexibility market in the longer term. We note that the expected date for delivery of a template of the standardised contract terms and conditions will be March 2020. However, we would recommend accelerating this timetable as a rapidly developed flexibility market would drive down consumer costs and help to meet the low carbon agenda of the UK. We note that the DSOs and the ESO are contributing to the common set of terms and conditions and we believe that this will be beneficial especially to providers who may be contracting with the ESO as well as DSOs to stack revenue. Commitment to continual review of the contract terms and conditions will be needed while the market continues to evolve until the practices and contracts become established.

Q12 - Do you have any feedback and comments on our Recommendations for Good Practice Adoption in Product 4?

As mentioned in Q4, it would be sensible to consider further how disputes or complaints could be managed that may arise from contracts across DSOs and/or the ESO and/or any third party platform provider. It may be beneficial to

consider the establishment of a common arbitration or appeal process. Individual resolution mechanisms across multiple parties could be very costly for network companies and ultimately consumers.

Q13 – What new markets do you think we should consider as part of this work and do you have any proposed changes to the scope and nature of our development work to encourage flexibility market participation?

No response provided.

Q14 – Do you have any ideas on how we might better engage and encourage feedback and input from non-traditional energy market participants?

The consultation document lists a number of different participant groups that could become part of the flexibility market. Included in these groups are local authorities, Local Enterprise Partnerships (LEPs) and community groups. We would recommend building upon existing innovation work with these communities, such as the Social Constraint Managed Zones (SCMZ) project⁸ being run by SSEN and National Energy Action. This project is using Match Making workshops and seed funding to facilitate participation. It may also be valuable for DNOs to go to existing local authority, community group, or LEP forums to inform these groups about potential flexibility provision opportunities. Establishing new forums or workshops specific to flexibility services may suffer from poor take-up due to unfamiliarity of the subject matter. It may also be valuable to use participants from the SCMZ project as vocal champions to encourage interest and confidence in this new market.

⁸ [SSEN, NEA, Social Constraint Managed Zones project](#)

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