

Cynulliad Cenedlaethol Cymru Pwyllgor Amgylchedd a Chynaliadwyedd	National Assembly for Wales Environment and Sustainability Committee
Dyfodol Ynni Craffach i Gymru?	A Smarter Energy Future for Wales?
Ymateb gan Ofgem (Saesneg yn unig)	Response from Ofgem
SEFW 13	SEFW 13



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Ofgem evidence to inquiry into ‘A Smarter Energy Future for Wales?’

Introduction

Ofgem is very grateful to the Environment and Sustainability committee for providing us with the opportunity to respond to the consultation on ‘A Smarter Energy Future for Wales?’ Ofgem is the independent regulator of the gas and electricity markets across GB. Our priority is to protect consumers’ interests, which we do through the promotion of effectively functioning markets and networks.

Response

Your consultation addresses many of the key energy issues facing our society – how do we transition to a sustainable energy mix whilst maintaining a secure supply for all and keeping bills down. It will not surprise you that we are already leading on a number of workstreams related to these issues and which may be useful for the Committee to consider.

- **Smart Grid Forum (SGF)**

The DECC/Ofgem Smart Grid Forum was created by DECC and Ofgem to support the UK’s transition to a secure, safe, low carbon, affordable energy system. The main issue discussed within the DECC/Ofgem Smart Grid Forum is how electricity network companies will address significant new challenges as they play their role in the decarbonisation of electricity supply. A number of subgroups have been set up under the SGF to help progress their work, including Work Stream Six and Work Stream Seven (see below).

<https://www.ofgem.gov.uk/electricity/distribution-networks/forums-seminars-and-working-groups/decc-and-ofgem-smart-grid-forum>

- **Work Stream Six (WS6)**

WS6 sits under the SGF it brings together stakeholders to investigate the commercial and regulatory challenges of implementing the smart grid solutions. WS6 is chaired by Ofgem and comprises of representatives from the electricity Distribution Network Operators, electricity suppliers, consumer groups and other industry stakeholders. WS6 published an interim report in April 2014, which set out high level options through which customers can participate in smart grids alongside the roles and relationships industry parties will need between each other and with customers:

<https://www.ofgem.gov.uk/publications-and-updates/working-documents-work-stream-six>

WS6 has investigated the commercial and regulatory challenges of implementing a smart grid in Great Britain. It will publish a report in October 2015 which will describe how such challenges can be overcome culminating in a number of recommendations to address the identified barriers.

- **Innovation**

As part of the RIIO price controls we introduced a Network Innovation Stimulus. The Stimulus includes two annual Network Innovation Competitions (NICs): one for electricity network companies and one for gas network companies. In addition the Low Carbon Network Fund (LCNF) was established under the last distribution price control and allowed up to £500m of funding to support

projects sponsored by the distribution network operators (DNOs). The projects trial new technology, operating and commercial arrangements. (The Electricity NIC has replaced the LCN Fund.)

The objective of the NICs and the LCN Fund is to help network companies understand what they need to do to provide security of supply at value for money as Great Britain moves to a low carbon economy.

<https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation>

- **Flexibility Project**

Launched in January 2015 the Flexibility Project will develop a strategy to enable and enhance the efficient provision and use of flexibility sources (demand side response, distributed generation and energy storage) across the supply chain in the GB electricity system. The aim of this is to ensure the energy system becomes sustainable while continuing to deliver resilience and value for money as its operation changes. The Ofgem strategy will be published in September 2015.

<https://www.ofgem.gov.uk/publications-and-updates/open-letter-facilitating-efficient-use-flexibility-sources-gb-electricity-system>

- **Quicker, More Efficient Distribution Connections**

We published an open letter earlier this year outlining the existing arrangements for obtaining an electricity connection on the distribution network and how new capacity can be created on the network in anticipation of future connection requirements. We asked respondents how these arrangements can be improved. We also describe various options to enable further anticipatory investment. These include new funding mechanisms proposed to us by our stakeholders and highlight what barriers there may be and ask what could be done to address them. We plan to publish our next steps on this project in autumn 2015.

<https://www.ofgem.gov.uk/publications-and-updates/quicker-and-more-efficient-distribution-connections>

- **Non Traditional Business Models (NTBMs)**

In February 2015, we published a discussion paper on the potential benefits offered by new entrants to the energy market with non-traditional business models. This discussion paper is the start of a longer-term engagement with NTBMs through which we want to better understand their drivers, consumer benefits (and risks), how they could transform the energy market and how regulation may impact upon them both now and in the future. We plan to publish on next steps on this project in autumn 2015.

<https://www.ofgem.gov.uk/publications-and-updates/non-traditional-business-models-supporting-transformative-change-energy-market>

If you would like further information on these projects or other areas of our work then please let us know.