

Conflicts of Interest and Unintended Consequences Risk Register Update (WS3 P2)

Summary of Q2 2021 updates

30 July 2021



Recap - Col and UC Register Focus for 2021

External Stakeholders

- Awareness rather than content
- CITA: more focus on impact on consumers esp. vulnerable

Internal stakeholders

- Awareness
- Unwieldy
- Relevance to Smart System evolution

STOP	START	CONTINUE
	<ul style="list-style-type: none"> • Refresher Webinar • Blogs/Social Media • Engage ENA Customer & Social Issues Group to monitor / advise on vulnerable customer impacts • More explicit links with DSO implementation plans? 	<ul style="list-style-type: none"> • Heatmap focus • Updated Flags • Publish Steering Group updates • Mitigation focused approach to Advisory Group engagement
<ul style="list-style-type: none"> • Quarterly updates – move to 6 monthly with an interim refresh 	<ul style="list-style-type: none"> • Separate systemic risks from more actionable risks – sub-registers that fit one page • Review and communicate interactions with DSO implementation plans • Refresher Webinar • Blogs/Social Media 	<ul style="list-style-type: none"> • Heatmap focus • Publish Steering Group updates • Filters by Product / Owners • Updated flags • Workstream AoBs

Col and UC Register Q2 Update

Process Changes

- Detailed review 6 monthly (Q2 and Q4); Heatmaps review (Q1 and Q3)
- ENA Customer and Social Issues (C&SI) Working Group engaged re: risks with direct customer impacts
- More clarity on interactions with DSO Implementation Plans
- Risk owner and stakeholder communication / engagement plan

Structural Changes

- Systemic risks split out separately – smaller sub-registers
- Risks captured by Heatmaps identified in Register
- Risks monitored by ENA Customer & Social Issues Working Group identified in Register
- Filters by Product / Organisation Owner

Content Updates

- Mostly nil responses due to the major update in March
- Ofgem A&FLC SCR decision captured
- Flexible Connection (ANM) Stakeholder Focus Group Workshops and recent deliverables captured
- Work on WS1AP5 Primacy Rules for Service Conflicts commenced

Col & UC Risks Monitored by ENA Customer & Social Issues Working Group

	Risk Description
Col 9	IDNO revenue driven by demand so no incentive exists to encourage alternate solutions; customers on these networks cannot benefit from flexibility services
A1	Inclusivity: Unequal opportunities for different customer groups wishing to participate in flexibility markets and in particular vulnerable customers
A2	Perceived unfairness or consumer backlash from a move away from 'postage stamp' principles (charges are the same for all customers within a DNO area)
A3	Electricity supply availability/performance becomes inconsistent across different areas. Customers experience outages.
A4	Third party intermediaries do not act in consumer interest leading to industry dissatisfaction. Consumers may not see the full value for their services. Poor consumer experience could reduce the levels of engagement.
A6	Consumers on passive networks end up paying for DSO operations, for which they perceive they do not see benefits
A7	A diminishing share of electricity customers are left to pick up more of the network costs

Systemic Risks

Determining “Systemic Risks”

- Largely systemic to the energy industry
- Mitigation sits primarily with other bodies e.g. Ofgem or BEIS
- Risks that are very broad / can never be fully mitigated and therefore captured within the principles of the DSO Implementation Plans
- Subjective to a degree

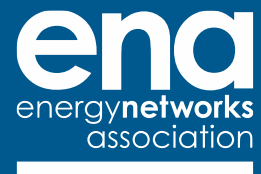
Conflicts Of Interest - Systemic Risks (2 out of 9)

COI	Risk
COI_8	Market dominance abuse of flexibility provider/lack of market liquidity and competition
Col_9	IDNO revenue driven by demand so no incentive exists to encourage alternate solutions

Unintended Consequences - Systemic Risk examples (23 of 33)

UC	Risk	
Distributional Customer Impacts	A2 Perceived unfairness or consumer backlash from a move away from 'postage stamp' principles (charges are the same for all customers within a DNO area)	
	A3 Electricity supply availability/performance becomes inconsistent across different areas. Customers experience outages.	
	A4 Third party intermediaries do not act in consumer interest leading to industry dissatisfaction. Consumers may not see the full value for their services. Poor consumer experience could reduce the levels of engagement.	
	A6 Consumers on passive networks end up paying for DSO operations, for which they perceive they do not see benefits	
	A7 A diminishing share of electricity customers are left to pick up more of the network costs	
	Risk of Regret	B1 Higher costs to UK customers - Industry is too focused on markets and overlooks the benefits of technological solutions
		B2 Stranding of flexibility assets; conversely this may be a good outcome if a net saving to UK current and future customers
B3 Network companies spend money building out SO functions which are not needed in the medium/long term because better network access arrangements and charging signals are in place		
B4 Network consumers overpaying or the business cases for existing Flexibility Service Providers (FSPs) disappears.		
B7 Stakeholders take inappropriate actions based on misunderstanding of network capacity information		
Operational Viability	C4 Lack of incentives for innovation in technological solutions	

UC	Risk
System Security	D3 Increasing reliance on communications infrastructure
	D5 System security impacted as a result of gaming
	D6 Reduced headroom (as a result of efficient markets).
	D8 Information availability facilitates hackers and cyber criminals
	D9 Reduced system security
Market power and gaming	E1 Risk of existing mandatory requirements becoming "paid services" (E.g. Power Quality / Inertia), potentially increasing cost to consumers
	E2 Risk that information being shared via the Embedded Capacity Register (ECR) provides parties with an unfair market advantage.
	E3 Ability for generators to trade ROCs (or equivalent) rates for flexibility amongst themselves
	E4 Giving third parties visibility of emerging constraints may provide them with the ability to trigger those constraints which they are then paid to resolve
Market Power & Gaming	E5 Lack of incentives for innovation in commercial solutions, potentially preventing smaller Market Actors from adopting a more innovative delivery approach or flexibility coming to market
	F1 DNO / TO connection timelines can erode the business case for services
	F2 Regulatory claw-back of asset allowances / funding for flexibility procurement



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