

Centrica plc
Regulatory Affairs
Millstream
Maidenhead Road
Windsor, Berkshire
SL4 5GD

Jeff Finch
Ofgem Energy Sector Digitalisation team
10 South Colonnade
Canary Wharf
London E14 4PU

27 September 2024

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

Dear Jeff,

Consultation on Interim Governance of a Data Sharing Infrastructure

Thank you for the opportunity to respond to your proposals for the interim governance of a Data Sharing Infrastructure (DSI). This is a non-confidential response from Centrica.

We were initially confused by the exact proposals in this consultation document (published 26 July), but have now understood its positioning more clearly, particularly when taken alongside the following further discussions and information:

- Additional background information on the DSI, as included in the 19 August 2024 document 'Government response to the Digital Spine feasibility study'
- Bilateral discussion with DESNZ on the consultation on Monday 2 September 2024
- The Energy UK hosted 'Digital Spine' information session with Arup and DESNZ on Tuesday 10 September 2024, which included a more detailed roadmap.

Our assumption from those discussions is that the Digital Spine and DSI are interchangeable terms, both referring to the same project and ambitions.

A 'roadmap' is needed:

We welcome the plans to move forward with the initial implementation of the Digital Spine, which we see as critical to support the next phase of the Energy Sector's development. However, there are a number of different digitalisation and data workstreams that seem currently to be being developed in parallel. These different work streams need to be aligned, and we are concerned that planning appears very fragmented at the moment, and is certainly not well communicated to stakeholders. In particular, we are not clear about when (or if) the DSI would overlap with the current Consumer Consent Solution workstream and the early stages of the Smart and Secure Energy System (SSES) workstream, particularly the proposed ToU tariff solution.

Use cases facilitate flexibility markets should be prioritised:

As regards additional use cases, we consider there is a real role for the DSI within the plans for SSES and broader flexibility solutions, and we go into more detail on this in our responses to Q1 and Q3. We are concerned that the current DSI timelines seem too late for the policy

ambitions for small scale flexibility, connections use cases and sharing network data with flexibility providers. However, this requires considerably greater scale for the DSI (both in terms of number of connected parties and the volume of data being shared).

The National Energy System Operator should not be appointed as the Interim DSI Coordinator:

We disagree that the System Operator (SO) is the best option as the Interim DSI Coordinator. We are concerned about the potential risks of conflicts of interest that could arise because of the SO acting as both the delivery body and Interim Coordinator for the DSI. We are not convinced that the SO's future status as a public body can effectively mitigate the risk of, for example, the SO designing use cases that are suited towards its own operational needs and goals which may not necessarily be those of the wider energy sector. The risk of 'internal optimisation' can exist regardless of the SO's operating model.

Funding should be recovered from the various types of market participants in a more equitable manner:

Finally, we suggest that further consideration should be given to funding routes. In our view, those who directly benefit from the DSI should also provide funding for it. Under the NESO selection option, funding via BSUoS, paid by electricity suppliers only, appears inappropriate.

We have provided our comments in response to the consultation questions below.

Yours sincerely

Emma Johnson
Senior Regulatory Manager, Smart Energy Code & Data
Centrica Regulatory Affairs, UK & Ireland

Governance of a Data Sharing Infrastructure (DSI)

Section 2 Questions

Q1. Do you see potential uses for the DSI within your day-to-day operation in the energy sector?

Both the Pilot and MVP seek to address network challenges where we are currently directly adversely impacted by the outcome of networks not sharing data effectively, but we are often not directly party to that data sharing ourselves. For example, we may be reliant on networks sharing data between them or be at the end of a chain of information with several networks involved. Delays or unreliable information about outage planning impacts our ability to connect projects in a timely manner. Direct data sharing with us, reducing the reliance on the single network we hold a contract with to provide data from other parties, will improve efficiency and transparency.

We are keen to see how the DSI could be used to support **Connections Reform** and associated network planning activities. Like other developers we are frustrated by inadequate data availability and quality, as well as an inconsistent approach between different network companies (including distribution network operators). All stakeholders would benefit from network companies taking a more standardised approach to data. The DSI could help reduce connection lead times if it could accelerate the application checks and network modelling activities that have to be undertaken to generate Gate 1 and Gate 2 connection offers. The DSI could also be used to streamline developers' communications with the ESO and DNOs and give developers a single digital view of the connections queue across transmission and distribution.

Centrica operates a Virtual Power Plant (VPP) that connects directly to Energy Smart Appliances (ESAs) in consumers' homes, aggregates and optimises them, and trades the flexibility they provide across several existing markets. We consider the DSI to be a critical part of the new digital infrastructure needed to support the growth of the flexibility markets for small, aggregated Demand Side Response (DSR).

The DSI could be used to transmit the large amounts of data associated with domestic scale DSR assets between parties installing assets, those that aggregate and optimise them, and the system operators that operate the flexibility markets. We consider the static registration data that will be captured by the proposed Flexibility Market Asset Registration (FMAR) solution to a fundamental part of this, along with more dynamic trading, operational, and settlement data in the future.

We suggest that Ofgem prioritises small-scale flexibility when developing use cases for the DSI to align the timescales for implementing flexibility use cases as closely as possible with the implementation timescales of the FMAR, along with the DESNZ Smart and Secure Electricity System, to help fully open the flexibility markets to small assets by 2028.

Q2. Do you have any comments on the funding mentioned within this section?

Near-term funding (up to 2028):

The case has not been made for the near-term funding (up to 2028) for the DSI to be provided via the System Operator's (SO's) baseline funding mechanisms. The SO will be funded almost entirely via Balancing Services Use of System (BSUoS) charges that are levied only

on electricity suppliers.¹ This means that, by extension, funding for development of the DSI will be provided only by electricity suppliers.² We recommend that near-term funding is recovered from the various types of market participants in a more equitable manner.

We would like to clarify that BSUoS is not a simple pass-through charge from suppliers to electricity bill payers. Despite the reforms to create a six-month 'fixed' rate, charged solely to electricity suppliers, the BSUoS rate is open to being reset within period by the SO should it decide that this is required. The SO is responsible for forecasting BSUoS costs, which have remained volatile and difficult to forecast, operating the system and generating those costs, and also for setting the 'fixed' rate through which it recovers its costs. The remaining inherent risk of a requirement to reset the BSUoS rate within period and uncertainty of future rates beyond the 'fixed' periods is carried by suppliers. Furthermore, the more elements that are added into the BSUoS pot for recovery, and the less transparency there is around their timing and make up, the greater the uncertainty becomes. As an example, current uncertainty about the future costs of the NESO, which will be recovered through BSUoS charges, will be considered by suppliers when setting prices for their customers. If the intention is to pass through the DSI costs to spread across all bill payers, as they will be ultimate beneficiaries, this will not be accomplished.

The primary users or beneficiaries of the capabilities of the Pilot (involving Outage Planning) and the MVP (involving Strategic Planning) up to 2028 will be the SO and regulated network companies. Other use cases that have been highlighted as candidates for the near-term period (such as Automatic Asset Registration³) will involve multiple types of market participants across the energy system. In other words, electricity suppliers will not be the primary users or beneficiaries of the Pilot, MVP or the candidate use cases during the near-term period.

Ofgem recognises that it will need to consider alternative funding routes for recovering the costs of operating the DSI from 2028 onwards as the type of users connected to the DSI expands beyond the regulated network monopolies.⁴ We agree. We believe the principle of the relevant users funding the development and operation of the DSI over the long term is equally applicable also during the near term to 2028. The proposal to require only electricity suppliers to fund the DSI in the near term, despite that fact that they will not be the primary users of the DSI, has not been justified.

The proposal to require only electricity suppliers to fund the DSI in the near term could create the risk of sub-optimal outcomes. For example, investment in the DSI during the near term could comprise at least some of the investment required for the enduring infrastructure. Requiring only electricity suppliers to provide funding in the near term could result in those market participants providing funding that is disproportionate to the degree to which they will use the infrastructure relative to other types of market participants. Benefits may be gained by parties who have not contributed to the cost and those benefits may not be passed to consumers.

Another potential sub-optimal outcome that could result from the proposed funding approach is that the DSI is developed inefficiently. This is because targeting costs at electricity suppliers

¹ National Gas Transmission (NGT) will be required to fund NESO's gas functions. In turn, NGT will be permitted to recover these costs from network users. See 2.2.2 of: <https://assets.publishing.service.gov.uk/media/66053b92f9ab41001aeea46b/statutory-consultation-on-national-energy-system-operator-licences-and-other-impacted-licences.pdf>.

² See section 3.1 of <https://assets.publishing.service.gov.uk/media/66053b92f9ab41001aeea46b/statutory-consultation-on-national-energy-system-operator-licences-and-other-impacted-licences.pdf>.

³ Paragraph 2.37 of the consultation.

⁴ Paragraph 2.47 of the consultation.

instead of the market participants that will use the DSI in the near term reduces the financial incentive to those users to ensure that the DSI will be developed (and used) efficiently.

In principle, we welcome Ofgem's intent to implement appropriate spending controls to seek to ensure good value for money for the sector and consumers. We are unable to comment on the potential efficacy since the controls have not been explained. Nevertheless, spending controls imposed by Ofgem in isolation are less likely to deliver the most efficient solution without the financial incentive on users to ensure efficiency. We also welcome the SO's commitment to build a proposal for the MVP that is aligned with HM Treasury's Green Book guidance.⁵ However, we highlight that the SO adhering the Green Book principles when developing investment proposals does not ensure efficient delivery of the investment.

Long-term funding (beyond 2028):

As regards funding from 2028 onwards: There needs to be cost recovery from the organisations that will use and benefit from the DSI. There needs to be a connection cost (although we agree there needs to be consideration around affordability of connection costs for some groups of users) and there also needs to be a usage-based charge.

- If costs are effectively borne by consumers, these should be linked to the services incurring those costs. Some use cases for the DSI will be across all customers; other services supported by the DSI will only impact a minority of consumers – eg those with smart energy assets.
- The usage-based charge is particularly important, to ensure capacity issues (such as the peaks in 'Other User' traffic seen in the DCC in autumn 2022) do not occur with this new infrastructure. Payment for usage volumes should incentivise prudent usage.

Q3. Do you have any comments on the timeline shown?

We have found the consultation document confusing as to when the first non-network company use cases could be trialled on the DSI. Paragraph 2.31 refers to 'further selected use cases' beginning to be integrated into the MVP from late 2025, but Figure 2 appears to suggest that promotion of the DSI to the broader energy sector (ie not just network companies) would take place from 2028, with full launch only from 2030. We assume this means that any further selected use cases in 2025 (and 2026?) will only be network company use cases.

This seems too late to match the ambitions of the Smart and Secure Energy System (SSES) workstream, and other related flexibility services.

Aligning the opening of the DSI to the wider market to take place during 2028 instead of early 2030 would be preferable. However, the DSI would need to be built to accommodate the amount of data associated with such SSES and broader flexibility use cases, which we would expect to be of a different order of magnitude to the pilot and MVP.

Section 3 Questions

Q4. Do you agree with our short-term governance structure model where the Interim DSI Coordinator is responsible for leading the short-term governance (2024 – 2028) of the DSI?

⁵ Paragraph 2.44 of the consultation.

If any other use cases (beyond those just involving network companies) are tested before 2028 (see our response to Q3 above), this may need a change to the interim governance structure, to accommodate a widening of stakeholders.

Q5. If not, state your reasons and propose an alternative governance model or improvements to our proposed solution.

No applicable.

Q6. Are there any additional governance roles that are not covered by the proposed governance model? If so, what are these?

Once personal data is shared in any of the DSI use cases (which would include any individual meter data), this will complicate the compliance requirements. The governance should at that stage be extended to include supplier representatives and potentially the ICO/Citizen's Advice.

Ofgem's consultation on the Consumer Consent Solution indicates that their MVP would be launched in Summer 2026; it isn't clear whether this would be linked to the DSI at that stage, although the DSI consultation is listed in Appendix 3 (6.10) of that consultation document as a related publication. This would clearly involve personal data.

As per our response to Question 3, we believe the MVP for SSES data needs to be earlier, and this would encompass the current work of the DESNZ Tariff Integration Working Group (TIWG), which again introduces personal data.

Q7. Do you agree with the responsibilities of the interim DSI Coordinator? Are there any additional responsibilities that it should undertake?

We assume the reference to covering tender processes in 3.5 means tenders for developing the infrastructure, rather than the tender for the Enduring Coordinator.

The proposed list of responsibilities on pages 29-30 seem sensible.

Q8. Do the proposed deliverables reflect the outputs that the Interim DSI Coordinator should focus on in the initial DSI stages? Do you suggest any additional deliverables?

It is unclear to us who will be responsible for developing the business case for future expansion to other Use Cases: is this expected to be the Interim DSI Coordinator, or another entity? How will any conflict of interests be navigated?⁶

There needs to be a deliverable around planning and delivering the scale up from a relatively contained network company-focused DSI into a more complex DSI that is scalable and adaptable to the broader energy sector.

The date 1 April 2028 seems too late for publication of the forward-looking technology assessment, if this is meant to inform the scope of work for the Enduring DSI Coordinator.⁷

⁶ See 3.14 of the consultation document

⁷ See final bullet in 3.12 of the consultation document

Section 4 Questions

Q9. Do you agree with us that the System Operator is the best option as the Interim DSI Coordinator? If no, explain your reasons and justify your proposed option.

We disagree that the System Operator is the best option as the Interim DSI Coordinator

We are concerned about the potential risks of conflicts of interest that could arise because of the SO acting as both the delivery body and Interim Coordinator for the DSI. However, we are not convinced that the SO's future status as a public body can effectively mitigate the risk of for example, the SO designing use cases that are suited towards its own operational needs and goals which may not necessarily be those of the wider energy sector. The risk of 'internal optimisation' can exist regardless of the SO's operating model.

We are unable to comment on the potential efficacy of the oversight and appropriate controls from Ofgem and government that have been referred to in the consultation since they have not been explained. We consider the independence of the Interim Coordinator from the deliver body is a primary criterion for selection. We view conflicts of interest that result in the DSI not being wholly suitable for the wider energy sector as a key risk to the DSI delivering good outcomes if the SO is appointed as the Interim Coordinator.

While the SO is knowledgeable of issues relating to energy network infrastructure, it is our experience that the SO has been less capable of creating solutions that fully address the specific needs of the operators of small-scale flexibility assets, other types of network users and consumers (to a lesser extent). Given our recommendation that Ofgem should prioritise small-scale flexibility when developing use cases (see response to Question 1), we prefer that an entity that has demonstrable in-depth knowledge specific needs of the operators of small-scale flexibility assets and consumers acts as Interim DSI Coordinator. We believe there are synergies between the capabilities of an effective Interim Coordinator and the Market Facilitator.

We acknowledge the benefits of the SO being appointed to the role, such as its participation in international system operator forums and that it already collaborates with the National Protective Security Authority and the National Cyber Security Centre. However, those benefits should not be lost if another entity is appointed as the Interim Coordinator because we expect that the SO will fully participate in the wider industry effort to develop, implement and operate the DSI.

Q10. What assessment criteria do you foresee being required when transitioning from short-term governance to an enduring governance model?

It is too early to say what the future criteria should be in any detail, so our answer here is necessarily incomplete. The criteria will likely emerge over time as experience is gained of the DSI coordinator framework.

The following additional considerations to those criteria in the consultation would need to apply to the interim coordinator as much as the enduring coordinator:

- There needs to be consideration of the governance for the coordinator – for example, will they be subject to performance standards and controls, and how can industry input into how they are run?

- Efficiency and ability to deliver will also be important: the coordinator will need to provide value for money and deliver to time, both from an operational perspective and – more importantly – delivering investment and projects.
- For optimal delivery, the enduring coordinator must also actively coordinate and respond to stakeholder inputs and feedback in a timely manner. Energy companies across the industry will be impacted by decisions made surrounding the DSI, and they need to be able to influence and contribute views and direction.

The assessment for transition (from the interim to the enduring model) should be informed by the performance and experience of the DSI over time.

Practically, the enduring DSI (and its enduring governance model) will be very different in scale and complexity to the proposed Pilot and MVP use cases. Both in terms of the number of parties who may be integrating into the DSI, and the complexity or sensitivity of the data being exchanged.

Q11. What suggestions or feedback do you have for refining these governance assessment criteria to better meet the requirements and challenges of digitalisation in the energy sector

It may be sensible to have the option to extend the Interim arrangements past 2028 if appropriate. Alternatively, there may be a need for a variation to the interim arrangements first, before going to a full final governance model. (Eg, for the first use case involving parties other than just network operators.)