

## Local Energy Planning – Ofgem Call for Input - Response

### General

Scotland has ambitious statutory greenhouse gas emission targets including a 75% reduction by 2030 and reaching net zero 5 years ahead of the UK as a whole, by 2045. To reach the interim 2030 target, Scotland's emissions from homes and non-domestic buildings will need to fall by 68% by 2030 compared to 2020. This will require zero emissions heating in the vast majority of 170,000 off-gas fossil fuel heated homes, at least 1 million on-gas homes and the equivalent of 50,000 non-domestic buildings. This ambition will require significant planning and coordination between stakeholders including local authorities and energy network operators.

Ofgem's proposed model for the future of local energy institutions and governance needs to recognise the differentiated levels of ambition across the four nations in the UK, as well as the particular policy approaches of regional and local authorities. Local knowledge and democratic oversight will be key drivers of the energy transition. In Scotland, Local Heat and Energy Efficiency Strategies (LHEES) play an important role in a place based, locally-led and tailored approach to the net zero transition for heat in buildings. These local Strategies will underpin an area-based approach to heat and energy efficiency planning and delivery. Development and implementation of these strategies will require coordination and partnership working between distribution system operators and local authorities to realise the scale of transition required.

The impact of the development of new institutional and governance structures for local energy planning needs careful consideration and therefore we were concerned about the lack of associated impact and risk assessments. We do understand that this Call for Input is only the first step in the consultation process, however, we would urge the Regulator to develop and provide the required evidence that would clarify the benefits, risks and associated costs of all proposed models - primarily for consumers but also network operators. We would be also keen to understand the link between UK-wide initiatives for local area planning, like LEAPs (Local Area Energy Planning) as well as other potential regulatory reforms, such as locational marginal pricing, and their interaction with and impact on the proposed models.

We would be keen to engage on this as it could reduce investments in Scotland and the foundations on which it are built is on a base case that there is no market mechanisms at play to encourage investment. With the CfD regimes is not the case in Scotland. It could be anti-competitive and could create a non-uniform playing basis for bidders into the CfD auction for generation.

The Scottish Government has worked closely with the Scottish Distribution Network Operators (DNOs), SPEN and SSEN, on their business planning for their next price control period (RIIO ED2 2023 – 2028).

The proposed investments from both DNOs (paid for by all bill payers in each network area), if approved by Ofgem, would support as many as 500,000 heat pumps on the electricity system in Scotland. As above, our statutory climate change targets require very rapid deployment of zero emissions heat, including heat pumps. We are concerned that the proposed new governance models cut across the ED2 period and therefore could impact on DNO investment to support the large scale deployment of heat pumps required.

The Scottish Government's Heat Electrification Strategic Partnership (HESP) provides a forum, in conjunction with the Transport Strategic Partnerships to ensure that whole-system consideration of electricity demand, heat, transport, and electricity generation are considered. These partnerships, with oversight from the Heat and Transport Coordination Group are a forum with the Scottish DNOs to further develop our understanding of the scale, pace and location of network investment needed. Through this partnership, we are exploring the role of DNOs in local area planning, and specifically in the development of statutory local heat and energy efficiency strategies and delivery plans (LHEES). Many Scottish local authorities are already actively engaging with the DNOs on their strategies and delivery plans, helping them to consider energy system constraints and the interplay between DNO investment planning and strategic deployment of zero emissions heat.

Any changes in the institutional and governance structures for local energy planning need to take into consideration devolved as well as UK-wide policy initiatives already in place, especially where these are statutory. We are looking forward to engaging further with Ofgem colleagues in order to evaluate evidence and increase our understanding of the proposed models and timelines.

### **Strategic Energy Context (Questions 1 and 2)**

- The energy system functions considered are appropriate for addressing energy system changes. The inclusion of the need to ensure that network planning is informed by wider energy planning activities, including hydrogen, is welcomed.
- Coordination will be crucial going forward, particularly with regards to real time operation of local energy markets and to realise the goal of doing 'the 'right' thing at the right time'. In the hydrogen sector, this means maximising opportunities for the production and integration of renewable hydrogen, and working cohesively with the existing renewable electricity network. For instance, significant potential exists to produce cost-competitive hydrogen from electrolysis by utilising currently curtailed electricity. However, the National Grid Electricity System Operation only publish qualitative studies on future potential curtailment volumes which are based on indicative generation capacities, making the assessment of such business cases difficult to achieve.
- Additional information regarding how local energy systems will integrate with national level would be well received.

### **Strategic Case for Change (Questions 3 – 7)**

- The outlined case for change and criteria used for assessing existing institutional arrangements seems to be appropriate.
- On-going monitoring to ensure institutions and governance arrangements remain fit for purpose will be crucial to success and to meet the goal of ensuring there is 'recourse for non-delivery'.
- The energy transition will see the sector continue to evolve in the coming years, this is particularly true for the hydrogen sector which is in its infancy. Institutional and governance reform should not be static, but should evolve in line with changing and developing needs.
- Given the interconnectedness across energy systems, potential for conflict of interest and independence may be useful additional criteria to consider when evaluating the effectiveness of institutional and governance arrangements.
- The biggest blocker to the realisation of effective energy system planning and operation at sub-national level will likely stem from lack of coordination and limited accountability with multiple actors and bodies with overlapping responsibility, there is scope for fragmentation across the system. This is particularly true without a unified common objective. Greater emphasis should be placed on the role of local actors and the potential to allow redistribution of roles to a local level, rather than solely focusing on synergies across existing structures.
- The paper largely focuses on cost effective decarbonisation, with only limited reference to local social, environmental or economic benefits which could be gained, such considerations would be valuable in illustrating the need for, and results to be achieved from, reform. Local economic benefits could include the opportunity for business investment through creation of an enabling environment, any potential for increased jobs and upskilling/skills development. Environmentally, reduced emissions are crucial and subsequently improved air quality.
- Additional opportunities are presented in the hydrogen sector at present, such as the potential to use existing licenses for wind farms which cannot connect to the grid (due to capacity restraints) for the production of renewable hydrogen . This reiterates the need for a local/regional structure which enables development to take place where the opportunity exists.
- With relation to risks of change and costs, there is potential that reforms are made with the UK structure in mind and do not take into consideration opportunities/needs for Scotland.

### **Framework Model Options for Enduring Arrangements (Questions 8 – 12)**

- Model 3, the creation of a Regional System Planner and Operator(s) appears to be the best option. The gas transport infrastructure is likely to play a key role in the utilisation of hydrogen in the UK. However, opportunities for development

as well as needs are likely to be region-specific and would benefit from a region system planner and operator. Biggest issues are likely to be coordination and accountability – allowing enough flexibility to meet the needs of each sector – but maintaining a cohesive whole system approach.

- No matter which institutional and governance arrangements are selected, there should be a requirement for regulators and operators to consider how to enable meeting the statutory net zero targets of devolved administrations (and not just UK targets), given the importance of the energy sector for meeting these that and given not all of the relevant powers and responsibilities are devolved.
- The gas transport infrastructure is likely to play a key role in the future in enabling potential decarbonisation options such as carbon capture and storage (CCS) and hydrogen. The optimal balance of these options is likely to be region-specific. Therefore, it will be important for both local (and national) energy distribution (and transmission) governance arrangements to set out a requirement to consider the transport of not just natural gas and hydrogen but also CO<sub>2</sub> in future planning. This is particularly important in an energy context given the likely future role of CCS in dispatchable power generation.

### **Next Steps (Question 13)**

- Interactions with local government and devolved administrations are vital as plans develop on defining roles. There is a need for regulators and operators to consider how to enable meeting statutory targets of devolved administrations (not only UK targets).