

Ofgem Call for Input: Future of local energy institutions and governance

Response from Regen

Dear Victoria,

Thank you for the opportunity to respond to Ofgem's Call for Input on the future of local energy institutions and governance.

Regen is a not-for-profit centre of expertise in the transition to a net zero energy system. We have over 150 member organisations that share our mission including developers, local authorities and community energy groups. Regen works extensively on sub-national energy planning and improving engagement between local authorities and the energy networks. Our work includes:

- Pioneering the [Distribution Future Energy Scenarios](#) (DFES) to underpin network planning, working with Western Power Distribution (WPD);
- Our paper on [Energy Networks for the Future](#), based on research and interviews with a wide range of industry leaders and stakeholders;
- [Energy Planning Integrated with Councils \(EPIC\)](#) Network Innovation Allowance (NIA) project with WPD and Wales and West Utilities (WWU);
- [Net Zero South Wales](#) NIA project with WPD and WWU.

Based on this experience, we have set out our views and recommendations on the key issues raised by this call for evidence below, rather than responding to the specific questions.

Yours sincerely,



Merlin Hyman OBE
Chief executive, Regen

1. Strategic energy context

We agree with the central premise of this call for evidence that the challenge of net zero and rapid decarbonisation of our energy system requires reform of local governance of energy infrastructure and systems. In particular, the current arrangements do not reflect or support the aspirations of local authorities and regional actors and their plans for net zero.

We agree that energy system planning, market facilitation of flexible resources and real time operation of local energy networks are the right areas to focus on.

However, we do not agree with Ofgem's stated aim for this call for evidence to ensure that key energy system functions are delivered by institutions able to "drive net zero at least cost". Our members' experience is that the interpretation of the aim of 'least cost' by Ofgem and other energy system players is leading to short term risk adverse approaches to network investment and creating major barriers to net zero energy investment.

We note that the 'EPIC' NIA project that we are managing is carrying out cost benefit analysis of investment options. The results of this analysis consistently show that investing in network infrastructure that is fit for the future produces benefits over a 'just in time' investment approach.

Recommendation 1: We urge Ofgem to change the goal of this call to evidence to putting in place institutional arrangements from least cost to ensuring "investment takes place in a timely and efficient fashion to enable net zero".

2. Energy system planning

The government's Net Zero Strategy sets out the key role of sub-national/local actors in delivering net zero. Local and combined authorities are increasingly engaged in planning the development of energy infrastructure and this role looks set to increase with statutory powers for functions such as heat network planning being consulted on.

Distribution Network Operators (DNOs) are responding to this local energy planning by working to achieve much greater communication with local authorities. For example, DNOs are consulting local authorities on the Distribution Future Energy Scenarios they use to inform network planning and sharing the results in accessible formats. All DNOs have set out further plans in their RIIO-2 business plans to increase their engagement with local authorities.

However, whilst welcome, greater consultation will not change the fact that local authorities have no statutory say in energy infrastructure that it is critical to delivering their plans and democratic mandates to drive net zero. There is also no clear mechanism to plan energy infrastructure with a whole system view, thinking across energy vectors and free of commercial interests.

We set out our view of the need for regional planning and governance in our 2019 ['Energy Networks for the Future'](#) paper:

"Energy and climate change have become local priorities for devolved governments, regions, cities and local communities. Further devolution and decentralisation of energy is essential to deliver the transformational change that is needed at a local level. UK regions should have a more formal governance role over the future of critical infrastructure. Regional governance bodies, which could be defined by licence areas or based around the emerging city regions, would help build public trust and engage local stakeholders, and also allow the networks to leverage the investment potential of regional economic plans and industrial strategies."

An energy system planning function akin to a 'Regional System Planner' is required to address the democratic deficit in critical energy infrastructure. This function should bring together local authority plans across electricity and gas and other vectors, with due consideration of national decisions and targets, to create a clear 'regional energy requirements plan' for energy networks to plan for.

We consider this function should focus on energy requirements planning and not include market facilitation and local energy operation. The requirements for energy infrastructure to deliver are properly set by democratic elected bodies. The most efficient ways of delivering those requirements should sit with those with the information and technical knowledge to deliver them, with clear governance, incentivisation and transparency of their decision making processes.

This planning process should recognise that local authorities have a greater influence and say in some areas of energy than others. For example, central government is consulting on specific powers for local authorities to plan EV infrastructure and heat networks. The government has also stipulated that, in England, onshore wind farms need to be identified in a Local Plan. Investment in other areas, such as solar arrays and battery storage, is driven largely by market signals.

Given the urgency of net zero, this planning function could be delivered by local authorities working together with input from the electricity and gas networks, without the delays of the legislative requirements of establishing a new body. This could then evolve into a new legal entity if required.

Recommendation 2: An energy system planning function akin to a ‘Regional System Planner’ is required. This should focus on energy requirements planning rather than ‘DSO’ roles.

DNO and Gas Distribution Networks (GDNs) should then be required to reflect the outputs of this body within their business plans. This will ensure there is no perception that investment decisions are influenced by the commercial interests of the energy networks.

We do not agree with the statement that “Ofgem would remain the ultimate decision-maker on network investment plans submitted through price control processes.” Creating a clear process of regional energy requirements planning driven by democratic bodies and then effectively allowing a national regulator to ignore that process will undermine democratic accountability and public trust.

Recommendation 3: Through the regional system planner function, local authorities should have a statutory role in the network investment price control process and a governance role in ensuring the requirements they set are then delivered, alongside Ofgem’s role as an economic regulator.

3. Market facilitation and local energy operation

DNOs have made significant progress establishing local flexibility markets as alternatives to network investment and moving towards real time operation of local energy networks.

It is vital that decisions on the use of flexibility markets and the operation of the network are seen to be independent of any commercial interests of networks or any other parties. Many of our members provide flexibly services and, currently, they do not always have full confidence in the process of assessing whether network assessments or flexibility market solutions would offer the most benefits.

However, given the urgency of progress towards net zero, we are concerned that further institutional change requiring primary legislation will take many years and create significant uncertainty that could reduce investment in the process.

At this stage, therefore, we consider that Ofgem should focus on the governance, incentivisation and transparency of market facilitation and local energy operation, rather than creating new entities to

carry out these functions. The new Future System Operator (FSO) could play an important role in providing independent assurance that investment decisions are made, and seen to be made, for the best interests of the energy system, and are not being influenced by commercial considerations.

Recommendation 4: Ofgem should set out clear governance, incentivisation and transparency of decision making for DSO functions, including the role of the FSO, rather than focusing on creating new entities to carry out these functions.