



Independent Networks
Association

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By e-mail only to: flexibility@ofgem.gov.uk

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Dear Charlotte and Rich,

Call for Input: Future of local energy institutions and governance

I am writing on behalf of the Independent Networks Association (INA). The INA represents and consists of the UK's leading independent utility network owners and operators who serve the domestic, commercial, and industrial sectors across the UK.

Thank you for the opportunity to input. The INA's members have a significant role in connecting new homes and businesses to energy networks and operating the resulting last mile networks and so have an active interest in the future planning and operation of networks at a distribution level. In general, the role of IDNOs and IGTs has been ignored in the document and as INA members connect around 80% of new homes to energy networks, it is critical that independent networks are considered in these policy areas.

Local Authorities and the Scottish Government are currently the biggest drivers of building and energy standards for new homes through planning, as well as setting transportation policies and designating heat network zones. It is critical that co-ordination with them is effective so that networks can be managed and developed appropriately.

Q1. Are the three energy system functions we outline (energy system planning, market facilitation of flexible resources and real time operation of local energy networks) the ones we should be focusing on to address the energy system changes we outline?

Yes, we agree with these functions. It is also critical that these functions look across electricity, gas(es), heat and transport networks. As the proposed policy of removing fossil fuels for heating homes takes effect over the coming decades, it will be crucial that there is a focus on local energy networks and their interactivity. There will also be emerging local energy solutions, such as biogas, hydrogen, ground source heat pumps tapping into local geology etc that will drive different solutions in different areas. Local future energy



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scenarios should cover the range of energy solutions and feed into the planning, need for flexibility and the eventual real time operations or interactivity of the operation of these networks.

Q2. Do you agree with the criteria we have set out for assessing the effectiveness of institutional and governance arrangements?

We largely agree with the criteria set out. In the absence of any other entity being able to produce the work, and encouraged by the regulator, DNOs have produced local plans as part of their RIIO-ED2 submissions, engaging a large number of stakeholders across sectors and vectors. The resulting work have their pros and cons and we think it worth taking time to assess these, as well as generate some lessons learnt. For instance, DNOs have a focus on electricity and so are not naturally equipped in the skills and expertise in producing the type of wider plan described in this consultation, meaning that DNOs carrying on delivering this function beyond the shorter term may not be sustainable.

The list of criteria should also include a specific reference to independence. Whilst this is an important factor in distribution networks, it is even more important at a local level as many Local Authorities have vested interests in the energy sector, such as interests in local supply companies and own local energy or heat networks.

Q3. Do you agree with our assessment of how far the current institutional arrangements are, or are not, well suited to deliver the three key energy system functions?

A factor that is not mentioned is the interaction of flexibility markets with potential nodal or zonal markets. It is unlikely that these nodes or zones will accord directly with an electricity distribution network. It is critical if we are to achieve change at a reduced overall cost for energy consumers that these nodes have a flourishing, competitive markets offering services.

Q4. Overall, what do you consider the biggest blocker to the realisation of effective energy system planning and operation at sub-national level?

The immediate blocker is the need for, and the cost of, digitisation in order to provide the right information to the operators and for information to be provided to the various networks. Information flows are already a problem that exists for local electricity networks where downstream distribution are unaware of upstream disruption causing outages on networks connected to or embedded in the wider distribution system.



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Q5. Do you agree with the opportunities of change we outline and the potential benefits they may create?

It will be important that cost benefit analysis continues with each step in the transition so that any local institutions and governance that emerge have clear roles, objectives and overall network and operation cost reduction targets.

Q6. Are there additional opportunities for change and benefits that we have not set out?

New homes will soon be mandated to have photovoltaics and then EV charging and heat pumps. This will create pockets across DNO networks that can operate flexibility and this will avoid the need for some grid reinforcement. We welcome the progress made by the DNOs in Open Networks in creating a market for flexibility at the distribution level and would like to see faster progress for it to expand at low voltage levels.

Q7. We set out a number of risks associated with change. Do you agree with these risks and the potential costs they create? Are there additional risks of change and costs that have not been set out?

Decisions made under other Ofgem initiatives, such as Distribution Use of System reforms and heat network regulation will impact this initiative and should be considered strategically by Ofgem.

We do run the risk of competition and innovation being squeezed out by over-elaborate planning. This can produce more costly solutions. Any institution should be tasked with promoting competition in solutions (network or otherwise) and there should be a clear objective around encouraging innovation. Innovation should also be shared across regions, nodes or zones in order to ensure cost effective solutions are being adopted as soon as possible.

Q8. For each model, we have set out the key assumptions which need to be true for the model to offer the right solution. Which of these assumptions do you agree with?

Option 1 – The INA disagrees with the assumption that this should be an electricity only body and that conflicts of interest can be managed internally.

Option 2 – As before this needs to migrate to an energy body.

Option 3 – Planning is a significant issue to develop but this regional operator should also be focused on the development of flexibility services at a regional or nodal level alongside the FSO.

Option 4 – Overly complicated.

Q9. Out of the framework models we have developed which, if any, offer the most advantages compared to the status quo? If you believe there is another, better model please propose it.

All options ignore independent gas and electricity networks that need to be corrected.

Option 2 (Independent System Operation) best fits the immediate need and builds on the work done by the DNOs to date. However, as heat networks develop, flexibility markets take off and households change the way they heat their homes, the model should migrate to Options 3 (regional system planner and operator) recognising that a region may be a different area to a current distribution network area.

Q10. What do you consider to be the biggest implementation challenges we should focus on mitigating?

That this does not slow down the development of regional flexibility services as this risks over-building the DNO networks in the shorter term.

Q11. Taking into account the varying degrees of separation of DSO roles from DNOs under framework model 1, do you consider there are additional measures we should consider implementing, in particular in the short term (e.g. changes in accountability etc)?

There should be at least the same level of separation that was imposed on National Grid ESO.

Q12. Are there other key changes taking place in the energy sector which we have not identified and should take account of?

Areas have been identified in response to other questions.

Q13. What do you consider to be the most important interactions which should drive our project timelines?

Government decisions on hydrogen and the possibility of reusing the gas networks will set the direction on the ways gas and electricity networks need to interact and will signal the need to widen the regional planner and operator.



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Please let me know if there are any areas you would like clarifying or further discussion.

Yours sincerely,

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