

MANCHESTER CLIMATE CHANGE AGENCY

SHARED ACTION FOR OUR ZERO CARBON CITY

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Dear Ofgem Governance Section

RE: OFGEM call for input on sub-national electricity grids fit for Net Zero

We are responding on the Ofgem 'call for input' on draft proposals to make the sub-national electricity grid more flexible to cope with the different needs of 'Net Zero' where renewable energy (over fossil fuels) will be the norm.

This is a joint response from Manchester City Council and Manchester Climate Change Agency.

Our response to the questions put forward in the call to input are as follows:

1. 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. The three energy system functions are essential in the need to transition the electricity system to the more flexible demands required of 'Net Zero'. There is a vital role in moving from the traditional 'baseload' grid to a more flexible electricity system supporting a wide renewable energy mix backed up by energy storage and smart energy solutions at a sub-national level.

Manchester is particularly engaged in Local Area Energy Planning (LAEP). Manchester's LAEP was developed in 2021 with Greater Manchester Combined Authority and Energy Systems Catapult. It has identified several 'priority areas' to build capacity and test approaches, across different components, for working with Manchester's citizens and stakeholders. This collaborative approach lays at the heart of energy system planning.

This LAEP approach is becoming an important part of sub-national energy generation, and it potentially necessitates granting more powers and resource to local and regional authorities to help in developing a balanced energy system which combines a mix of large-scale power generation with local decentralised energy systems.

The Ofgem call for input potentially underplays the important role local authorities could play in creating the future-proof energy system Britain needs, and it should consider their role as it builds up the policy framework for delivering on creating a flexible sub-national electricity system.

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

Yes. The five criteria identified by Ofgem - accountability, credibility, competence, coordination and simplicity - with assessing the effectiveness of institutional and governance arrangements are essential to move forward in a logical and swift way, where urgency is at a premium.

We add:

- **Accountability:** The role and responsibilities of local and city region authorities should be outlined carefully, particularly in its interaction with DNOs and DSOs at the regional and city level. We recommend detailed discussion with UK100 and the Local Government Association (LGA) to determine these definitions.
- **Credibility:** We reiterate the benefit that would come from providing city and city region authorities with bespoke powers and additional resource to deliver such activity.
- **Competence:** Taking on a role of Local Area Energy Planning is relatively new for city and city region authorities and having sufficiently trained staff with the expertise to undertake these tasks is a challenge at the local level. We urge Ofgem to consider recommendations to the government that could help support such Net Zero skills to be delivered competently at the local level in this area of policy.
- **Coordination:** In its Net Zero plan, the government is in the process of developing regional Net Zero Forums to engage local institutions with central government. We urge Ofgem to recommend a part of their remit is defining how effective coordination can take place at the sub-national level and in local – national engagement.
- **Simplicity:** This is a novel and challenging area of work at the local level, and clear and concise guidance is required to deliver a successful sub-national electricity market.

3. 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?

We agree with Ofgem's assessment that in "transitioning to net zero, planning the future energy system will require a mix of technical skills as well as a democratic mandate, and it is key that planning roles and responsibilities are assigned to the institutions best placed to perform them."

Ofgem notes that whilst local government have a democratic mandate to deliver local area energy planning and are developing such plans, they have challenging resource constraints and skills gaps, particularly around technical knowledge. We agree this could lead to challenges in ensuring democratic decisions are robust and effective, and so any change needs to be considered carefully with the likes of UK100 and the LGA.

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

The biggest blocker would be issues around resource constraints and technical expertise affecting many local authorities. There has also potentially been a lack of ambition in recent funding rounds to accommodate for example a mass roll-out of electrification of domestic heating. With the scale of Net Zero transition requiring radical activity over the next decade, a newly reformed electricity system at the sub-national level needs to be focused on catalyzing projects that support large levels of local renewable energy in a comparatively short time.

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

The 5 synergies outlined by Ofgem have the potential to create a robust, local electricity system and should be refined further to determine which type of model is the most effective to take forward in the next stage of consultation.

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

No.

7. 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?

Yes, we agree that risks around the time it may take to make complex changes that could be potentially disruptive and costly needs to be carefully considered. That is why we recommend setting up stakeholder workshops with local government and the DNOs to work through each model compared to the risks in developing it further.

8. 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?

Given the complexity of these models, we would encourage further stakeholder dialogue on these models in discussion with local authorities and the electricity utility companies like Electricity Northwest to further understand the benefits and challenges of each model.

9. 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.

We think careful discussion with the utility companies and local authorities are required to discuss this matter in more detail.

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

We think the biggest challenges in this process relate to the huge level of Net Zero transition required over this decade. Such a level of change is unprecedented in the energy market, and it has to be achieved in a remarkably quick time, not just requiring huge changes to the electricity system but a cohort of specialist staff to deliver them.

Developing close partnerships between all the agencies that need to deliver such change in rapid time, and in understanding the challenges of local actors in delivering on them, are critical if successful implementation of these proposals is to be effective.

11. 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)?

We recommend Ofgem discusses this matter with UK100, the Local Government Association and specialists like Energy Systems Catapult to see if short-term benefits can be delivered with the assistance of local government in interaction with the electricity sector.

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

The current cost of living crisis, which has been particularly created through large increases in gas prices, has created an even greater urgency for a move from fossil fuels to the renewable electricity sector, as well as for reducing energy imports. These challenges are likely to go on for some time, and they should be considered as to their deep impact on the energy sector, which has dramatically changed over the past year alone.

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

We think one of the most important interactions Ofgem needs to undertake is more detailed engagement with UK100, the Local Government Association, specialist energy policy groups and city region and individual local authorities to discuss the needs of local government in being active within the sub-national electricity network.

If you have any queries with the content of this response please contact Sean Morris, Policy and Strategy Lead in the Manchester Climate Change Agency – sean.morris@manchesterclimate.com.

Yours sincerely,

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