

Ofgem Future Systems Governance consultation (March-May 2023)

Organisation: York & North Yorkshire LEP Response

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Energy system planning

Q1. Do you agree with our proposal to introduce Regional System Planners as described, who would be accountable for regional energy system planning activities? If not, why not?

Regional System Planners (RSP) would be a useful addition to the landscape, with a clear remit and accountability for delivery of the functions detailed in 3.7. We welcome the proposed role for RSPs to undertake strategic planning, facilitating coordination between local actors and their own strategies/plans. Through York and North Yorkshire LEP's experience developing Local Area Energy Plans for the sub-region, we recognise the need for greater coordination and coherence between plans to ensure that changes to the energy system can occur at the pace required to meet our ambitious decarbonisation targets. Greater coordination should also ensure that investment can be secured and deployed at the level required.

In the North East and Yorkshire, nascent cross-vector working is much improved over the last year, and as such we would warn Ofgem not to lose this emerging expertise by wiping out LAEP teams within DNOs and GDNs – although a national remit and framework is needed, the RSP role can be flexibly applied to the specific regional context. It is disappointing that such progress has gone unrecognised in the ED2 determinations, with cash for strategic investments to aid decarbonisation being cut dramatically in their determinations (compared to a well-designed, co-developed Business Plan), despite recognition that such interventions are an ideal output of the RSP (3.15).

Q2. What are your views on the detailed design choice considerations described?

We strongly support the need for accountability and that the role is independent. At a local level, stakeholder engagement has emphasised the importance of energy planning to be undertaken by a trusted and independent body. It is, therefore, important that the RSP is also an independent actor.

Furthermore, we strongly support that regional coordination must ensure a place based understanding of how the regional energy system is planned. Linked to this, we encourage you to further consider how the RSPs role will build upon the existing LAEPs that have been developed in many areas.

In developing a new role within a new national body, there is a risk that regional expertise that the role must tap into is slow to materialise – 2025 is too long to wait to make progress on this. The significant delays can be overcome by siting some of the responsibilities now with existing regulated bodies (such as MCAs, LAs and DNOs), preparing them for the roles they are due to play and allowing them to support the RSPs once in place, rather than giving the RSP the difficult job of commandeering a workforce in already-stretched local government teams.

Q3. Do you have views on the appropriate regional boundaries for the RSPs?

From the perspective of a LEP/MCA area, the regional boundaries should be no larger than the current operation areas of the DNOs. Obviously cross-boundary collaboration will be key. It may be sensible to align with existing DNO footprints, or even the Net Zero Hubs, who can potentially be an

existing coordinator for the links to local government representatives. This would support interaction with LAs and MCAs who can provide more localised expertise.

Q4. Do you agree that the FSO has the characteristics to deliver the RSPs role? If not, what alternative entities would be suitable?

It is difficult to form an opinion on this as the FSO has not yet been created. We welcome that it is a national body to provide consistency, but it must allow for a flexibility at a local/regional level.

The track record on local engagement from its predecessor (NGESO) on decarbonisation and planning has been poor, and as such there is limited confidence that the FSO will have the true and deep regional connections required to develop swift change. Northern Powergrid and Northern Gas Networks have jointly been making steady progress into the future system planning space, despite the lack of clear remit in both ED1 and ED2 – the value of this experience should not be lost in the establishment of the RSP, and flexibility for the application of responsibilities across a number of actors should be considered when assessing region-by-region needs.

Flexibility

Q5. Do you agree with our proposal for a single, neutral expert entity to take on a central market facilitation role? If not, why not?

This seems sensible – a centralised word of truth that works closely with the DNOs and other market enablers to create a coherent system should make the environment more conducive to growth, and ease the transitions between transmission and distribution level asset investment. It is key that the role is independent and decision-making processes are transparent in order to build trust and ensure legitimacy.

In addition, it is critical that the new function learns from best practice conducted elsewhere (rather than normalising to the mid-ground/lowest common denominator).

Q6. Do you agree with the allocation of roles and responsibilities set out in Table 2? If not, why not?

We do not have enough experience in this area to comment.

Q7. Are there other activities that are not listed in Table 2 that should be allocated to the market facilitator or other actors?

We would welcome further information around how the role of actors will link into the overall governance structure and how accountability will be ensured. Linked to this, activities to enable effective governance may need to be added to the list of key activities.

Q8. What are your views on our options for allocating the market facilitator role?

The FSO seems a sensible home for the role – mechanisms can be put in place to ensure the impartiality of that function, without having to add significant changes to the running of an existing organisation (e.g. ENA). This would also enable a coordinated approach across strategic planning and market facilitation.

However, a new organisation with a regulatory role could be set up alongside the FSO (in collaboration with the ENA and other significant partners) to carry out this function – this would

ensure the trifecta of impartiality, relevant experience and regulatory relevance. The speed of this change may be an issue, so perhaps an interim arrangement may be appropriate to begin this work.

Q9. Are there other options for allocating the market facilitator role you think we should consider? If so, what advantages do they offer relative the options presented?

No comment.

Real time operations

Q10. Do you agree that DNOs should retain responsibility for real time operations? If not, why not?

Yes.

Impact assessment

Q11. What is your view on our proposed approach to the undertaking of an impact assessment as outlined in Appendix 1?

We agree that an impact assessment is required and the approach seems sound.

Q12. What is your view on the most appropriate measure of benefits against the counterfactual?

Speed of change to a net zero economy, and whole economy cost-effectiveness of that change – including the elements that a highly functional energy system will enable (e.g. shift to EVs, AHSPs). Government targets for net zero are insufficient, but as a bare minimum, the energy networks need to be facilitating meeting those targets, not continuing to hold them up – therefore this must be central to the governance arrangements.

Q13. How should we attribute these benefits between the governance changes in the proposed option, and other changes required to achieve the benefits? We particularly welcome analysis from bodies that have undertaken an assessment of benefits, specifically how those benefits might be attributed to different policy reforms that are required to achieve those benefits.

A weighting of benefits based on impact (if a change is made, how much decarbonisation does it enable) and influence (if this actor does not enact change, can/will other actors be able to enact it in their absence).

Q14. What additional costs might arise from our governance proposals? We welcome views both on the activities that may arise and cause additional costs to be incurred, as well as the best way to estimate the size of the costs associated with those activities.

Transitional costs will be necessary to include It is importance that stakeholder engagement costs are fully costed in.

Also, do not underestimate training and marketing costs to recruit high-quality candidates into these roles, especially attracting them from other industries.

Q15. What additional costs may arise from sharing functions with several interacting organisations? We welcome views on set up cost, lost synergies, and implementation barriers.

Robust data management systems, training on how to use them, and an increased programmatic approach to meaningful engagement with all key stakeholders. Implementation barriers may be encountered if some DNOs/GDNs are behind in their thinking in this space – however, this should not

cause set-up delays as some will be able to engage meaningfully from day one and the pace of change should be set with those front-runner areas.

Other Comments

Following the development of York and North Yorkshire's Local Area Energy Plans, we have identified three key barriers to implementation:

- ***Finance*** - *new mechanisms to achieve the £23billion of investment required*
- ***Community engagement*** - *hyper-local engagement is needed to enable communities to shape their local energy system and support the development of community energy*
- ***Governance*** - *regional governance is required that brings together key stakeholders to deliver decarbonisation and infrastructure improvements at the pace required, linking to the local and national level.*

As the governance for energy is reviewed at a national level, we urge you to consider how national governance can support regional stakeholders to overcome the above challenge. The establishment of RSPs could have a key role here.