

Hitachi Energy's response to Ofgem Consultation: Future of local energy institutions and governance

Introducing Hitachi Energy

Hitachi Energy is an exciting global business founded on two iconic companies – Hitachi and ABB Power Grids – with a ground-breaking heritage of innovation in pioneering technologies. As a global technology leader, we serve the energy, industrial, mobility, IT and smart cities sectors. We are a major investor in the UK, with a turnover of £500 million.

We are advancing the world's energy system to be more sustainable, flexible and secure. As a technology leader, we collaborate with customers and partners to enable a sustainable energy future – for today's generations and those to come. We are already helping to bring clean energy to millions of UK homes by connecting the world's two largest offshore windfarms at Dogger Bank and Hornsea to the grid. We strongly believe that the UK can lead the world in creating a secure, low cost, Net Zero-ready energy system through investing in technologies to make the energy system more sustainable, flexible, and secure.

Question 1 – 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?

We agree with the proposal to introduce Regional System Planners (RSP) as described. Meeting regional needs within a national framework is a sensible approach that will help ensure that the energy system functions at the sub-national level to enable the right level of investment to be targeted effectively, in the right areas, and at the pace required to deliver upon the UK's net zero and energy security objectives.

To ensure that RSPs are effective once instituted, we urge that they should have sufficient resource and capacity to consider the proposed "whole systems" approach. On a related point, when developing regional energy system plans, consideration should be given to local transport planning and how transport sector expertise is considered and integrated into local energy plans, so as to accelerate the decarbonisation of transport, particularly the rollout of electric vehicles.

Question 2 – What are your views on the detailed design choice considerations described?

We welcome the proposal to introduce a new independent actor responsible for developing whole system plans, right across the energy system, within its regional branches' respective geographies. We agree that such a RSP should be regulated and that they should be accountable, whilst also recognising the continued importance of other local actors within regional energy systems across the UK.

In consideration of the skills and expertise required by the RSP, we agree that the advantage of the proposed approach is that the source of funding for the skills development required is very clear and via the energy system, so long as this is funded properly.

We would also reiterate that the RSP needs to adequately engage in all areas of the region – and thereby avoiding disproportionate focus on key population centres, for example – particularly regarding the various economic and transport plans that are present within each region.

Question 3 – Do you have views on the appropriate regional boundaries for the RSPs?

We would agree with the proposed approach, in that the role of the RSPs should be determined prior to any decisions on the shape and extent of each RSP. The priority in shaping the RSP should be ensuring that it is fit for purpose in achieving the strategic objectives set for the actor.

The decision around how such RSPs are distributed across the UK – in the designation of their geographies – will be very important to get right in order for this new actor in the energy system to function as the proposals envision. To achieve this, it will be important to ensure that the structural framework that guides the formation of RSP regional branches is flexible enough to accommodate the wide-ranging needs of the UK's varied regions, whilst also ensuring that these regions connect in a logical and effective way.

Of course, the larger the geography an RSP branch is responsible for, the greater scope there is for complexity of such a region's needs. The greater the size of an RSP branch and, therefore, the increased responsibility – both in the sense of demographics and geography – leads to greater risk that it will be more challenging to engage with the necessary stakeholders to determine that region's needs effectively.

Alongside this, as is acknowledged in the consultation document, the layer of devolved governance across the UK's nations and regions – with little symmetry between each devolved organisation – further complicates the process of determining regional boundaries. Our only comment here is that, in recognition of this diversity between the various devolved governance structures within the UK, that the guiding principles of shaping regional boundaries should not favour one type of devolved government over any others and should instead be considered on a case-by-case basis according to the bespoke requirements of each region.

Question 4 – Do you agree that the FSO has the characteristics to deliver the RSPs role? If not, what alternative entities would be suitable?

It is certainly credible that the FSO could deliver the RSPs role. The benefits of consistency in learning and national coherence of the proposed RSP are significant advantages over this role being fulfilled at the local authority level, however, we would stress that this would require significant progress around the level of skills and expertise that the FSO possesses, which can only be achieved through adequate resourcing of the FSO.

Question 5 – Do you agree with our proposal for a single, neutral expert entity to take on a central market facilitation role? If not, why not?

We agree with the proposals outlined regarding the central market facilitation role. To ensure this entity is effective in delivering this role, it will be vital to ensure that there are mechanisms for DNOs to have meaningful input into product and service design. This input from DNOs will be critical in avoiding the stifling of innovation around network design and will introduce a degree of flexibility in system planning. In practice, the FSO will need to create channels for DNOs to suggest improvements to the system and new systems.

Question 6 – Do you agree with the allocation of roles and responsibilities set out in Table 2? If not, why not?

Our views in relation to the central market facilitation role can be found in our response to Question 5.

Question 7 – Are there other activities that are not listed in Table 2 that should be allocated to the market facilitator or other actors?

Our views in relation to the central market facilitation role can be found in our response to Question 5.

Question 8 – What are your views on our options for allocating the market facilitator role?

Our views in relation to the central market facilitation role can be found in our response to Question 5.

Question – 9. 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?

Our views in relation to the central market facilitation role can be found in our response to Question 5.

Question 10 – Do you agree that DNOs should retain responsibility for real time operations? If not, why not?

We agree that DNOs should retain responsibility for real time operations. However, we would encourage Ofgem to consider opportunities to develop and embed mechanisms that encourage greater sharing of best practice between and with DNOs. Whether the RSPs themselves can be a part of this solution, we are unable to comment at this stage. However, there are clear opportunities for the FSO to play a meaningful role in this regard.

Question 11 – What is your view on our proposed approach to the undertaking of an impact assessment as outlined in Appendix 1?

No comment.

Question 12 – What is your view on the most appropriate measure of benefits against the counterfactual?

No comment.

Question 13 – How should we attribute these benefits between the governance changes in the proposed option, and other changes required to achieve the benefits? Ofgem 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.

No comment.

Question 14 – What additional costs might arise from our governance proposals? Ofgem 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.

No comment.

Question 15 – What additional costs may arise from sharing functions with several interacting organisations? Ofgem welcome views on set up cost, lost synergies, and implementation barriers.

No comment.