



Northern Powergrid response to the Ofgem Consultation: Future of Local Energy Institutions and Governance

KEY POINTS

- Ofgem has proposed a sensible direction and conclusion to its review of local energy institutions and governance. It should now move on to implementation with the important detail to get right. The review of Future Systems and Network Regulation will need to stay aligned with this direction.
- We welcome the recognition of the importance of one party (the DNO) being accountable for the reliability and safety of network operation. This resonates strongly with our stakeholders as a critical element of our service delivery.
- The new role of Regional System Planner (RSP) should be a central body that faces regionally with responsibility for operating a *consistent national planning framework* across the energy industry.
 - Its planning focus should be cross-vector, long-term and high-level.
 - A consistent national approach is required; as an overly regional approach would result in inherent inconsistency.
 - The role needs to be additive to the activities currently carried out by local authorities and network companies.
- Clear roles, responsibilities and remits are needed for each of the parties, with clear boundaries defined for the Network Operators and the new Regional System Planners (RSPs).
 - DNOs must retain accountability to efficiently plan and operate the electricity network.
 - The RSP regional energy system plans need to be explicitly informed by Local Area Energy Plans (LAEPs) produced by local authorities.
- There must be a route to address conflicts around planning assumptions.
 - Licence obligations are necessary – needed to be able to hold the RSP to account.
 - It must be clear for all parties what escalation routes are available to resolve any disagreements.
 - DNO accountability to its customers must not be diluted. In particular, there needs to be clear delineation between energy system planning and network planning.
- The choice of the Future System Operator (FSO) for the new RSP role is sensible and does not create an unmanageable conflict of interest problem.
- Centralising the market facilitation and IT platforms again feels like the right thing to do but even in that, roles and responsibilities must be clearly defined.
- Ofgem's position on DNO:DSO separation is the right one and we are already seeing the benefits for stakeholders and customers.
 - Functional separation with a separate business unit with openness and transparency commitments is being implemented as set out in our ED2 business plan.
 - Local area energy engineers are providing good engagement with regional stakeholders and supporting place-based local plans and project delivery for decarbonisation.
 - The change programme for both the Access Significant Code Reform implementation and the transmission connections reform is also being run through the DSO business unit, enabling customer impacts to be considered and addressed in one place.

Detailed responses to the questions

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?

1. Broadly, yes, we agree with the proposal for Regional System Planners; a centralised coordination role for energy planning is necessary to deliver a consistent planning framework and provide even-handed analysis to support network investment decisions.
2. To be effective in delivering consistent and authoritative analysis it is important that the RSPs are viewed as a *national centrally-managed function that faces regionally* as opposed to being the 'voice of the region'. The role of local champion or advocate is already present in the local authorities and the existing network companies that serve their needs. An overly regional approach would result in inherent inconsistency between energy system plans in different parts of the country.
3. A clear delineation of roles, responsibilities and remits for each party is essential to ensure the introduction of RSPs improves planning, rather than perpetuates the issues this reform seeks to resolve.
4. Network Operators must retain accountability to efficiently plan and operate the electricity network. Network Operators have the duty and capability to make the most efficient investment decisions at a local level. In addition, Network Operators must clearly retain the responsibility for agreeing investment plans and funding with Ofgem in order to ensure accountability for delivery.
5. New RSPs should be responsible for delivering and applying a consistent *planning framework*; identifying the societal/customer outcomes all energy networks need to support, providing a consistent long-term cross-vector scenario by region and providing consistent, even-handed analysis of investment options to support Ofgem in decision making.
6. DNO accountability to its customers for planning and delivering network investment must not be diluted. In particular, there needs to be clear delineation between energy system planning and network planning.
7. The RSP regional energy system plans need to be explicitly informed by Local Area Energy Plans (LAEPs) produced by local authorities. Network companies will then use the output from both to inform local planning and investment decision making.
8. There must be appropriate governance in place to ensure all parties are held to account in their roles and there is a clear route to resolve conflict. The new RSPs must be subject to licence obligations to define their role and be held to account where necessary.

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

9. We agree with the points raised in the consultation around accountability of the RSP and it needing to be a regulated body. In order to carry out its role effectively the RSP should be subject to licence conditions to ensure its role and responsibilities are clear. There must be a clear and effective governance structure in place to define how all actors can seek resolution when there is disagreement.
10. In addition to the licence condition, Ofgem should give consideration to how the new RSP will have legitimacy with regional stakeholders that are delivering and benefitting from the transition to a low carbon energy system. An effective RSP will ensure that all the parties get on the same page as well as assist with the direction of national policy. To do this it needs to consider involvement with the Local Authorities that are responsible for the place-based action planning and are seeking to ensure that infrastructure is delivered in order to enable these local developments.
11. We agree that the RSP role should be delivered as a central body for the whole of GB – this should provide consistency in delivering and applying a planning framework, ensuring that the same even-handed analysis of investment options is applied to each region. This will support Ofgem in decision making, providing an independent source of analysis and expertise, breaking down some asymmetry of information. This central oversight, moderation and synthesis of a regional perspective is a vital step to provide a check and balance for regional preference.
12. Regional coordination must ensure a place-based understanding of how the regional energy system is planned, as such we suggest the implementation of the RSP should not encroach on already productive relationships between local bodies and network operators. In areas where good local engagement is already ongoing the RSPs should draw from them rather than play a central role. In areas where there is insufficient local engagement, the RSPs should offer a framework and create an obligation for that engagement, but again should not be the orchestrator.
13. Examples of local governance structures are provided by Transport for the North and committees established by the Environment Agency. We do not advocate that either provides an appropriate solution to be duplicated – in the case of RSPs a licence condition is required - but they do offer some elements that could be used to engage other unregulated entities such as local authorities.
 - Transport for the North have a board made up of Local Authority members – and as such are led by the communities they serve.
 - Committees established by the Environment Agency advise on allocation of resources for activities such as flood defences. Again, there is governance in place that provides legitimacy for the advice being generated with representatives of parties benefitting from such schemes.

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

14. The RSP should operate at a level that enables and promotes regional ambition, allowing regional stakeholders such as combined authorities to drive the pace of decarbonisation in their locality.
15. Northern Powergrid has six mayoral combined authorities (assuming that the devolution in the North East proceeds as planned in 2024). Considering there is already a strong working relationship between Northern Powergrid and combined authorities, aligning the RSPs regional boundaries to the electricity distribution company boundaries is a sensible starting point.
16. Given that the network companies are going to have to consider and reflect the RSP's national/regional plans in their own plans, the RSP should make sure that its output can either be broken down into or combined together to create an output that maps over the network companies' geographic areas (e.g. the 14 DNO licence areas).

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

17. The FSO is a credible candidate to take the RSP role. There is a significant need for a 'digital foundation' and as set out in the consultation the FSO has the capability to support this requirement. The ability to engage with stakeholders at a local level must also be given the same level of importance as this is critical to the RSPs role.
18. Additionally, as an individual actor and public entity in the GB electricity industry it is well placed to provide an independent input.

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?

19. Yes, we agree that a single neutral entity would help align market actors and accelerate the development of flexibility markets.
20. The conflict of interest that would arise between different functions within the FSO is manageable with internal functional separation in combination with requirements for openness and transparency. Holding the RSP to account with licence conditions and a supervisory board (as per the Transport for the North example already given) would provide more checks and balances to earn the trust of stakeholders.
21. The FSO is already undergoing comprehensive and rapid business change with its formation. It should be recognised that this is an extension of the current Electricity System Operator (ESO) remit and will involve building new capability as well as capacity to enact these new duties. The capability that will be new is the regional engagement.
22. As a DNO, we have significantly enhanced our regional engagement capability over the past decade in line with the requirement to build stakeholder engagement into our business planning, service delivery and innovation activities. In discussing the RSP proposal with our stakeholders they are clear with us that they do not want Northern Powergrid to take any steps back from the

engagement we are involved in – particularly on how we deliver the networks and services required to meet the regional decarbonisation challenge. There is also some scepticism as to what value and capability the newly formed FSO could bring in the short to medium term.

23. This informs our proposal that the RSP is established as a centrally-managed organisation that faces regionally where it draws down its duties from Ofgem rather than draw up its duties from network licensees. Its value is in the planning frameworks and consistent GB application as opposed to more standalone local plans.

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

24. In general, yes, the clarity of thinking is helpful.
25. The network operators should have a role in product development. The DNOs understand the system need and possible applications of flexibility and thus can offer expertise and innovation in developing new products. Central standardisation of these products should be carried out by the market facilitator but should not block innovation.

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

26. We consider the list to be comprehensive.

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

27. FSO is a sensible option to fulfil this role. It is an individual actor and public entity in the GB electricity industry, and thus is well placed to provide an independent role.
28. However, as for the RSP role, the FSO will also need to develop new capability to perform this new role well. The market facilitation across multiple new and emerging markets with multiple buyers of services is not a role that has been performed previously by any party.

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?

29. No alternative options to suggest.

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

30. Yes. This is an important feature of Ofgem's proposals and one that we have advocated since 2018 when we started sharing our DSO vision with our stakeholders. A position that generated strong support.

31. We welcome the recognition of the importance of one party (the DNO) being accountable for the reliability and safety of network operation. Fundamentally, real-time operations cannot be separated from accountability for reliability and safety without the introduction of significant risk.

32. This resonates strongly with our stakeholders as a critical element of our service delivery.

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

33. The counterfactual suggested in the approach cannot be reliably estimated due to the recent implementation of DSO roles, licence conditions and incentives. All network operators are working at pace to implement a level of change in the ED2 period to meet the DSO requirements, which goes far beyond what was seen in ED1. As such, any estimate of the benefits that would also occur under the counterfactual are subject to a large error – we welcome the approach of taking a low, medium and high approach as viewing a range rather than point value is more credible in the face of the pace of change and uncertainty.

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

34. As noted in our response to question 11, the task should be approached from a range of viewpoints as opposed to focussing on one answer.

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.

35. This question is best answered by those with reference examples.

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.

36. In previous interaction with Ofgem and also learning from the FSO separation project we note that it is data and systems costs that are the most material.

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.

37. As mentioned in response to question 14, information technology (IT) costs are the most material.

38. The key barriers are the risks inherent in large complex IT projects (time and cost) as well as organisational capability (as already recognised by Ofgem). On this latter point, and as we have already observed in relation to the suggestion of the FSO to take on RSP and market facilitation roles, there is no party that today does all that is set out by Ofgem in its consultation. As such there is risk associated with the implementation of these new responsibilities regardless of which party is appointed.