

9th May 2023

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Dear Sir/Madam,

Consultation: Future of local energy institutions and governance

Thank you for the opportunity to comment on the consultation. The Greater South East Net Zero Hub (referred to hereafter as “the Hub”) welcomes Ofgem’s recognition in the Consultation of the potential role of local government in future energy system governance and the functioning of a network to achieve Net Zero. Further, this Consultation represents a real, positive opportunity to embed place into energy system planning.

We previously responded to Ofgem’s Call for Input in May 2022 during which we gathered views and evidence from interested local authorities from across the South East. As a general point, the local authorities with which the Hub has engaged, expressed the view at the Call for Input that they recognise the multiple benefits of the energy transition, whether that is around the primary drivers set out in the Consultation, as well as the creation of more resilient communities, clean economic growth and attracting investment into their local areas or creating more and higher value employment opportunities. Many local authorities have said to us that they wish to play a role in realising these benefits collaboratively with others.

It also important to note that any role for local authorities in the energy system needs to be informed following proactive and meaningful engagement. However, the local authorities that have spoken to us have expressed concern that many local authorities lack the capacity or capability to meaningfully engage or understand the issues and consequences of system operation or change. Any considerations to change system governance should, therefore, be designed and implemented in a way that local authorities can understand and translate into their own thinking and planning processes whilst not placing an unreasonable burden on their finite resources. The question of who is to pay both for a new system governance and the active participation of local authorities is one that has been posed to us during our discourse with stakeholders in the Greater South East.

Set out below are some of the viewpoints and questions that we have gathered in response to the questions posed in the Consultation.

Proposed reforms - 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

We generally agree with the Regional System Planner (RSP) model approach and wish to see that it works towards whole energy system integration. Realising “a framework of interacting organisations within each region, which all feed into regional energy system planning” will need different actors to be fully cognisant of the context and role that they play and have a clear understanding of the system now and for the future based on a set of agreed principles.

Common agreed assumptions:

The Consultation states that the RSP will be responsible for developing and owning the regional plan based on a set of critical planning assumptions. We question, for example, whether all actors are familiar with and in agreement about future energy scenarios on which many system planning decisions will be based. There may be differences of viewpoint, for example around the pace of decarbonisation at local level compared to the Future Energy Scenarios, or the types and rates of technology deployment. We have also witnessed local authorities who are yet to understand the consequences of different scenarios on their area's decarbonisation pathway and are looking for guidance. We consider that the RSP can play a vital role in informing local pathways. This raises a series of questions, however:

- Will the RSP have to arbitrate and decide based on a common view for that part of the system?
- How will the RSP manage those conflicts – will their decisions be based around the benefit of the regional system, the national system or some other criteria?
- What if stakeholders disagree with the assumptions?
- What if assumptions need to change during the plan cycle?
- How will this RSP Model Approach be managed?
- How will differences in key assumptions between regions be resolved?

Investment:

Each RSP will develop and own their Plan and this will drive network investment. Furthermore, investment occurs throughout the energy system, not just on the network.

- How will differences in system requirements and investment be managed between regions (as yet defined) or between areas within regions?
- How will others with investment plans, including their investment cycles and assumptions, be accommodated or aligned with network investment to achieve optimal outcomes at the most affordable cost?

Q1. continued

Coordination and coherence:

The Consultation states that *'the existing actors plan for their own assets and within their own competencies. We are proposing that the RSPs focus on their coordination and coherence.'*

- What would effective coordination, facilitation and participation between local actors look like?
- From whose perspective will this be judged?
- What if local actors' sub-plans (e.g. LAEPs) are at odds with the regional energy system plan?
- How is this managed?
- If the actors in a region object to the regional energy system plan who has final say?

Data and Information:

The Consultation discusses data and information commenting *"there are critical information links between functions"*.

- How will data and information be managed by the RSP, and to whose benefit?
- How will the cost of aligning data and information systems and flows between those system be met?
- Will the expectation be that actors will need to align to a standardised data management system?

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

We agree generally that a RSP function should be independent for the reason of accountability, that the new role should be answerable under regulation and for reasons of national coordination sit within a national body. However,

- If the TSO and RSP functions are to sit within one FSO body, how will the RSP and Transmission System Planning functions interact given that local areas face connection and capacity problems that are caused by constraint on the Transmission Network?
- What if there is conflict about investment planning and delivery between the two system planning functions?

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

We anticipate that the Electricity and Gas Distribution Network Operators will wish to see the RSP adopt the current boundaries of their licensed areas for the regional system plan. This may be the most expedient approach, although for various reasons this has been incompatible with public administrative boundaries and other strategic planning areas, for example regional transport planning. Some public authorities straddle more than one Electricity or Gas Distribution Network Operator licensed area which creates duplication of effort and confusion.

We would wish to see any new boundaries meet the tests of functional coherence and accountability to local areas. We also suggest that boundary changes could help in those areas which are currently hampered by misaligned administrative boundaries.

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

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Proposed reforms: market facilitation of flexible resources

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?

The single cross-vector markets authority proposal would ensure consistency between local markets and also be able to see and intervene when necessary to avoid scavenging of value between markets and/or to the detriment of whole system values (e.g. affordability to the consumer, decarbonisation, system resilience).

The markets should be designed and operated to encourage innovation, allowing testing of ideas that currently are not allowed by regulation or code in a more dynamic and timely fashion with lower entry cost and bureaucracy than currently allowed.

The design of flexibility markets should support diversity of participants and remove cumbersome procurement processes.

We would also wish to know how this will interact with capacity and national balancing markets.

- Would existing organisations (e.g., Elexon) become part of the new facilitation role?

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

We would wish to see that market rules-setting and change mechanisms kept a separate function from market operation to ensure that there is no conflict of interest.

Table 2 (Proposed roles and responsibilities) makes no reference to innovation.

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

Table 2 makes no reference to a regulatory function.

- Does that remain with Ofgem?
- Has Ofgem demonstrated sufficient robustness, foresight and dynamism regarding regulation of the markets?

Further, there is no mention in Table 2 of a scrutiny function which represents the interests of consumers/generators and other actors affected by market performance.

- Again, will Ofgem take on that role as consumer champion, again raising the question about accountability and trust?

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

Emphasis in the consultation document on demand management as one of the key components of flexibility should not put undue pressure on the many small players to act beyond their capabilities.

Intermediaries will have a part to play and will need to be regulated effectively. We would wish to see a social value test included in any licence to operate.

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?

The function will need to demonstrate independence from those that would benefit from its decisions.

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

We generally agree although we need to see DNOs which are far more responsive to local need and change rather than being driven by system need. The System should support the consumer not the other way round.

We hope that our comments are helpful.

Yours sincerely,



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