



Ofgem consultation: Future of local energy institutions and governance

UKERC Response

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Introduction to UKERC

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Introduction to submission

We welcome the opportunity to respond to this consultation and commend Ofgem for bringing forward a consultation on the pressing topic of local energy governance reforms. However, we would like to note that there has been some difficulty in replying to the questions on regional system planning due to the high-level nature of the current proposals. The lack of clarity about the role and remit of the Regional System Planner (RSP) provides scope for multiple interpretations of the proposals, particularly in relation to how the RSP role would develop holistic, cross vector regional plans. It is unclear if this would be through regional optimisation of existing planning processes (gas and electricity Distribution Future Energy Scenarios and Network Development Plans); or if the RSP would seek to carry out its own analysis, in which case the networks could expect to have a much reduced planning role as investment decisions would be informed by regional plans? Both of these options would need changes to the regulatory frameworks for the distribution companies, so we welcome the accompanying consultation on Future Systems and Network Regulation.

Although there is ambiguity on the role and structure of the RSP, we support the overall vision for the consultation and propose that a number of design principles should be maintained regardless of remit. Specifically:

- The RSP should be formed as a public and independent regulated entity
- The Future Systems Operator (FSO) is likely to be the best option to provide the competencies needed for the RSP
- That RSP should maintain a presence in the regions they serve

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 welcome the proposal to introduce a Regional System Planner (RSP) and believe the regional coordination role between the national and local vision for net zero is a vital missing element. We also wish to highlight that there needs to be greater clarity around the planning functions of the RSP, how this will tie into the envisaged regional system plan and how this will affect the current planning functions of the network companies.

Paragraph 3.7 states that the RSP would develop plans using local inputs from Distribution Network Operators (DNOs), Gas Distribution Network Operators (GDNs), local authorities (LAs) and other sources. This has the potential to create some duplication as business planning requires the GDNs and DNOs to engage with local stakeholders, produce Business Plans based on customer and stakeholder needs, and to produce investment forecasts with scenario modelling at their base. Despite these existing network planning and engagement processes, there remains a lack of an independent, whole system view of regional needs and priorities; RSPs

should fulfil this role. We therefore consider that the RSP should develop independent and nationally standardised approaches to regional planning assumptions, including analysis and engagement in each region.

There is currently a great deal of variation in local approaches to energy planning across GB (including within DNO and GDN areas and, significantly, between England, Wales and Scotland). ‘Heat Network Zoning’ and zoning coordinators are also being established in England and the RSP proposals do not currently make clear how they would interact with these requirements. Given this current ‘patchwork’ approach to sub-national planning, a key objective of the RSP should be to create consistency and standardisation in the development of regional planning assumptions. This should be underpinned by robust, participatory processes with local and regional actors, particularly those with a democratic mandate such as local and combined authorities and devolved governments. However, careful consideration needs to be given to how to build on existing data sources and engagement processes to avoid duplication whilst maintaining independence. This should be a major focus in the systems and regulation consultation for the distribution networks¹.

The various frameworks for local energy planning across GB (for example the requirement for LHEES in Scotland and the lack of a formalised LAEP framework in England) creates the potential for different levels of data availability or participation across regions. Indeed, there is extensive evidence of variation in local energy planning approaches and outputs between devolved nations and across different local authority areas^{2,3}. The overarching framework for the RSP should consider how to address these standardisation challenges. Likewise, Distribution Future Energy Scenarios (DFES) and Network Development Plans (NDP) currently play an important role in informing energy network investment decisions and include engagement with local government and stakeholders. There will need to be clarity on how these current planning tools will provide input to RSPs to limit duplication of roles, and how these arrangements will be further formalised, standardised and integrated.

In addition, there are multiple consultations and reforms in process that are related to these proposals, specifically REMA, Future Systems and Network Regulation, The Future of Distributed Flexibility, and the Data Best Practice Guidance and Digitalisation Strategy and Action Plan Guidance. More consideration is needed of the interactions between proposals, and publication of the ‘pain point’ analysis referenced in the consultation would also be valuable. Further analysis should also

¹ Ofgem. 2023. Consultation on frameworks for future systems and network regulation: enabling an energy system for the future. <https://www.ofgem.gov.uk/publications/consultation-frameworks-future-systems-and-network-regulation-enabling-energy-system-future>

² Britton and Wade. 2022. Institutional Landscapes for Local Energy Systems: Mapping England, Scotland and Wales. <https://ukerc.ac.uk/publications/institutional-landscapes-for-local-energy-systems-mapping-england-scotland-and-wales/>

³ Energy Systems Catapult. 2021. The future of Local Area Energy Planning in the UK. <https://es.catapult.org.uk/report/the-future-of-local-area-energy-planning-in-the-uk/>

provide an assessment of the success of existing mechanisms to facilitate planning across networks (such as the Coordinated Adjustment Mechanism).

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

We support the focus on the independent, cross vector remit of RSPs and consider that it is essential that these core design choices are retained in the final RSP proposals. In addition, we recognise the place-based nature of energy system change and welcome the commitment to the meaningful participation of local and regional organisations with a democratic mandate. As noted in Q1, details of how this meaningful engagement will take place across the diverse political geography of GB are currently lacking and we emphasise the importance of formalising structures to support this at the local and combined authority level.

We include comments on design choices relating to regional boundaries and the most appropriate entity to deliver RSPs below in response to Q3 and Q4.

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

We consider that further analysis is required to inform the most appropriate regional boundaries for RSPs. This should, as a minimum, map existing technical and institutional boundaries (for example DNO and GDN network areas, transmission regions, and administrative boundaries of local and combined authorities) and develop criteria for determining RSP regions. This analysis should be publicly available and incorporate the views of stakeholders.

We note that RSP boundaries are unlikely to be coterminous with existing network areas so a key role of RSPs is to coordinate data across multiple network areas and negotiate interactions. We view this as a core function of RSPs and their role should explicitly tackle integration across network areas as well as vectors.

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

Overall, we agree that the RSP should be a regulated entity and agree that the FSO, as a regulated public body may be best placed to deliver these competencies. We also agree that there should be regional 'arms' of the RSP. However, how these 'arms' would be decided would be dependent on the Regional System planner's mandate (see response to Q.3).

We, however, note that there are considerable uncertainties regarding the ability of the FSO to undertake this role. Specifically, it is not however clear how the FSO would ensure RSPs have both a consistent approach across GB, while understanding localities and regions. How would the FSO develop the necessary understanding of localities and regions? What local and regional sources of knowledge and expertise would be represented in RSP governance processes and structures?

We also note that heat decarbonisation is referred to only at a high level in the consultation, which risks RSPs becoming overly-focused on electricity planning (and intersections with gas), but neglecting regionally- and locally-customised heat planning. Sub-national governance structures for heat decarbonisation are developing, including plans for heat network zoning in England, and Local Heat and Energy Efficiency Strategies (LHEES) and heat network licensing in Scotland, and government-commissioned LAEPs encompassing heat in Wales. More detail is needed on how the Regional System Planning and Operations roles will interact with emerging heat decarbonisation plans, including heat network Zoning Coordinators, English regional net zero hubs, Scottish LHEES lead officers, Scottish Public Energy Agency and plans to establish a Welsh public energy company.

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?

We agree that there is strong evidence that current arrangements for flexibility markets do not allow the full value of flexibility to be realised⁴. There is a need to ensure that assets of all scales can participate across multiple markets and stack revenues. Standardisation of data and market access requirements, as well as improved access to information, are also required.

Overall, we support the proposal for a single, neutral market facilitator as best supporting the development of flexibility markets. The focus on market rules, product standardisation, and oversight is appropriate and we support the emphasis on independent market platforms continuing to play a central role in tenders and customer interactions.

The market facilitation role should also incorporate assessment of interactions between local and national markets. Specifically, arrangements should ensure that there is scope for geographically distinct approaches to be developed. For example, local energy market platforms may seek to charge a fee for the provision of local, green energy to domestic and commercial properties, which is then used to fund wider regional decarbonisation initiatives. The ability of these geographically defined markets to coexist with other platforms (operating nationally) needs further exploration.

The Greater Manchester Local Energy Market (GM LEM) project indicated that under current plans generators and consumers would retain the option of purchasing and

⁴ Hardy et al. 2023. Enabling Decentralised Energy Innovation. <https://www.ukri.org/wp-content/uploads/2023/02/IUK-03022023-Enabling-Decentralised-Energy-Innovation.pdf>

selling power into the local and national market. They suggest this could undermine local flexibility and system management as during times of high renewable output generators would likely look to sell their power on the national market, and during periods of low local renewable output consumers would likely want to procure power from the national market. The mandating of a single LEM platform to match and dispatch energy assets in a region is proposed as a solution, but would have implications for open and competitive markets and require regulatory change. Assessment of the relative benefits of risks and different approaches should be incorporated into the market facilitation role.

We agree that the ENA should not act as the market facilitator, for the accountability concerns raised in the consultation, and note wider concerns about the transparency of ENA ONP outputs evident in research in which we have been involved⁴.