



## Transport North East



### **Ofgem Consultation: Future of local energy institutions and governance**

The North East region is comprised of around 2 million people, three major cities, 71,000 businesses and £41bn GVA. The region has seven constituent Local Authorities and is a mix of urban and rural places, with distinct energy challenges and opportunities described within the [Energy for Growth Strategy](#). Energy is identified as a sector of strategic opportunity within the region's strategic economic plan. The region sits within the North East & Yorkshire net zero hub, part of the BEIS local net zero programme.

This response has been compiled by the North of Tyne Combined Authority, with input from Durham County Council, Gateshead Council, Newcastle City Council, North Tyneside Council, Northumberland County Council, South Tyneside Council, Sunderland City Council, and Transport North East. The North of Tyne Combined Authority (NTCA) is a Mayoral Combined authority which is a partnership of three local authorities in the North East of England, who work collaboratively across the wider region. The seven local authorities in the North East have recently agreed and consulted on a Devolution Deal which Government has confirmed is 'minded to' approve. All North East local authorities and combined authorities have declared a climate emergency, with most local authorities politically committing to reach net zero by 2030. This commitment has been strengthened through the establishment of a Net Zero North East England Partnership which is supporting the acceleration of regional Net Zero targets and ensure achievement of positive economic, social and environmental outcomes. The North of Tyne Combined authority is the accountable body for the Net Zero North East England Partnership and manages a regional net zero and energy programme.

Partners in the region are proactively collaborating on energy issues, investing in opportunities, and have a desire to participate in shaping policy of regional and national importance. As stated in the minded to North East Mayoral devolution deal, the government recognises the need to increase the North East's electricity network capacity to meet future electricity demand, including from industry. As set out in the Electricity Networks Strategic Framework, government is committed to ensuring that areas with a devolution deal, including the North East Mayoral Combined Authority, have a meaningful role in planning our future energy system for net zero, alongside other local areas as appropriated.

**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?**

*Yes, in principle we agree the introduction of Regional System Planners would be a useful addition to the landscape, with a clear remit and accountability for delivery of the functions as described in 3.7. However, more consideration needs to be given to the proposed governance of these bodies to ensure that they are, and are seen to be, sufficiently accountable to their*

local stakeholders and communities. An independent RSP must respect both Local Area Energy Plans and wider net zero plans put in place by democratically elected officials, ensuring they effectively facilitate the co-ordination and alignment of these plans with their own. Currently, LAEPs do not hold any statutory weighting and the methodology is inconsistent, often lacking in robust evidence at the local/micro/neighbourhood scale. For example, Energy Systems Catapult still use the road network to model which buildings/assets are connected to DNO infrastructure and they do not have robust models for costing hydrogen. So it maybe that where LAEPs do exist (and as they are refined), they are given stronger consideration. While every region will differ in terms of opportunities and requirements etc, consistent models, methodologies and data access for regional masterplanning/Local Area Energy Planning would drive this to occur rather than relying on organisation-level initiatives. However, the RSP role should be flexibly applied to the specific regional context and Local authorities must have substantial input.

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

The need for more effective coordination across institutions in the planning function is agreed but cannot be understated. This must go further than a tool-based approach, is critical and must be considered as a whole energy system function. In the near term this will help prevent the issues previously experienced in the North East, particularly around potential abortive/avoidable costs for connection charges and network investment, and project planning taking place based on estimated connection costs which then change substantially (e.g. for EV charging infrastructure). When seeking to install new EV chargers, significant connection cost increases between the quotation and delivery stages can make projects undeliverable or, at the very least, delay completion while budgets are adjusted. In the long term this will ensure effectively and efficiently aligned investment across institutions ahead of need (for example planning for phased roll-out of heat pump delivery in line with grid capacity). The RSP should collaborate with the new local Heat Network Zoning co-ordinators to ensure alignment.

We agree that accountability is a key factor to be considered. We understand the need for the RSP to be a regulated entity accountable to Ofgem to ensure it meets national energy system needs. However, local accountability is not addressed in the proposal. For the RSP to be effective in contributing to alignment between energy system and spatial planning and for it have local legitimacy, it is essential it has local accountability formally built into its governance structure.

The RSPs will need to balance the priorities of national energy system planning with those of local spatial planning. This requires them to be accountable both locally and nationally and strongly suggests that governance arrangements which formally include local authorities, combined authorities, as well as Ofgem (through its regulation) will be most effective.

The consultation asks for examples of partnership arrangements and best practice coordination structures. There are some examples of coordinated planning across institutions, e.g. at a City level, which have led to better outcomes and aligned investment, though this is ad hoc and is not always continuous over a long period of time. Without effective coordination of planning, investment may be made in dormant/oversized assets on the network in response to perceived demand from partners which in turn is not realised, leaving excess capacity on the network and not maximising value from the investment.

The development of a new role within a new national body risks the slow materialisation of regional expertise, which will be critical to the success of this initiative. Significant delays could be mitigated in the near-term by assigning some of the responsibilities 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.*

*There is a clear role for local government in such a planning approach, as it can identify major future demands from a domestic, industrial, and commercial point of view, as well as risks around these such as the likelihood of them not being realised. This is both from significant individual capital projects or investments, and programmes rolling out smaller localised measures at scale e.g. heat pumps in a domestic setting. Local Government is also often the custodian of a potentially wider net zero/climate emergency plan which is intended to help inform planning and deliver interventions which will directly impact the energy system. For example in the North East, Transport North East have published a region-wide zero emission vehicle policy setting out that in the next 15 years as many as 28,000 publicly available EV charging points may be required to meet rising demand. We need to ensure there is sufficient capacity on the Grid to support aspirations for a substantial increase in the number of chargers across the region. It is also vital that DNOs have sufficient internal resource to enable delivery of EV charging infrastructure to move at pace.*

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

*We do not have a firm proposal for the appropriate regional boundaries and agree with the approach to first define the responsibilities of the RSPs and then consider how the size of the region may impact the fidelity of the output.*

*That said, from the perspective of a LEP/MCA area, the regional boundaries should be no larger than the current licence areas of the DNOs. 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.*

**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 role of the FSO is still emerging. Although on paper it appears to be a good home for the function, 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. The Regional Systems Planner needs to be integrated with places' own decarbonisation pathways and wider spatial planning.*

*A regional steering group should be established for each RSP, taking into account regional research and market dissemination activity that has taken place since late 2000s, as they have vital and prescient information to share. Energy master planning and heat mapping exercises undertaken by LAs and public sector bodies will be an important insight. 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. Northern Powergrid have a stakeholder engagement group with useful insight.*

*Whatever approach Ofgem adopts, there should be careful consideration of the resource required to make the regional system planning successful (including its effective integration with regional and local spatial planning) and to make sure it is appropriately funded.*

## **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?**

*We agree that there should be open and transparent markets that are unbiased by commercial interests, and that governance arrangements must ensure there are standardised, fair, and transparent rules and processes for procuring flexibility services to enable service providers to participate easily in these markets.*

*A single, neutral entity 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. However, it is key that the new function learns from best practice conducted elsewhere (rather than normalising to the mid-ground/lowest common denominator).*

*In the short term any additional measures which create a duty to cooperate across bodies, particularly around cross-vector system planning, would be beneficial. We would be keen to see this include measures which lead to truly collaborative exercises, and the sharing of forward investment and demand/supply plans in some detail. This could result in shared plans and aligned investments, with accountability and the ability to build resource where necessary to fulfil clear roles across the various bodies involved. If collaborative delivery at a smaller scale cannot be demonstrated in the near term, there is a risk this undermines the ability to do this at a larger scale in the medium to long term, as building on the confidence of an established track record offers substantial benefits, including, but not limited to, the acceleration of pace.*

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

*No specific points.*

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

*No specific points.*

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

*The FSO seems a sensible home for the role so long as mechanisms are 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). 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 be the only way to 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?**

*The pace 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, ASHPs). Government targets for net zero are insufficient, but as a bare minimum, the energy networks need to be facilitating meeting those targets, not holding them up – therefore this must be central to the governance arrangements. However, this does not mean that a model which can be implemented the most quickly should be prioritised. The scale of change may lead to a transition to a preferred model however the faster this transition can occur the better in terms of addressing this challenge.*

**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).*

*Particularly as additional costs are identified, an assessment of the impacts on customer bills must also be considered, and, given the cost of energy currently, must be appropriately weighted in any impact assessment. Where substantial upfront costs are identified, it would be appropriate to conduct this assessment over a longer-term bill profile, to ensure inter-generational equity is applied, thereby not placing undue pressure on current household budgets.*

**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. Also, 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.**

*In any model effective coordination cross multiple bodies/vectors (local government', DNOs, GDNs, heat networks etc) is essential, this is considered to be one of the biggest implementation challenges which needs mitigation.*

*Additional costs may arise from the need for robust data management systems, training on how to use them, and an increased programmatic approach to meaningful engagement with all key stakeholders.*