

# **Welsh Government response to Future of Local Energy Institutions and Governance consultation**

We believe that the market-based approach to the energy system is not delivering decarbonisation at the scale or pace necessary for the climate emergency and has not been delivering sufficient benefit in Wales. The Welsh Government is taking a lead in shaping the energy system, necessary if Wales is to meet its Net Zero targets and deliver on wellbeing goals for a more prosperous low carbon future.

Our vision is for Wales to generate renewable energy to at least fully meet our energy needs and use surplus generation to tackle the nature and climate emergencies. In autumn 2021, we conducted a deep dive into renewable energy in Wales with a particular focus on retaining wealth and ownership in Wales. The review concluded that one of the most significant barriers to our ambitions was grid infrastructure.

There is consensus that there is insufficient capacity in the networks responsible for connecting homes and buildings with fuels consistent with a net zero future. This is a barrier to investment impacting across technologies and across private, public and community sectors in Wales on all scales, which is sorely needed if we are to achieve the scale of action by 2030 advised by the Committee on Climate Change.. There is agreement that more action is needed to improve transparency on constraints and opportunities within the network and bring greater clarity and certainty on where strategic investment in the networks is needed.

## **General Comments**

We welcome Ofgem's consultation and proposals regarding local energy institutions and governance, which identify the need for action in this important area. We also welcome the establishment of a framework and criteria for considering the need for change. However, we feel that any developments in this area must consider the impacts of decisions beyond the narrow boundaries of network investment and take account of their interaction with existing work to deliver thriving low carbon places. Ofgem must consider the role of devolved and local governments in their plans and build on existing actions across the country. In particular, we would urge Ofgem to make use of the work that we have already begun in Wales. There must be a formal relationship between any new regional network planning body and Welsh Ministers, with accountability to the Senedd.

We have concerns over the consultation's lack of detail on the close links between decisions on network investment and the ability to successfully decarbonise and increase economic activity. Ofgem need to make very clear the interplay between network decision making and regional economic decisions, including accountability - for what and to who. There also needs to be careful thought on how to deliver the minimum necessary levels of infrastructure together with the most efficient ways of operating the system.

Networks have a vital role in enabling or curtailing investments, particularly in those low carbon technologies and process investments which are necessary to decarbonise industry, businesses and homes. Network decisions will have an increasing impact on the ability of Wales to achieve the more prosperous low carbon future that is one of our overarching wellbeing goals. The democratic accountability of these decisions must be carefully considered.

We agree that there is a need for network decisions to be made on a whole system basis, looking across networks of different types. However, we consider the basis of such decisions should be consistent with locally developed and evidence-based plans.

### **Regional and Local Area Energy Plans**

To inform our understanding of the infrastructure needed in Wales, we have supported each region to develop Regional Energy Strategies. These identify the scale of change needed to reach a low carbon energy system and establish regional priorities for energy. The regional strategies set an ambition but require additional detail to deliver on those ambitions.

Consequently, we have been supporting each local authority to produce Local Area Energy Plans. Local Area Energy Plans will identify the changes needed to the local energy system, to decarbonise heat and local transport, support strategic network planning and realise opportunities for local renewable energy production.

We will use these local and regional insights to develop a National Energy Plan for Wales by 2024. This will provide a blueprint for how we will support coherent action at the local and the national levels. It will also provide a clear steer for what gas and electricity network operators need to deliver to support these plans.

We feel that this tiered approach provides a comprehensive and necessary understanding of the infrastructure needs of Wales at a local and national level. We would want such understanding to either be captured by any changes that Ofgem instigate or potentially used as an exemplar for the new entities when developing the understanding of regional needs.

Our ambition is that these local plans, and the enduring stakeholder structures built to deliver them, will replace the requirement for networks to carry out distribution future energy scenarios. Whilst DNOs and GDNs have the capacity and technical knowledge to carry out detailed system modelling, collaborating with regional actors to deliver a shared vision is an effective model. Adapting this to address the issues of whole system decision making is likely to be more effective than establishing a series of new actors within the Future System Operator (FSO).

We do not consider that the case has been made that the FSO is the appropriate entity to take forward this work. It would be most helpful to see a more explicit description of the current barriers to regional network planning and a transparent assessment of other organisations who might be able to overcome these, including DNOs, Welsh and Scottish Governments, regional and local governments.

## **Part of a GB system**

Our recent consultation on our renewable energy targets identified a pipeline of renewable projects that means Wales can produce the equivalent of 100% of its electricity needs from renewable sources by the year 2035. We have also commissioned a piece of work identifying the future grid needs for Wales. We need to ensure that important policy drivers and targets for each specific region can be integrated into regional network decisions reflecting each region's different infrastructure needs and challenges, whilst also being mindful of the need to balance speed of decarbonisation with affordability.

While we are conscious that we are part of a GB system, delivery of low carbon heat and industrial decarbonisation is local and place-specific in its implementation. We need to ensure that there is a proper system for all regions to have their voice heard equally. We have concerns that the particular needs of Wales might get lost or marginalised in the arguments over how a GB network might appear. We want to make sure that Welsh voices will be heard where decisions affect Wales.

We consider there is a need for more detail on how a regional system planner and the GB wide FSO will work together. There will need to be a process for resolving any disputes in regions where the views of the planner and the national strategy of the FSO are not closely aligned.

You mention in the consultation that the FSO has the expertise in this area. We agree the FSO will bring the ESO's considerable experience in managing across the transmission system. However, the role of the DNO in managing a much more diverse and complex portfolio of generation, demand and flexibility has developed hugely in recent years as they work together to take on the role of DSO. This different capacity must be recognised, and the risks considered, in developing similar competence at pace across multiple areas. This relates also to the role and way of operation of the FSO, which has to reflect the far more complex future system that is emerging, which will need different mechanisms to manage it.

This is also not just about a technical expertise and we believe that consideration should also be given to the expertise needed to negotiate with, manage the expectations of, and give a voice to the regions to ensure that the process works for all. This again is capacity the DNOs have developed during the RII0 and RII02 processes. Combining local authorities' detailed knowledge of their areas and DNOs'; understanding of their networks provides a powerful resource that would be costly for a new body to replicate.

There is a growing need for a flexible GB energy system with the ability of many actors to play their role within a strategic framework. We need systems that respond to local changes and bring the system back into alignment. We believe the FSO should manage the strategic issues for the system enabling a federation of local markets working within a broader system of rules. This is more likely to ensure we have a system that is deliverable and responsive to local needs than a top-down model where the FSO has responsibility for all elements of the system.

## **System Architect**

One of the recommendations from our deep dive into renewable energy was for a Wales ‘System Architect’, an entity proposed to oversee offshore and onshore investment to support the Celtic Seas developments, supporting business cases for whole system planning and bring together of plans across South, Mid and North Wales and the development of a detailed whole system plan for gas and electricity transmission and distribution networks.

The specific functions of such an Architect were condensed and distilled into three main functions:

- to work with the Future System Operator, Ofgem and other institutions to ensure the Welsh local energy plans and the National Energy Plan can be delivered at a pace commensurate with net zero. The Architect will have an expert understanding of the energy system to identify the systemic changes required to deliver those plans;
- to advise Welsh Government and relevant UK bodies on the requirements for policy and regulatory change needed for Wales to achieve its targets for electricity generation/wider decarbonisation of the energy system and wider socio-economic benefits; and
- to provide technically sound advice to UK Government and Ofgem, and feed into consultations and future thinking on the grid work proposed by UK Government, Ofgem and the ESO/FSO to make sure that Wales’ needs are represented (calling on network and system operators for technical advice where needed). Consideration should be given to granting it formal status as a statutory consultee.

We believe that the functions above could be adapted for Ofgem’s proposed Regional System Planners to maximise their value. We believe that there should be a Welsh Region and that the Wales Regional System Planner needs to be able to fulfil the above to take forward the current needs for Wales.

A single Welsh Regional System Planner would be able to take an overview of the needs of Wales, understanding the complexity and nuances of each area. This would help to provide solutions and insight into some of the more fundamental problems challenging Wales’ infrastructure such as the lack of grid across mid-Wales. We recommend aligning the role of regional planner with democratic boundaries in order to make this process clearer and more accessible to system users.

## **Market Facilitation of Flexible Resources**

As your consultation makes clear, there are issues around the distribution network flexibility market arrangements. However, we do not feel that the case has been

made for establishing a single actor to manage the suggested responsibilities in the consultation. We believe that there will be multiple solutions to the challenges that you have identified, and a robust framework would provide a more sensible solution than simply moving the responsibility for this to a single entity that is not yet in place. Instead, given the link to Ofgem's remit, it would make sense for the responsibility to remain there. This would entail organisational reform within Ofgem but would enable a market framework that could be responsive to the different opportunities and requirements of regions.