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10th May 2023

Dear Fiona,

WWU response to Ofgem consultation Future of Local Energy Institutions and Governance

Thank you for the opportunity to respond to this consultation. WWU is a gas transporter serving 2.5 million supply points in Wales and south-west England. Much of the consultation is aimed at electricity distribution business; however, chapter 3 on the the Regional Strategic Planner (RSP) is relevant to gas distribution and our response concentrates on this chapter.

The consultation document is not always clear as to whether the points made or proposals refer to both electricity and gas or just electricity networks. For example, paragraph 5.4 states:

For the avoidance of doubt, when referring to real time operations, we mean the real time operation of the power system

However, paragraph 5.8 then refers to GDNs which paragraph 5.4 states are excluded from the scope of chapter 5:

DNOs and GDNs will be required to share their operational insights to enable effective planning. Our proposals for regional energy system planning entail ongoing operational planning with RSPs, requiring two-way information flows. This will be supported by the enhanced data and digitalisation requirements, as well as the behaviours driven by the Smart Optimisation Output licence obligation.

It is important not to conflate planning and day to day operations which are completely different roles, with different requirements for the sharing of data both in terms of the granularity of the information and the speed with which it is shared.

In relation to chapter 3 on the RSP, the consultation document reads as a collection of ideas that are not not fully formed and contain a significant amount of ambiguity. For example, it is not clear:

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- what level of planning the RSP will do;
- what obligations and duties the RSP will have and what the networks will lose;
- whether the RSP output is a view, is advisory, or is mandatory

Chapter 3: Proposed governance reform: 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?

The energy transition will need planning and coordination whether it is mandated by legislation, left to customer choice or directed in some way. We think that the Regional System Planners (RSP) need to have powers to make **strategic** decisions otherwise they will be just other bodies with a view (even if there is one RSP with regional offices). The energy transition is a very major activity and needs Government to make decisions so that rollout of new systems and any network changes required can be planned and delivered in an efficient manner. The rollout of smart meters, which is a relatively small programme in comparison to the overall energy transition, was left to Suppliers, not made mandatory on consumers and we have only just passed the half-way point.

We do think that further thinking is required around the roles and responsibilities of the RSP. For example, will it just be planning the energy transition at a high level with investment decisions left to networks and Ofgem; or will it actually be planning what investment, repurposing or decommissioning may be required and if so will it be taking on some of the networks' system planning duties and obligations.

A further consideration is that gas and electricity network regions are not geographically aligned, so one or both networks in an area will have to deal with multiple RSPs. If the RSPs make different assumptions, then it may be very difficult for the networks to have a consistent strategy across its business which could cause it significant problems justifying investment plans to Ofgem. Similarly, there may be instances where one RSP may need to deal with multiple gas and / or electricity networks.

Network operation, optimisation and investment is aligned to network topography and in the case of gas networks this will usually cover a large geographical area. Our understanding from an innovation project we carried out with National Grid Electricity Distribution (Regional Future Energy Scenarios) ¹ is that electricity network development seems to be centred around much smaller areas than gas and that aligning them would require work.

Below we list sections 3.5 to 3.11 of the consultation and comment on each.

¹ [Regional Future Energy Scenarios | ENA Innovation Portal \(energynetworks.org\)](#)

We propose to introduce RSPs based in regions across Great Britain, who would be responsible for undertaking regional energy system planning activities, as well as co-ordinating the input of other actors to the process.

3.6 To deliver this, we propose:

- *Creating and assigning a new regional system planning role to a single accountable body for a region, who we consider should be a regulated entity.*

We agree that RSPs should be regulated. It is important that appropriate protections are put in place, for example we would expect that the RSP would not be able to hold another gas or electricity licence. If the RSPs are to be regulated then they will have a licence with clearly defined duties, obligations and outputs. Changes to existing gas and electricity network licences seem likely to be required in consequence. A key issue for gas transporters is who is responsible for the 1 in 20 demand forecast which is the key design parameter and against which investment plans are based.

Ensuring RSPs are central to a framework of interacting organisations within each region, which all feed into regional energy system planning.

- *That an RSP should be responsible for developing and owning a regional energy system plan, with other actors informing and being consulted in relation to their respective planning activities (ie network planning and spatial planning).*

It is important that it is clear what a “regional energy system plan” comprises. It could mean

- a general plan as to how the energy transition could occur;
- a general plan that tells all parties how the energy transition will occur – that is the RSP has the power to direct; or
- a specific detailed plan that details individual investment or expenditure needs to achieve energy transition (this option seems to correspond to the Plan and Deliver archetype in the Future Systems Network Regulation consultation)

3.7 We propose RSPs should undertake strategic planning activities, which we define as a mixture of both subject-specific engagement and technical planning activities:

- *Develop and own the critical planning assumptions, using inputs from local actors (eg DNOs, GDNs, LAs) and exogenous sources to develop key assumptions that inform system need eg EV uptake numbers and expected contribution to peak demand.*

The statement that RSPs should undertake strategic planning activities suggests that the plans will not be detailed to an individual project level but crucially it does not make clear whether it will be mandatory for the networks to use these assumptions. Indeed, if networks still retain their statutory and system development licence

obligations² and they believe that the RSP is incorrect then they will have to ignore the RSP assumptions.

It is important to understand when strategic planning turns into tactical or operational planning (which presumably remains with the local actors).

It is vital that RSPs take a whole system approach to gas and electricity networks as the energy transition involves significant interactions between both vectors. To be clear by “whole system” we mean across electricity and gas and not just between transmission and distribution within a single vector. Consideration of the interaction between transmission and distribution is key in terms of making sure that networks are efficient, operable and resilient.

- *Coordinate, facilitate and ensure effective participation between local actors (which ensures a place-based understanding is central to how the regional energy system is planned).*
- *Develop and own a regional whole system strategic plan that is coherent with national and local net zero ambitions and energy security priorities and that supports achieving the most cost effective decarbonisation outcomes, derived from and informing the individual sub-plans made by local actors.*

The Gas Act and gas transporter’s licence refers to economical and efficient development. Introducing a new concept of “cost effective” leads to questions as to how it differs from economical and efficient. Clarity is required on who is the ultimate arbiter of any conflicts between local, regional and national views, within and across vectors.

- *Provide independent technical analysis and advice to support decision making, primarily within price control setting, for example if different vectors’ plans conflict and/or by identifying improvements and opportunities for whole system optimisation.*

This section suggests that the analysis and advice will be more detailed than strategic as under current price control arrangements individual major projects tend to be separately assessed. This again raises the question as to the status of the RSP’s view and whether it will be an opinion, advisory or mandatory.

3.8 We propose existing and other actors must remain responsible for planning activities aligned to their existing competencies. By this, we mean network companies would remain responsible for network planning activities, but these would need to align to the regional energy system plan (ie by using the same key planning assumptions). Local/regional government would remain responsible for local spatial planning activities and local area energy planning activities.

If networks still retain their current statutory and licence obligations then they are responsible for ensuring that the network is economic and efficient and meets demands in a peak winter (to use gas terminology). If the network thinks that the

² Examples for gas distribution include: Section 9 of the Gas Act; Gas Transporter Licence Standard Special Condition D3 and Standard Special Licence Condition (“SSC”) A57 (Exit Capacity Planning); Section Uniform Network Code (UNC) Offtake Arrangements Document section H,

RSP's assumptions are wrong, or perhaps inconsistent with those of another RSP in the network's area then the network will have to ignore the RSP's assumptions; however, if Ofgem only allows investment proposed by the RSP this will create a conflict.

3.9 It could be argued that having both existing actors and the RSPs undertaking "planning" is a duplication – but we see a clear distinction. 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: ensuring common starting points, facilitating dialogue and creating an independent strategic summary (the regional whole system strategic plan).

We find it difficult to reconcile the statement from 3.9 "We are proposing that the RSPs focus on their coordination and coherence:..." with 3.7 "We propose RSPs should undertake strategic planning activities,....". 3.9 suggests that the RSP role is purely advisory in which case it does not address the need for the energy transition to be planned.

The RSP assumptions must be consistent with those used by the Future System Operator (FSO), although we recognise that having separate organisations or responsibilities allows for some constructive debate.

3.10 The output of the RSPs would be a key input to the distribution price control setting process for the justification of system/network need.

As discussed above, for the RSP to be a key input into the distribution price control process it would need to analyse projects to a level of detail below strategic. If it is giving general input on the strategic plan for rollout then surely it only has value in terms of the price control process if its plan for the energy transition is mandatory.

It is also important that the RSP's assumptions are consistent with network obligations and Ofgem's approach to approval of investment as otherwise there will be discrepancies between the RSP view and networks' view of what is required or will be funded. This applies equally to networks being able to meet their obligations in respect of a demand on a peak day as well as funding of highly anticipatory expenditure.

3.11 There are critical information links between functions. For example, an RSP's transparent `planning outputs will be a key input to market participants in terms of the likely values for flexibility they will see, where and when (see Chapter 4). Similarly, the rich seam of ex post operational data (see Chapter 5) will inform (and likely confirm) planning assumptions about the deployment of investment capital, location, etc.

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

We have listed the paragraphs on the detailed designed and commented on them below with the exception of paragraphs 3.22 which is addressed by question 3 and 3.23 onwards that are addressed by question 4.

3.17 A key issue identified with current arrangements is a lack of accountability. In seeking to rectify this we propose an independent actor is needed within a region which can look across multiple vectors to develop a whole system plan. An alternative could be to assign it to an existing actor within the system, which could address a lack of accountability. However, in developing a strategic plan for a region, we would expect RSPs to identify opportunities for cross-vector synergies or highlight conflicting vector plans and provide an impartial view of the optimal pathway. It should be a single source of truth for a region's requirements.

We agree that the RSP role is significant and should not be filled by an existing actor. The point that the RSP should be a single source of truth for a region is fine in theory but depends on the roles and responsibilities of the RSPs and network operators being appropriate. The RSP cannot have the authority to make planning assumptions for networks if the networks retain the obligation for their system to meet demands. In appendix 1 we provide a flow diagram of our System Operation planning process, this is driven by our licence and Uniform Network Code obligations. Any transfer of planning to the RSP will need to be accompanied by a careful consideration of both the RSP's obligations and the current obligations on networks.

3.18 We therefore think it is critical that the actor is both independent and possesses a remit which enables it to look across the energy system. The institution's remit directly guides its remuneration. We propose the entity doing regional system planning should be regulated given its monopoly position, the costs it will incur, the risk it relays and to ensure recourse for non- or sub-standard delivery.

As the RSP is only responsible for a plan, then presumably delivery means delivery of the plan rather than delivery of the investment or work identified. The delivery of the actual infrastructure to achieve the Energy Transition will be done by networks and local authorities and devolved administrations. Networks consult with consumers or bodies representing consumers, regarding their Business Plans, including vulnerable customers and it is not clear that the RSPs will engage to this level.

3.19 Whilst we think that accountability should lie with a single independent actor, this does not diminish the importance of other local actors to the process. RSPs should be a focal point within a group of interacting organisations. In the first instance, this will be network companies and local/regional government but can extend across multiple vectors, ie heat, hydrogen, carbon capture utilisation and storage, as the system evolves.

The consultation needs to address whether the RSP role is advisory or whether it can direct networks or other bodies to fund investment. Related to this are its roles and duties and those of the network operators. Without a clear proposal on these two key issues, it is not clear what the RSP will achieve.

3.20 Regional coordination must ensure a place-based understanding of how the regional energy system is planned and that those with a democratic mandate have agency to reflect their regional context meaningfully within the process. We welcome stakeholder views on examples of partnership arrangements or best practice coordination structures.

We agree that a clear understanding of the configuration of the networks is vital, both to understand how the energy transition can be achieved and because RSPs will need to coordinate their thinking due to inconsistent boundaries with networks and local authorities.

The RSPs requirements and justification for data need to be clearly set out to enable networks and other parties to plan for provision of this data and to seek funding for any further work required. As the RSPs are likely to operate to boundaries that we do not work to there could be significant work to provide the data requested.

3.21 To ensure consistency in how the RSPs role is delivered, we consider it should be a single entity across Great Britain that delivers it via multiple branches. We consider this strikes an effective balance between empowering a more decentralised approach, whilst delivering consistency and coherence both vertically (ie with transmission system planning) and horizontally (ie across regions) to deliver system efficiency and cost effective outcomes for all energy consumers.

This is probably sensible, but the regional branches need to be well resourced to develop coherent regional plans. This should include expertise on gas and electricity networks and the capacity to engage closely with networks and other organisations relevant to that region's plans.

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

We agree that deciding on the regional boundaries should be left until after the duties and obligations of the RSP have been decided; however notwithstanding that point, our view is that the regional boundaries:

- need to be based on the most effective approach (for gas this might be the line pack zones each network uses for system operation) and not based on electricity networks boundaries that might be the default thinking;
- for Wales, as energy is devolved then the obvious boundary is one body for Wales; however given the network configurations it may be sensible to look separately at north and south Wales

Paragraph 3.22 suggests that networks will need to provide a large amount of data to the RSP. How this is done and how networks are funded to resource this needs to be considered. The RSPs requests for data need to be justified, otherwise there is a risk that the RSP requests data, that takes resource to provide, but which is never used.

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

We think that the the FSO (which should probably be called Future System Planner) is unlikely to have the capacity to understand gas transmission planning and to take on distribution planning for gas and electricity from day one. The FSO on day one will have no skills and expertise in gas transmission planning and none in gas and electricity distribution planning. This means the FSO has no skills or expertise advantage over a new body. Both

the FSO and RSP are likely to need to call on networks for training so that they understand how distribution networks operate. This has grown more complicated with renewable energy generation being connected to electricity distribution networks and biomethane production being connected to gas networks with the potential for hydrogen for blending and 100% hydrogen networks being an additional consideration. Adding the RSP role to the FSO role will be a significant additional challenge.

Giving the RSP role to the FSO risks them looking at everything through an electricity lens and probably an electricity transmission lens as that is their current skill set. We accept that this risk is recognised but it will be very difficult to address. We also recognise that this work is led within Ofgem's DSO Governance team and will need wider perspectives as it evolves.

We recognise the problem of the RSP being a separate organisation as we expect that a separate organisation may need further primary legislation to enable Ofgem to create a new licence. As Energy is devolved then the obvious body for Wales is the Welsh Government. There is a risk that due to time constraints and the RSP not being able to obtain sufficient resource that this work is contracted out; however, we are not sure that this would be appropriate, particularly if different RSP areas were contract out to different organisations.

We note that the consultation, in Chapter 4, is also considering giving the FSO the market facilitator role and we suggest that giving the FSO too many new roles will mean that it cannot develop the expertise to fulfil them all particularly ones where they have least knowledge – for example gas distribution.

Finally, if the RSP role is given to a national body such as the FSO, it is not clear how it will take regional factors into consideration in practice. Clarity is needed regarding what they will be required to consider and how they exercise judgement and balance between local needs, regional system needs, cost, consumer preference, national policy and so forth as conflicts emerge. The FSO given its focus on GB wide issues may struggle to accept that regional differences are real and need to be taken into account.

Chapter 6. Next steps

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

We note that Appendix A1.8 to A1.11, is all in terms of electricity DSO functions and makes no mention of gas and hence is incomplete.

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.

An additional set of interfaces will add cost to all organisations and will need funding. We will incur costs from setting up interfaces, establishing the data formats, converting the data into the required format and maintaining these arrangements. It should be noted that there may be significant work required to attribute gas flows and demands between RSPs where the network topology is very integrated.

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.

Costs will increase if different receiving organisations required different data, to different timescales in different formats. As different networks will have different internal arrangements there may be significant differences in the costs incurred.

Yours sincerely,



Richard Pomroy

Regulation Manager

Wales & West Utilities

Appendix 1 WWU System Operation planning process

