

Ofgem: Future of local energy institutions and governance consultation

Tees Valley Combined Authority - Response

Please find below a response on behalf of Tees Valley Combined Authority to this consultation:

<https://www.ofgem.gov.uk/publications/consultation-future-local-energy-institutions-and-governance>

Consultation Questions

Section 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?

We agree that there is a need to improve/reinforce co-ordination of energy system planning at a local level to meet decarbonisation and economic activity objectives and the proposal to establish a statutory body to do this represents a solution to this.

In the medium-term, Regional System Planners would be a good thing, however there are, in our view, a number of steps to get there:

1. We believe that there needs to be some form of sub regional planning to take account of differences within regions, Tees Valley cannot be compared to rural or semi-rural parts of the North East.
2. We believe that areas such as the Tees Valley with its Net Zero ambitions and the significant economic investment taking place, needs to be treated separately to ensure none of those investment opportunities are missed due to power constraints.
3. With reference to nationally significant investments with complex supply chains and dependencies, we believe that to achieve this, Special Planning Areas should be created that need additional focus over a period of time before being incorporated into the Regional System Planners work.

We would ask that some regions are enabled to move ahead more quickly if they can, before FSO exists. The present need to address local grid constraints would be exacerbated if we had to wait another 5 years for this reform and then need to co-ordinate a local response amid those constraints.

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

In principle, we agree with the design choice set out, however, we believe that for areas such as the Tees Valley, that are developing at such a rapid pace due to the Teesworks redevelopment and Teesside Freeport, the UK's largest Freeport, must have some way of working closely with and influencing the Regional System Planners (RSP).

The establishment of a new body nationally must not remove the focus on regional or local approaches to long term planning and it is essential that resources are deployed locally and retain local know how, are not centralised and that existing activity where it is working is built on.

The major concern is the speed with which the body can be established and cannibalisation of the existing resource base on DNOs and GDNs, as well as the need for Local Authorities and Combined Authorities to have appropriate expertise. This will be compounded by the need to establish the FSO structure at the same time.

The report correctly identifies IT infrastructure as a concern. We would support a local approach to addressing the issue whilst the national structure is put in place and allocation of necessary resource to develop this which would also inform the development of the national approach.

The FSO would seem to be the only choice which makes sense currently – do we know what structures exist elsewhere in similar economies, as these might represent a suitable counterfactual for the impact assessment work.

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

As set out in our response to Q1, we believe that it is important to look at sub regional levels and consider those that may need special status, the Tees Valley is in our view one of those areas.

As a minimum, the regional boundaries for the RSPs need to reflect existing DNO and GDN structure, although there could be merit in selecting governmental boundaries as these are significant in terms of the economic and environmental focus of development which needs to drive the development of the network.

This approach could also address the issues of transport integration, which receives limited mention, and potentially that of innovation in the design and operation of an integrated network.

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

The FSO has the technical characteristics to deliver the RSP role, however local area characteristics, local political and sub regional economic development and growth could be overlooked.

We would like to see more detail about how sub regional issues and concerns would be dealt with and the role of Mayoral Combined Authorities and elected Mayors in ensuring local issues are heard and considered.

Section 4. Proposed governance reform: market facilitation of flexible resource

- 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?**

Whilst this is an admirable objective, if such an entity could be identified, the potential conflict with the commercial operation of the proposed body and that of the DNOs and GDNs is a concern.

The proposed standardised market facilitation approach might also create a barrier to innovation in terms of stability and flexibility services, recognising the essential need for a reliable and capable energy system.

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

In principle we agree with the allocation as set out, however, please note our point in Q5 in relation to the potential conflict with the commercial operation of the proposed body and that of the DNOs and GDNs.

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

We feel strongly that there should be an explicit requirement to consult and work closely with Mayoral Combined Authorities and elected Mayors on a regular formal basis.

We also think that 'innovation' should be listed; interaction of transmission and distribution systems.

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

We agree that a neutral third party would be the best option that can be held accountable, we note and agree that ENA is not the right organisation to do this.

Yet, whilst no alternatives suggest themselves, a concern is that centralisation may result in reduced location specific development.

- 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?**

We would welcome if other country experiences/models were described and critiqued.

Section 5. Proposed governance reform: real time operations

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

We agree that the DNOs should retain real time operational responsibility and it is our view that it is critically important to continue to engage with local stakeholders on any issues.

Section 6. Next steps

- 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?**

We feel that the measures should include speed of implementation, impact on employment, impact on emissions via e.g. heat decarbonisation (Hydrogen, Heat Pumps), Low Emission Transport etc., cost versus alternatives, impact on UK supply chain.

- 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 and influence.

- 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, along with the costs of IT infrastructure and systems will be necessary to include.

A significant issue is the potential to exacerbate an existing skill shortage in technology areas which impact the benefit to the UK in supply chain development and employment. Therefore, training and marketing costs to recruit high-quality candidates into these roles, especially attracting them from other industries, will be needed.

There will inevitably be impacts on GDN & DSO businesses which owners may not welcome. LAs and MCAs will need to provide additional engagement resource.

- 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.**

As set out above in our response to Q14. Additional costs associated with implementation of robust data management systems, training on how to use them, and an increased programmatic approach to meaningful engagement with all key stakeholders.

Implementation barriers may be encountered if stakeholders are not all taken on this journey together and at the same pace - but the pace of change should be set with those areas at the forefront of this work.