

# Future of local energy institutions and governance

## ENWL consultation response

Annex 1: Response to questions

May 2023



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## Introduction

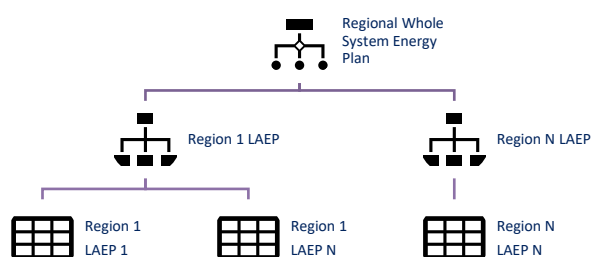
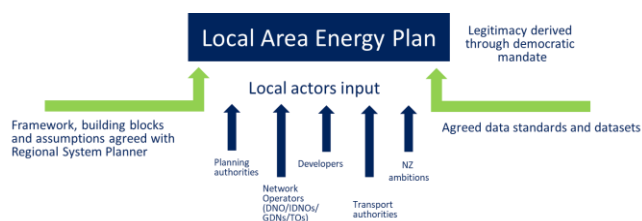
In this annex we set out our response to the questions set out in the consultation document.

## 1 Regional System Planner Questions

### ***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 with the proposal to create a Regional System Planner function and designate Regional System Planner (RSP) roles for Great Britain to ensure that sub-national whole system planning is developed and coordinated across multiple energy vectors; and for us it logically follows that the body accountable is a single regional regulated entity. Our RIIO-ED2 plans support Net Zero and decarbonisation at pace and we support stakeholders to having a bigger voice to prepare for this, so we would welcome further discussions on the accountabilities, size, boundaries and scope of RSPs across GB so that the right balance is struck between clear accountability, democratic legitimacy and transparency. The decision to create a Regional System Planner function is a critical development for a number of actors, and that the detailed decisions that need to be made cannot be done by Ofgem alone without continued stakeholder input before the final shape and scope of the Regional System Planner roles are set.

We see that Local Area Energy Plans (LAEPs) play an important role in developing and delivering a cost-effective transition to net zero for local communities. Our experience supporting the local authorities to develop an LAEP within the Greater Manchester region has shown us that there is a need for a coordination role to ensure the needs of local communities within a region are appropriately engaged and consulted. The Greater Manchester Combined Authority (GMCA) has recognised the need to provide guidance on the development of LAEPs so that the ten LAEPs (within the GMCA remit) can be brought together to provide a consistent and coordinated GMCA wide regional plan. This consistency of approach is vital and aids coordination for a regional energy plan as it mirrors the Net Zero targets that are set at a regional level. It is this framework that we envisage would work best for the development of a whole energy system plan for the new Regional System Planner roles. The graphic above shows how the local actors contribute to the



development of the LAEP, whilst the graphic across shows how this approach can be reflected for a Regional System Planner creating a regional whole system energy plan derived from LAEPs. This approach ensures that the stakeholder voice is central to the development of an LAEP and remains place-based, whilst a Regional System Planner combines and coordinates the place-based plans bringing these together as a whole system energy plan.

Over the last five years we have strengthened our relationships with local and regional actors, customers and stakeholders as part of our Net Zero activities, and specifically under our annual DFES forecasting work. As a local community business, we are in a unique position and have a special relationship with our customers and stakeholders. Going forward we see that both the Regional System Planner and the local network operator will need to engage with local and regional actors, although the engagements are likely to be focused on different aspects of the net zero transition.

To inform our response, we have thought about existing frameworks and believe there are existing arrangements in place across other public sectors and organisations where national aspirations are contextualised by local actors and plans are developed and delivered locally within a local democratic mandate for example across transport and health.

As with these examples, there is a need to work with local actors, with a democratic mandate therefore a Regional System Planner is likely to span the licensed areas of multiple system/network operators including multiple IDNOs. We would consider relatively large geographic boundaries such as North of England to be the most efficient and pragmatic way to balance national policy trends and the priorities of for example devolved city regions. This approach would be likely to both deliver consistent centralised holistic strategic planning but with sufficient granularity to link regional and national planning into a cohesive whole. We think this means that there will be one Northern Regional System Planner, akin to Transport for the North, covering the areas predominantly served by Electricity North West and Northern Power Grid, but may bring in other DNO licence areas at the periphery depending on where the boundaries are drawn. For example, the energy infrastructure serving Manchester and Liverpool are intrinsically linked for electricity, gas and shortly hydrogen. This may also mean that Electricity North West may be involved in the discussions of adjoining RSPs, but this is something that we are used to and manage successfully now due to the non-alignment of electricity distribution areas and local authority areas.

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

We agree that an independent regulated entity with clear accountability is vital for successful implementation of the Regional System Planner role delivered through regionally based branches/teams. We believe that it should have the mandate to create a whole energy system plan for its region covering initially gas and electricity, and later introducing heat, hydrogen and carbon capture as systems develop. Although we believe that transport is an important element we suggest only encompassing regional transport plans where the impact is not already subsumed within LAEPs.

The planned Future System Operator seems best placed to perform the proposed Regional System Planner role. Further to our comments in the answer to question 1 on LAEPs we see place-based planning residing with local actors with the core competencies to deliver effective energy plans under a democratic mandate with the Regional System Planner undertaking regional coordination and ensuring differing local ambitions are reflected in the regional whole energy system plan. We see the Regional System Planner function setting the framework and the elected bodies, with democratic mandate for the local area, leading the local energy plan process working with local actors reflecting the policies for net zero and the aspirations of the communities they serve. As the elected bodies and/or mandate may change over time it is crucial the RSP design is future-proofed to manage this change in the future.

In the North West we have proven that local actors can work collaboratively as we have produced a series of north west decarbonisation pathways using our relationships with the established city regions, other local DNOs and GDNs to frame the challenge of achieving net zero. Deconstructing these aspirational targets has enabled the creation of a set of activities and manageable initiatives for local actors.

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

Further to our comments in the answer to question 1 on geographic coverage for each Regional System Planner we suggest that there is a Regional System Planner for Scotland, another for Wales and three or four RSPs for England, contingent on reflecting balanced regional level representation in each whole system energy plan.

A single arm of the Regional System Planner would have the responsibility for a whole system energy plan for the north of England reflecting stakeholders' ambitions and requirements through the lens of need. We suggest the northern boundary would be the border with Scotland and the southern

boundary would align with the boundary of a county council/city region. This coverage enables place-based planning led by the democratically elected leaders with an official mandate on the net zero transition responsibilities supported by local actors which can be brought together through regional coordination by the Regional System Planner. We have seen this model work successfully through the transport lens eg Transport for the North but also recognise that local health care provision through NHS Trusts is a similar model.

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

We agree that the ESO/FSO has the behaviours and knowledge coupled with a good understanding of the planning and operation of electricity and gas networks to undertake the role of Regional System Planner role, as described above. As part of transition for the ESO/FSO to perform the Regional System Planner function we are open to sharing our knowledge and experience of distribution system planning and operation and we would welcome being part of the work, with the FSO and DESNZ, to develop standard GB distribution planning policy so that all networks are built to the same standard being fit for net zero.

Before other energy vectors (ie heat, hydrogen and carbon capture) are added to whole system energy plan under the RSP the FSO would need to develop further competencies and skills in those areas.

Within the ENA Open Networks project we have witnessed the ESO working collaboratively with all parties to develop consistent approaches for the benefits of all customers. Examples include 1) the agreement of the scenario framework, building blocks and inputs from local and regional stakeholder engagement for forecasting future energy needs ensuring consistency between the ESO produced FES (Future Energy Scenarios) and the DNO produced DFESs (Distribution Future Energy Scenarios); and 2) creation of common flexibility service procurement processes and contractual terms to reduce friction and increase participation of flexibility providers in all flexibility markets.

## 2 Market Facilitation questions

***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 welcome the proposal and agree that market facilitation should be managed by a single expert entity under licence regulated by Ofgem with appropriate consumer protections built-in. This aligns to our response to the initial consultation on Future local energy institutions and governance in April 2022 where we proposed a single organisation should be responsible for the whole flexibility market to unlock the full value of flexibility to deliver net zero at minimum cost to customers.

It is right that the market facilitator role could expand as needed, so it is important that the role is carefully scoped and bounded at the start, with clear accountability and outputs documented for the benefit of flexibility market. This enables any extension of duties to be consulted upon, in the same way as Ofgem currently reviews and revises the ESO's roles and responsibilities.

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

Overall, we agree with the allocation of roles and responsibilities for the three named parties in the distributed flexibility market, but there a few activities that we have amended to reflect our views on the split between development of the rules and their implementation; these are shown below in green for proposed amendments or clarifications.

As the DNO is evaluating the flexibility tender responses and selecting the providers it is appropriate that the DNO informs the successful parties and the platform provider at the same time. DNOs are

required to publish the outcome of each tender process, as per the obligations of Standard Licence Condition 31E. This information could be shared with and published by the platform providers, as proposed in Table 2.

Activities	Actors		
	Market facilitator	Market enabling infrastructure & platforms	DNO
Product development & standardisation	X		
Managing market rules (primacy & revenue stacking rules, contracts, processes, etc)	X		
Engaging with market participants	X		
Customer registration and management	X (policy)	X (operation)	
Pre-qualification	X (policy)	X (operation)	
Identify and specify requirements	X (policy)		X (operation)
Submit requirements on platform			X
Hosting flexibility tenders		X	
Issue flexibility tenders		X	
Match trades		X	
Evaluating and selecting options			X
Inform successful participants		X (optional)	X (mandatory)
Publish tender results		X (optional)	X (mandatory)
Platform analytics		X	
Recording and publishing market data	X (policy)	X (operation)	X
Settlement, credit and clearing	X (policy)	X (operation)	
Market oversight	X		

Table 2 has been helpful to understand the roles and responsibilities of these three actors, including the division of activities. This table should be mapped against existing DNO licence obligations so that any gaps and changes in obligations can be identified to assist in the creation of new licence obligations for the market facilitator.

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

As the market facilitator has the responsibility for market oversight it should also should have the responsibility for defining the reporting requirements indicating the operation and efficiency of the market operations. To ensure a consistent customer (both seller and buyer) experience within a competitive platform provision environment there should be a common standard for settlement, credit checking and clearing which should be defined by the market facilitator.

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

We agree that the market facilitator should be an expert body able to bring the distribution and transmission market arrangements together with the knowledge and experience to develop the flexibility market design as well as being able to drive technical solution discussions. But above all the market facilitator must be neutral, acting and operating in an unbiased way to ensure that confidence in the operation of the market is always high. The market facilitator must be perceived by the industry parties as being neutral. Any loss of confidence by industry parties will damage the development of an efficient flexibility market. There are inherent risks with a market participant acting as the market facilitator and although it might be possible that conflicts of interest (real or perceived) can be managed there is likely lingering doubt through perception that the market facilitator is not truly neutral which could damage the flexibility market. As Ofgem states in the

consultation, assigning the market facilitation role to the FSO does come with an impartiality risk. We would welcome further discussions as the detailed design stage continues to determine whether a conflict of interest framework could be established to manage this risk.

***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?***

A potential option that appears to be overlooked is the market facilitator role being fulfilled by an existing market operator, like Elexon. The FSO could initially bring its expertise and experience to work alongside Elexon whilst the policy and rules are developed but then stepping back at an appropriate time allowing Elexon to perform the enduring role of market facilitator. We do not consider the burden of regulating a new entity to be sufficient reason not to explore a third party taking on this role.

### 3 Real Time Operations Questions

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

In our response to the initial consultation on Future local energy institutions and governance in April 2022 we indicated that real time operation of distribution networks is a core competency of DNOs and this responsibility should remain with DNOs. Most of the responses to the April 2022 consultation aligned with our view and therefore we believe there is wide support for DNOs to retain real time operations and agree with the rationale provided by Ofgem in this current consultation.

### 4 Impact Assessment Questions

***Q11. What is your view on our proposed approach to the undertaking of an impact assessment as outlined in Appendix 1?***

Our initial response to the proposed approach outlined in Appendix 1 is that it seems reasonable, though relatively high-level in its detail at this stage.

We do recognise that it may not be possible to quantify the potential benefits and costs in all elements and as such considering them in qualitative terms is appropriate. This is especially the case where Ofgem is seeking to consider both direct and indirect benefits and costs which we support. We caveat this with where benefits and costs are difficult to identify robustly the roll of sensitivity analysis is key to understand the potential impact differences in costs and benefits have on the underlying evidence to which policy decisions are made. We note that in A1.14 Ofgem refers to low, medium and high assumptions which could be where sensitivity analysis is being undertaken, but more thought and detail needs to be given to what this will mean and look like in practice.

Further we disagree with the statement in A1.16 that this “should result in net zero cost”. For example, we think that some of the activities of the new Regional System Planner are additional to those activities undertaken by existing actors and would expect to see an increase in costs, over and above the transitional costs which would not be consistent with overall cost neutrality. Further to this it is likely that cost increases in the short term are incurred which maybe duplicative where transitional arrangements are put in place. It would help the development of an accurate costs framework if the new and existing activities across the actors, including the Regional System Planner, were defined and tabularised for transparency. This would enable the existing actors to provide the necessary data sought through a Request for Information (RFI).

In addition, to enable a more accurate response to the RFI it would help if there was a clearer view of the size and scale of the Regional System Planners.

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

***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.***

The answers to questions 12 and 13 are combined. Whole system benefits coupled with improved market participation of flexible resources are the most appropriate measures of benefits against the counterfactual under the creation of market facilitator role. Whilst whole system benefits coupled with infrastructure synergies are the most appropriate measures of benefits against the counterfactual under the creation of a Regional System Planner function.

***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.***

Please see our response to Q11 above as we believe that there will be additional costs incurred by the Regional System Planners as they will be undertaking new activities not currently performed by the existing actors eg development of a whole system energy plan.

***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 stated in our responses to Qs 11 & 14 above we see that the Regional System Planners will incur additional costs as they undertake new activities not currently undertaken by local actors. There will be set up costs for the new Regional System Planners and the market facilitation role. As it is expected that the market facilitator will engage with flexibility market actors in the development of the policy and rules there are no cost savings from a DNO perspective as support will be ongoing.

As stated in our consultation response in April 2022 the framework for the development of Local Area Energy Plans is already a recognised standard, with variants devised for regional governments. But the key to delivering these for the benefit of the Regional System Planner is supporting the creation of a series of consistent local plans. So, we think the Regional System Planning should focus on capacity building with the local government organisations, who have responsibility for their production. This will remove a potential implementation barrier for regional whole system energy plans.