

# MCS Foundation response to Ofgem's: Future of Local Energy Institutions and Governance

Submission by **Jenny Russon**

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## Introduction:

Our vision is a world where everyone has access to affordable and reliable renewable energy and zero carbon technologies – for the benefit of our environment, our communities and the general public. As a Foundation we work to increase public confidence, awareness and access to renewable energy and zero carbon solutions across the UK. We support education and engagement programmes, fund research and facilitate innovative solutions to drive widespread adoption.

In addition, the Foundation oversees the [Microgeneration Certification Scheme \(MCS CHARITABLE FOUNDATION\)](#) which defines, maintains and improves quality standards for renewable energy at buildings scale.

## Summary:

MCS Charitable Foundation supports the principle of a more localised approach to energy planning. A UKRI commissioned report in 2022 concluded that a more localised net zero plan and delivery achieved better outcomes than place agnosticism.<sup>1</sup> A more localised, place-based approach has also been seen as a more cost-effective approach to achieving net-zero, contributing to lower consumer bills and making local areas less vulnerable to energy price shocks.<sup>2</sup> In addition, there are wider local benefits, including more local jobs, retention of money in the local economy and local ownership of assets.<sup>3</sup>

We welcome this Ofgem consultation and strongly agree that there needs to be clear accountability and coordination moving forward. We strongly support a case for change but find the current proposals to be lacking important details regarding how local energy planning will be practically implemented. For example, we support the creation of Regional System Planners (RSP) but would appreciate more clarity on their role and responsibilities. One of the key messages of this

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<sup>1</sup> <https://www.ukri.org/publications/accelerating-net-zero-delivery/>

<sup>2</sup> <https://www.ukri.org/wp-content/uploads/2022/11/IUK-011122-SmartLocalEnergySystemsPolicyAndRegulationNov22.pdf>

<sup>3</sup> [https://www.passivhaustrust.org.uk/UserFiles/File/PH%20planning/2019.08\\_CAC-Chapters-all-FINAL.pdf](https://www.passivhaustrust.org.uk/UserFiles/File/PH%20planning/2019.08_CAC-Chapters-all-FINAL.pdf)

consultation is about the need for accountability. However, it is not clear what the RSP will be accountable for exactly. There are elusions to the fact that they will be responsible for electricity and gas systems planning and a possibility of cross-vector planning in the future, but overall, we find this to be ambiguous. From our perspective, we are interested to know whether the RSPs will play an active role in heat decarbonisation or mass-scale retrofit planning. As emissions from domestic heating makes up around 20% of the UK's emissions,<sup>4</sup> this is clearly an aspect that cannot be emitted from any Local Energy Strategy. There needs to be more elaboration on what role/powers will be given to the RSPs to enable them to have a more cross-vector role. Also, we would be interested to know if the RSPs/ FSO will have net zero targets per region that they will be accountable to reach.

Another area of concern is that the consultation does not specify the future interactions between existing structures and RSPs. For example, the interaction between RSPs and local authorities, or RSPs and heat network planners. In particular, we feel that it is unclear what the RSPs jurisdiction is concerning grid development and the interaction between RIIO and the DNO's. For MCS Charitable Foundation, we believe that greater accountability is needed for ensuring transmission and distribution network development at the scale and pace needed to support increased levels of distributed energy resources, including heat pumps, EVs, solar PV and battery storage. As we stated in our response to the Future of Distributed Flexibility consultation, we have already heard of cases where distribution network limitations have acted as a barrier to heat pump and EV uptake. If the distribution network in some areas is already strained, network challenges could have a catastrophic impact on the UK's decarbonisation goals, unless addressed promptly. One way of ensuring sufficient grid development could be to mandate all DNO's to factor in the government's national decarbonisation ambitions into their distribution development plans, for example the 600,000 heat pumps per year by 2028 target. Alternatively, this responsibility could be transferred to the RSPs. What's more, the problems are not simply arising at a distribution level. For grid connections there are ten year waiting lists, due to complexity in bureaucracy and overstretched local planning authorities.<sup>5</sup> These challenges must be addressed moving forward in order to reach our net zero goals.

It is also important to raise the point that local energy planning is dependent on long-term policy clarity at a national level. We would urge Ofgem to put pressure on the Government to make decisions around repurposing the gas grid with hydrogen. It will be extremely difficult for anyone, including RSPs and DNOs, to make decisions on grid development in the next three years with this high level of uncertainty. MCS Charitable Foundation does not support the use of green hydrogen for domestic heating and strongly urges the Government to focus on technologies that are available to decarbonise now such as heat pumps and low carbon heat networks. Using green hydrogen to heat our homes is up to five times more expensive than current natural gas prices<sup>6</sup>, and up to seven times less efficient than using renewable energy to power a heat pump<sup>7</sup>. Research from Imperial College London<sup>8</sup> has concluded that heat pumps, not hydrogen should be the focus of Government heat decarbonisation policy over the next decade.

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<sup>4</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/852605/Future\\_Homes\\_Standard\\_2019\\_Consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852605/Future_Homes_Standard_2019_Consultation.pdf)

<sup>5</sup> [https://www.energy-uk.org.uk/wp-content/uploads/2023/03/EnergyUKReport\\_Acceleratingplanningtodeliveranetzeroenergysystem\\_June2022.pdf](https://www.energy-uk.org.uk/wp-content/uploads/2023/03/EnergyUKReport_Acceleratingplanningtodeliveranetzeroenergysystem_June2022.pdf)

<sup>6</sup> <https://pubs.rsc.org/en/content/articlelanding/2020/ee/d0ee02016h#!divAbstract>

<sup>7</sup> <https://www.theccc.org.uk/publication/hydrogen-in-a-low-carbon-economy/>

<sup>8</sup> <https://spiral.imperial.ac.uk/handle/10044/1/93856>

Overall, we find the consultation to be lacking detail, especially around the implementation of Local Area Planning. We also feel that the consultation has failed to identify and analyse the barriers that have faced local energy institutions in the past. We feel that this is a missed opportunity when determining what actions can be made in the future, to avoid the shortcomings of the past.

We will respond to the specific proposals in our answers to the 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 concept of introducing Regional System Planners. Every local area has their own opportunities and barriers when it comes to transitioning to net zero. Energy system planning should maximise on the potential of each region, tailoring the energy system to suit industry, natural resources, and local communities. This naturally will require a certain level of stakeholder interaction,<sup>9</sup> but could have a wide range of benefits, including increasing local jobs, skills, benefiting local economies, and engendering more consumer engagement. For this reason, we see local authorities as being in a strong position to help coordinate local energy planning, especially considering their local planning role already. One barrier that has been identified is the lack of formalised interactions between the DNOs and local actors.<sup>10</sup> Currently, there is no obligation with DNOs to engage with local authorities, which has the potential to lead to misaligned strategies. Some would argue that local energy plans should be local authority led.<sup>11</sup> We understand that having a regional approach could help coordinate neighbouring local authorities and so we support the concept on RSP. However, we believe that an important responsibility of the Regional System Planners will be to bridge this gap between LA and DNOs. There must be local stakeholder engagement and the RSP must have high regional expertise. If implemented well, RSPs have the potential to aid local authorities. Recent research has found that clearer direction would enable local authorities to deliver projects more easily and help mobilise more investment.<sup>12</sup> However, this is contingent on good communication and coordination with local stakeholders and local authorities.

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

Overall, we can comprehend the design choice considerations and find them to be logical for the most part, however, we would challenge the use of the word 'detailed' and would argue that these concepts need expanding. One source stated that two critical components for local energy governance were:<sup>13</sup>

- The governance of the creation (and regular review/revision) of Local Area Energy Plans (LAEPs) (i.e. their scope, content, methodology, relevant considerations that must be taken into account, the body responsible, the funding framework, rights of appeal/challenge etc)

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<sup>9</sup> <https://www.arup.com/projects/local-area-energy-planning>

<sup>10</sup> <https://ukerc.ac.uk/publications/institutional-landscapes-for-local-energy-systems-mapping-england-scotland-and-wales/>

<sup>11</sup> <https://ukpowernetworks.opendatasoft.com/pages/laep/>

<sup>12</sup> <https://es.catapult.org.uk/report/enabling-smart-local-energy-systems-finance-and-investment/>

<sup>13</sup> [https://es.catapult.org.uk/wp-content/uploads/2022/07/FINAL\\_Building-a-Governance-Framework-for-LAEP.pdf](https://es.catapult.org.uk/wp-content/uploads/2022/07/FINAL_Building-a-Governance-Framework-for-LAEP.pdf)

- The governance of the implementation of LAEPs - the framework of law, regulations and guidance through which LAEPs exert influence on decisions made by LAs, developers, network companies, housing providers, local development agencies etc

For the most part, the design considerations take into account the governance of creation (although some parts are not addressed), however we find the governance of the implementation to be significantly lacking.

#### Accountability:

We agree that there is a lack of accountability for energy systems planning and that putting in place an independent actor which looks across several vectors could be a logical step to address this. However, we believe that there is some detail missing from consultation that needs to be addressed. Whilst having a body with a certain level of accountability is a good concept in principle, what will the FSO be accountable for? Is it just accountable for creating a local energy plan or is it accountable for making sure this local energy plan is achieved? Are they accountable for achieving the net zero targets of the local area? Will every region moving forward have a Nationally Determined Contribution that the RSO will be accountable for? There needs to be a clarity on what they will be accountable for and we would suggest that simply being accountable for creating a local energy plan is not rigorous enough to ensure that local energy planning will help us to reach net zero goals. Also, on the point of being a 'single point of truth' for the region, does this mean that RSO will take a cross sectoral approach and create a local decarbonisation plan for agriculture, transport, heating, and industry? Will the RSO have the power to mandate certain things? In summary, we agree with the need for increased accountability in local energy planning, however, the current design proposal lacks detail on how this will be implemented.

#### Regional Coordination:

As discussed in our answer to **Q1**, we strongly agree with the need for stakeholder engagement, especially with local authorities. We also feel that the proposal lacks some important detail on how the RSP will interact with existing institutions. For example, local authorities and National Planning policy, DNOs and grid development, heat network zoning coordinators and heat network plans.

#### Single entity:

We agree that a single entity which can have both a local and whole system perspective is a logical approach, to ensure cross-regional and national coordination. We strongly believe that if the FSO is chosen, that they need to be heavily regulated in order to address the monopoly market failure.

#### Regional boundaries:

In the consultation, it states: "To define the regional boundaries, we consider it necessary to first define the responsibilities of the RSPs and then to consider how the size of the region may impact the fidelity of the output." We agree that it is critical to the implementation of a local planning approach that the responsibilities of the RSP are clearly defined. Whilst we understand that this is the first consultation, we do find this to be lacking.

#### Skills, expertise, and digital infrastructure

We strongly agree that local stakeholder engagement should be a central step in creating a local energy strategy.

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

To simplify the process, regional boundaries for RSPs could follow the same format as the current DNO boundaries. One key barrier to overcome in energy system planning is a lack of coordination between local and regional frameworks.<sup>14</sup> The RSPs could act to address this challenge by looking at a more regional energy system plan, so that different local authorities can collaborate, so regional opportunities can benefit a multitude of communities. This would also mean that RSPs would only have to collaborate with one DNO for the specific planning of that region, which could simplify the process.

### **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 there should be national and local coordination and that the FSO may be the most suitable independent body to carry this out. However, we do have some concerns around the level of expertise of the FSO in a more local/regional context. Once again, this raises the importance of coordination between local authorities and the RSPs. Arup, a consultancy firm that has worked with a local authority in Pembrokeshire to develop a local area energy plan noted that<sup>15</sup>:

“A successful LAEP cannot be delivered through a simple tool and needs the close involvement of local stakeholders to inform area-based investments.”

Instead, they found that robust stakeholder engagement is required with industry experts from all sectors, including agriculture, transport, industrial and tourism. As local energy planning ultimately involves cross-sectoral planning, which extends beyond simply gas and electricity, there needs to be further explanation and detail on how the local energy plans will be implemented, and the specific responsibility of the RSPs and FSO.

With this in mind, we have concerns about overly burdening the FSO with unfamiliar roles and responsibilities before it has even been established and before its true capabilities are demonstrated. Given this would be a markedly different undertaking than current ESO functions, a clear roadmap would need to be set out by Ofgem at the outset in order to provide industry with a level of certainty in the delivery of this transition.

### **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 with the proposal for a single, neutral expert entity to take on a central market role, with the aim of creating better standardisation and transparency throughout the distribution market. Whilst we agree that a central market facilitator could be a significant step in increasing deployment of flexibility, there are also wider entry barriers to many markets for distributed flexibility. For example, the capacity market is biased towards traditional thermal power stations and there are current barriers towards increased battery storage and demand-side response participation.<sup>16</sup>

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<sup>14</sup> <https://es.catapult.org.uk/report/governance-framework-for-coordinated-local-area-energy-planning/>

<sup>15</sup> <https://www.arup.com/projects/local-area-energy-planning>

<sup>16</sup> [incapacitated\\_March2016.pdf \(ippr.org\)](#)

It is also worth noting that any central market facilitator wielding such power should be highly transparent and accountable to industry. To date, ESO market design has been patchy in their embrace of flexibility. This should not be carried over to distribution markets. It is essential that markets are designed with DSR in mind rather than trying to reform post hoc. This includes how money and data flows through the system. More adaptability and agility must be built into this role in order to reflect the needs of a rapidly transforming system and flexible asset base.

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

For the most part, MCS Charitable Foundation support the allocation of roles and responsibilities, apart from the market oversight and identifying and specifying requirements.

While in theory we support the market oversight being performed by the central market facilitator, it is imperative that current approaches to decision making transparency in the ESO would not be carried over into the FSO's distribution market oversight. We feel that there needs to be greater monitoring of transparency, which has been lacking for skip rates and dispatch transparency in the balancing mechanism. This in an area that highlights the importance of closely regulating the FSO, making them transparent and accountable to industry.

We also feel that roles and responsibilities might be suited to the market facilitator. Whilst the DNO will have greater understanding of the state of their networks, they do differ with respect to their enthusiasm and trust regarding flexibility services. The ancillary (balancing markets) market should be better regulated so that to address the monopoly market failure given to the DNOs.<sup>17</sup> If the methods for flexibility markets are fully standardised, tender volumes should become more automatic and could be taken on by the independent RSOP that has less perceived conflicts of interest than the DNO.

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

N/A

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

MCS Charitable Foundation agrees with the approach of creating a single, centralised market facilitator and that the FSO is a seemingly good choice. However, we do have some concerns about the FSO taking on the role of both the market facilitator and being responsible for the digital energy infrastructure.

**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?**

N/A

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<sup>17</sup>[https://www.theade.co.uk/assets/docs/resources/Delivering\\_the\\_potential\\_of\\_Flexibility\\_Report\\_FINAL\\_Feb2020\\_compressed.pdf](https://www.theade.co.uk/assets/docs/resources/Delivering_the_potential_of_Flexibility_Report_FINAL_Feb2020_compressed.pdf)

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

We comprehend the concerns laid out by Ofgem and broadly agree with the overall analysis that redirecting responsibility for real time operations would be extremely timely, especially as this is such a complex area, for which there are few experts. We strongly agree that there needs to be more transparency but would like to highlight that greater transparency of the DNOs has been a priority for a long time. The consultation does not outline what the barriers to this have been in the past, nor any steps that will be taken to ensure transparency in the future.

While the DSO incentive ought to drive more ambitious thinking in terms of flexibility as opposed to reinforcement or curtailment, this is a yet unproven licence condition, especially with how different DNOs will have differing expectations placed on them. We, therefore, agree that Ofgem should continue to monitor this closely and be flexible to make changes if there is any doubt of underperformance.

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

N/A

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

N/A

**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.**

N/A

**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.**

N/A

**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.**

N/A