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10 May 2023

Dear Fiona,

RE: Future of local energy institutions and governance consultation

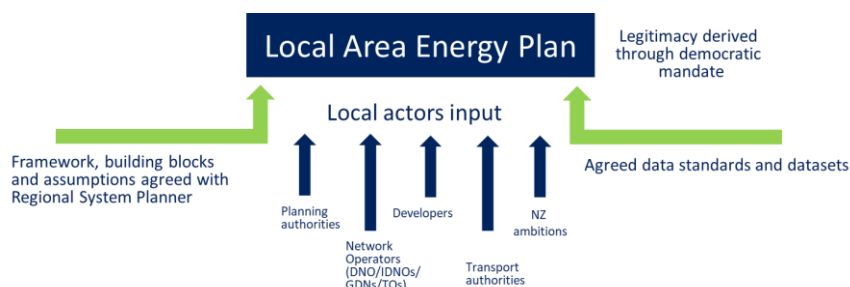
We welcome the opportunity to contribute to the discussion on the proposed package of reforms. Trusted, responsible and appropriately funded local institutions matched with clear and decisive governance arrangements is vital to the successful delivery of Net Zero at pace.

Below we have summarised our views on your proposals and in Annex 1 have answered the specific questions raised in the consultation.

Regional System Planner

We support the proposal to create a Regional System Planner (RSP) to ensure that sub-national whole system scenarios are developed and coordinated across energy vectors. We agree that an **independent regulated entity** with clear accountability for bringing together national policy with regional stakeholders and plans is vital and best delivered through **regionally based** branches/teams supporting development of Local Area Energy Plans (LAEP). Figure 1 shows how local actors contribute to the development of LAEPs and how a future RSP can complement this activity.

Figure 1:



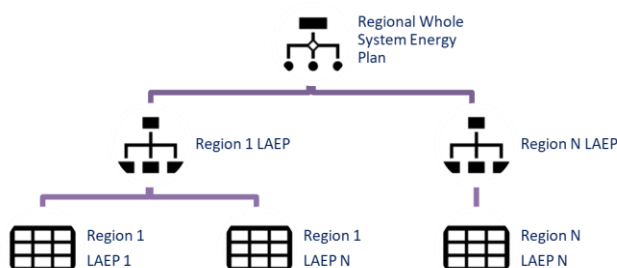
Our experience supporting the Greater Manchester Combined Authority (GMCA) in production of its LAEP has shown us how **value can be created through a coordination role that agrees the development framework for LAEPs**. This consistency of approach is vital and aids coordination for a regional energy plan as it mirrors the Net Zero targets that are set at a local level.



This **framework** sees place-based planning residing with local actors with the core competencies to deliver effective energy plans under a **democratic mandate** with the RSP bringing together national policy with those regional plans to create a whole system plan and scenario.

Figure 2 shows this approach with a RSP creating a regional whole system energy plan derived from LAEPs.

Figure 2:



The stakeholder voice must be central to the development of LAEPs. Both the RSP and the local network operators must engage with local and regional actors on different aspects of the Net Zero transition.

Ensuring that local authorities have **the means as well as the mandate** to deliver on their LAEP obligations is crucial, so we would advocate the RSP having a responsibility to build capability within the local authorities to enable them to fully deliver on their obligations.

We consider larger geographic boundaries such as North of England to be the most efficient way to balance national policy and priorities of, for example, devolved city regions. This would deliver consistent strategic planning but with sufficient granularity to **link regional with national into a cohesive whole through a Northern Regional System Planner** akin to Transport for the North, covering the areas predominantly served by Electricity North West and Northern Powergrid.

With the RSP establishing a regional whole system scenario, and the LAEPs developing hyper local transition plans, the network operator has the information required to develop and design its network capacity plans in line with its core competency. These requirements will be visualised by the DSO via its open data platform and subject to review with stakeholders.

The distribution network investment plan is fundamentally dependent on the quality and timeliness of the inputs from RSPs and LAEPs. Agile uncertainty mechanisms (as designed for ED2) will continue to be needed to ensure there is sufficient flexibility (with appropriate controls) to adapt to alternative scenarios, otherwise there remains a risk that the framework is a barrier to Net Zero. This is similar to the current Transmission capacity issues, which have resulted in long connection queues and customer dissatisfaction. In establishing these bodies, it is important that this risk is clearly allocated to the appropriate parties and appropriate uncertainty mechanisms are put into place.

Where network capacity at a strategic level is created to facilitate the regional system plan, then this capacity is inherently timely and efficient and should not be subject to retrospective assessment.

Market facilitator role

We agree that market facilitation should be managed by a single expert entity regulated by Ofgem with appropriate consumer protections built-in. 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 markets**. Any extension of duties should be consulted upon, in the same way as Ofgem currently reviews and revises the ESO roles and responsibilities.

Overall, we agree with the allocation of roles and responsibilities for the three named parties in the distributed flexibility market. There are some activities that we have amended to reflect our views on the **split between development of the rules and their implementation**; these are shown in more detail in our response to question 6 in Annex 1.

We agree that the market facilitator should be an expert body but above all **the market facilitator must be neutral**, acting and operating in an unbiased way to instil confidence in the operation of markets. As Ofgem states in the consultation, assigning the market facilitation role to the FSO does come with an impartiality risk. We welcome further discussions as the detailed design stage continues to determine whether a conflict of interest framework could manage this risk.

Real time operation of local networks

In our response to the initial consultation on this subject 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. From the responses to the April 2022 consultation we believe there is wide support for DNOs to retain real time operations and we agree with the rationale provided by Ofgem in this current consultation. **This clarification aids the closer integration of system operation activities with the network operation activities and ensures network reliability** as GB DNOs transform to GB DSOs through the digitalisation journey, similar to the European DSO equivalents.

Impact Assessment

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/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/costs which we support. We caveat this with where benefits and costs are difficult to identify robustly, the role 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.

Further we disagree with the statement that this “should result in Net Zero cost”. For example, we think that some of the activities of the new RSP are additional to those activities undertaken by existing actors and would expect to see an increase in costs, over and above the transitional costs. It is likely that in the short-term costs 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 RSP, were defined and tabularised to enable existing actors to provide the necessary data sought.

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 RSP.

We look forward to further discussion on this reform package and are ready to support any next steps in this process. Should you have any questions regarding this letter or our detailed response please don't hesitate to contact me.

Yours sincerely,



Cara Blockley
Head of DSO
Encs: Annex 1