



Energy for
generations

ESB GT's response to Ofgem
Consultation: ***The Future of Local
Energy Institutions and Governance***

10/05/2023

1. INTRODUCTION

This submission presents ESB Generation and Trading's ("ESB GT") response to the Ofgem Consultation: ***The Future of Local Energy Institutions and Governance***

ESB GT welcomes this opportunity to discuss this important topic. ESB's portfolio in Great Britain includes a combined-cycle gas turbine plant in the northwest, offshore wind farm interests in Scotland, and a growing onshore wind presence. A central feature of ESB's business is to deliver benefits to consumers by investing in the most efficient renewable assets, particularly offshore and onshore wind at locations where the wind resource is highest. Naturally, it is important for the rules to facilitate investments at locations where the energy yield is economically viable for these renewable assets.

By way of an introduction, ESB is Ireland's foremost energy company, with around 7,000 employees. Established in 1927 by the Irish Government, and remaining 95% state owned, ESB created the first fully integrated electricity system in the world. ESB owns the transmission and distribution systems in Ireland and Northern Ireland. ESB have been present in Great Britain since market liberalisation and for 25 years has powered homes and businesses across the country, investing around £2 billion. ESB was one of the first IPPs in the UK with our investment in Corby Power Station (350 MW) in the early 1990's.

ESB is supporting Britain's transition to a low carbon future by investing in flexible and renewable generation assets, including combined-cycle gas turbine, wind, and biomass technologies. ESB opened Carrington Power Station (880 MW) in 2016, one of the most flexible and efficient plants in the market on the site of an old coal plant near Manchester. This was the first large-scale gas-fired station to come on stream in Great Britain since 2013. Carrington is owned by ESB's 100% subsidiary Carrington Power Limited. ESB also owns 125 MW of onshore wind generation capacity (with over 1,400 MW in the development pipeline across the UK), a 7 MW battery storage project in Lincolnshire, and recently invested in the 353 MW Galloper offshore wind project.

2. KEY POINTS

- i) **There is a lack of clarity on the Future System Operator (FSO)** that makes it difficult to provide useful input into some areas of this consultation. We would like to see urgent clarity on what Ofgem, DESNZ and the ESO see as the functions, roles and responsibilities and governance structure of the FSO. It is important that these parties agree on what they FSO will be accountable and responsible for, and that this view is shared with industry. There should also be clarity on how the FSO will be regulated and its interactions with Ofgem; there must be measures in place to ensure it remains accountable to industry, with appropriate routes of appeal, given its pivotal role.
- ii) **Given the need for strategic investment, we can see the logic for Regional System Planners**, but it is difficult to state definitively at this stage whether their introduction will deliver the desired “whole system” benefits and how it affects other markets needs to be considered as economies of scale may be lost. Unnecessary costs to consumers which will already be intensified by network reinforcement required to meet net zero, must be avoided when setting up the RSPs and the benefits of the new arrangements over the status quo must be stated clearly.
- iii) **Regional coordination must “ensure a place-based understanding of how the regional energy system is planned”** – various stakeholder arrangements exist for regional co-ordination: these include the combined authorities, local enterprise partnerships (LEPs) and the recently introduced Integrated Care Boards in the health service. If the regions were based on combined authority areas, for instance, this would mean co-ordination across a relatively large area but with the combined authority acting on behalf of its component authorities. This would reduce interactions and make engagement easier between GDNs and DNOs (and other energy vectors), the Regional System Planners and local authorities,
- iv) **Much of the work identified under the Market Facilitator role is currently being undertaken under the Energy Networks Association’s Open Networks Project.** We believe that there are a number of areas that Ofgem could encourage Open Networks to deliver in the interim. These should be relatively easy to deliver and would ensure that progress continues in the absence of governance changes, and that the bodies responsible for the Regional System Planner and Market Facilitator role are set up for success. These areas include: a Distribution level equivalent of the TEC register; a streamlined DNO-TO process for assessing connections, with greater transparency for the connecting party.

3. DETAILED RESPONSES

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 believe that sensible and evidenced low regrets anticipatory investment of the distribution network would be helpful to achieve required network enhancement within tight timescales and at the same time reduce costs to consumers. Strategic investment in critical infrastructure can significantly help to reduce the UK's carbon consumption and cost to consumers, by lowering the need to constrain off generation in the north of Scotland and turn up gas generators in the south of England, to meet demand when there are periods of high wind. At a distribution level, strategic investment can avoid costly disruption of repeated upgrades in step with the gradual increase in demand, or of retrofitting the network after demand has emerged. Regulatory frameworks need to be much more agile than current processes allow, prioritising the accelerated delivery of a net zero grid which will form the backbone of our future energy security and decarbonisation ambitions. Without urgent investment in the grid (both transmission and distribution) it will be impossible to realise renewable energy and wider decarbonisation targets.

Given the need for strategic investment, we can see the logic for Regional System Planners, but it is difficult to state definitively whether their introduction will deliver the desired “whole system” benefits. **There is currently a lack of clarity on the future governance structure for the industry. ESB would like to see more detail on the functions and governance structure of the FSO and how the RSPs and existing network operators will fit into this overall structure.** Without this, it is difficult to provide useful input into some areas of this consultation. Industry requires clarity on what Ofgem, DESNZ and the ESO see as the functions and governance structure of the FSO – this needs to be shared with industry as a matter of urgency.

So, we need to see a further level of detail to be able to comment with certainty. Without knowing exactly what the RSP is expected to deliver in practice, it's hard to say whether the role is correct or whether the FSO is the correct body to deliver it. The FSO has no experience within distributed networks, creating questions on whether it has the skills and experience to undertake this role and if it can be effectively done given the level of new responsibilities at national level.

A further question is: what will be the role of the DNOs and GDNs in determining how their networks will be developed and how will they be able to resolve any disputes? It will be important

to clarify how conflict is managed between the different parties involved in planning, and how parties can appeal discrepancies.

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

We understand the logic of introducing an independent actor within a region that can look across multiple vectors to develop a whole system plan. By developing a strategic plan for a region, we can see how RSPs could identify opportunities for cross-vector synergies or highlight conflicting vector plans and provide an *“impartial view of the optimal pathway”*.

We agree that 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”*. The stakeholders will include network companies and local/regional government but are likely to include actors across multiple vectors, i.e. heat, hydrogen, carbon capture utilisation and storage. Over recent years, local enterprise partnerships (LEPs) have been good examples of shared partnerships which have delivered local economic objectives. More recently, combined authorities have coordinated regional objectives as have integrated care boards in the health sector. The latter are delivering place-based solutions to regional needs through a governance structure that brings together health service, local authority and customer representatives – these integrated boards could possibly provide a model for regional energy system planning.

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

As discussed above, local enterprise partnerships, combined authorities and integrated care boards operate across a number of local authorities. For instance, the West Midlands Combined Authority (WMCA) includes the 7 West Midland metropolitan local authorities plus some district authorities as associate members. So, one option is to base the regions on combined authority areas which would mean co-ordination across a relatively large area but with the combined authority acting on behalf of its component authorities. This would reduce interactions and make engagement easier between GDNs and DNOs (and other energy vectors), the Regional System Planners and local authorities, but obviously the combined authority areas would not marry up exactly to the DNO and GDN areas.

One issue that needs to be addressed is how these future arrangements will apply to Independent Distribution Network Operators (IDNOs). IDNOs will have an input into Regional

System Plans that should be formally drawn out and so how this issue will be addressed would benefit from clarity from Ofgem.

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

As discussed above, we are not yet clear on the functions and governance structure of the FSO and how the RSPs and existing network operators will fit into this overall structure. How will the impartiality of the FSO be guaranteed? The current ESO has its own commercial interests: this would need to change when it transitions to the FSO role. The ESO also lacks regionality and the required level of detail of distribution networks and would need time and resources to develop these.

We also have concerns around the ability of the ESO in its role as FSO to deliver in a timely fashion. There are currently issues with the ESO delivering on planning roles, for example the delays to the *Holistic Network Design Follow-Up Exercise (HND FUE)*. In some cases, ESO's role in planning has created a barrier when trying to connect assets. We do not want to see additional complexity in the connections process with more parties to engage with when trying to arrange a network connection and an additional approvals burden on Ofgem. The introduction of a Regional System Planner needs to add value, rather than just creating another intermediary for parties to engage with.

There is also uncertainty around the timings of when the RSPs could be introduced, especially aligned to Future Systems and Network Regulation (FSNR): there is a risk that any strategic plan is rushed to align to future price controls which is a key concern due to the FSO's lack of experience in this sector. In addition, the FSO's *Centralised Strategic Network Plan (CSNP)* will take about three years for policy development, and a further two years to develop the physical output. Regional plans are more complex, with greater energy vectors and stakeholders, so there is a risk of a sub-optimal outcome, negatively impacting stakeholders.

There should also be clarity on how the FSO will be regulated and its interactions with Ofgem; there must be measures in place to ensure it remains accountable to industry, with appropriate routes of appeal.

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?

Yes, ESB agrees there should be a single body to deliver standardisation and provide the best experience to customers, having a single point of registration for example.

Any new entity must collaborate with, and take learnings from, the Open Networks project. The ESO has been closely involved with the Open Networks project and so this adds to the case of the FSO assuming the central market facilitation role.

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

We agree broadly with the allocation of roles and responsibilities set out in Table 2. We would welcome more information on the market oversight aspect – there should be an independent assessment of the performance of the market facilitator.

We suggest that there would be benefit in having registration and pre-qualification with the market facilitator - this would provide a better customer experience.

It is important that the development of products is not solely with the FSO – market participants should be able to propose innovative products and solutions, and the FSO should have a collaborative role in this process.

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

It would appear that performance assurance is absent from the list of roles and responsibilities, or is this included under market oversight? Who is responsible for assuring parties deliver what they say they will?

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

We understand the reasons why Ofgem considers the FSO to be the candidate that most aligns to the characteristics it considers the market facilitator should possess. However, we need more information before we can agree with this preference. Ofgem has highlighted the impartiality risk from the FSO also being a market buyer – we would like to understand what ringfencing procedures would be put in place to ensure the FSO's impartiality in its role as market facilitator.

We would also like more information on how the FSO would be resourced to take on this function in conjunction with its other roles.

We would re-iterate that there should also be clarity on how the FSO will be regulated and its interactions with Ofgem; there must be measures in place to ensure it remains accountable to industry, with appropriate routes of appeal against its decisions.

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?

The only other viable option for the market facilitator role, we believe, is Elexon. They will be licensed entity and already have experience managing some of the necessary functions. This would ensure separation of the market facilitator and regional system planner roles and prevent too much power being concentrated in one party's hands.

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

Yes, the DNOs are best-placed to operate their networks - this is the least disruptive option, and we don't see any other party being able to perform this role better. That said, improvements in the way that the DNOs manage their networks can be made, as proposed in RIIO-ED2 that will enable greater digitalisation and data sharing, as well as the behaviours driven by the *Smart Optimisation Output* licence obligation. We agree, also, that operational decisions made by the DNOs need to be more transparent and that significant improvements in operational coordination are needed.

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

A key aspect of the impact assessment will be the identification of the costs and benefits that can be directly and indirectly attributed to Ofgem's proposals for the RSP and market facilitator roles, as well as any interactions with real time operations. We would like to see more information on the *'interacting organisations' framework* and how this could be effective in delivering the priority benefits that Ofgem expects and how it is adaptable to future change such as the significant ongoing reforms including potential market changes envisaged in REMA.

We would also like to see more detail on the functions and governance structure of the FSO and how the RSPs and existing network operators will fit into this overall structure. We would encourage Ofgem to review the additional planning roles that have been given to the ESO, and whether they have been delivered successfully, as part of this impact assessment.

The impacts and costs on IDNOs of these proposals also needs to be assessed.

Q12. What is your view on the most appropriate measure of benefits against the counterfactual from the package of measures designed to enhance flexibility, of which our governance proposals are a key enabler?

We agree that it may be difficult to attribute the benefits of your proposals. It might be appropriate to commission a new, independent study to assess the costs and benefits. It may also be possible to utilise previous studies and filter out which benefits can be attributed to the proposed governance arrangements. An obvious source of information is the Open Networks project carried out by the ENA.

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.

No answer.

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.

A significant cost will be the set-up and resourcing of the RSP and market facilitator functions, whether as part of the FSO or a third party. It is not yet clear what the precise functions of the FSO will be and so it is difficult to estimate what these costs might be at this stage. Setting up new governance structures will also incur start-up and ongoing costs. These costs will ultimately be borne by consumers and so should be minimised as far as possible.

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.

It is difficult to assess these costs at this time given the lack of detail in some of the proposals.