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The Association for  
Decentralised Energy

Combined Heat & Power  
Demand Side Services  
Energy Efficiency  
Heat Networks

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## ADE Response | Ofgem consultation on the Future of local energy institutions and governance | 10 May 2023

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### Context

The ADE welcomes the opportunity to respond to Ofgem's consultation on the Future of local energy institutions and governance.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, low-carbon and user-led energy system. The ADE has more than 150 members active across a range of technologies, including both the providers and the users of energy equipment and services. Our members have particular expertise in demand side energy services including demand response and storage, combined heat and power, heat networks and energy efficiency.

### Overall Evaluation

- We support the areas of focus in the consultation and the overall vision of change presented by Ofgem.
- Although we appreciate this is the first full consultation on the topic, in many areas, the proposals are extremely high-level, without a focus on how practically this would be done.
- It is critical to understand how the RSOP would have a clear mandate and even enforcement powers to develop a cross-vector view. This is particularly important given that the local actors within scope currently do not have incentives to support this if it contradicts their own view.
- More consideration is needed on how this would interact with e.g., RIIO to put some weight behind cross-vector strategic planning and investment – welcome the concomitant publication of the consultation on the future of RIIO. However, the links are not well drawn – particularly given that the experience of the Whole System CBA and Coordinated Adjustment Mechanism has been that more fundamental changes will be needed to allow a proper comparison and planning across even just the gas and electricity sectors.
- More consideration is needed on how this would interact with heat network zoning coordinators and the methodology for developing heat network zones.
- More consideration is needed on how the proposals in this consultation interact with the whole system strategic role being given to the FSO, especially across gas and potential hydrogen networks.
- Finally, the proposals lack historical context or Ofgem's view on why initiatives similar to this in past (for example, around transparency) have not been effective. This lack of historical context risks failing to learn from previous mistakes.

### Consultation Questions

#### **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?**

The ADE supports the case for change made in the document and generally agrees with Ofgem's vision for how to address the issues raised. In particular, we support the proposal for a single, independent market facilitator in order to achieve the goals of coordination and transparency. We note that although the pace of progress is suboptimal, it will be essential to ensure that progress does not stall throughout the RIIO-ED2 period in light of these proposals. While the DNOs will of course be bound by their licence conditions (which should become increasingly ambitious as per the DSO Incentive), Ofgem will need to take strong leadership with regard to Open Networks and how to accelerate this work as the transition gets underway. Given its lack of mandate, there will be a strong risk of hiatus, or lack of motivation to push ahead, given the proposals set out in the consultation. Ofgem cannot allow that happen and must set forward a vision for what changes will be needed.

These proposals recognise the right issues on the electricity system. However, there are a few areas which are perhaps neglected.

Firstly, whilst appreciating the focus on electricity, the introduction of heat network zoning is arguably as significant for heat decarbonisation. Whilst there are some, very high-level references to heat in this document, there are no detailed considerations about how, in particular, the Regional System Planning and Operations role will interact with the newly created Zoning Coordinators. It will be important to have a clear vision for how these roles interact from the outset, especially given the lack of historical expertise within current system operators on heat.

Secondly, the proposal considers distinct roles for the RSOPs compared to the network licensees. However, it does not set out compellingly how conflicting approaches and findings would be resolved between the different local bodies, and between those bodies and the RSOPs. This is important because the decisions made with respect to local strategic planning may well significantly impact the revenue of one type of infrastructure compared to another. Further, as it stands, the different local actors have very few incentives within their own revenue frameworks to work towards a common solution. It is not clear from what is set out currently what mandate or incentives the RSOP would have to require and enforce the most cost-effective solution; creating the risk that it becomes purely an advisory body with very little teeth.

Finally, as has been shown by the work on the Whole System CBA, the Coordinated Adjustment Mechanism and the introduction of heat network zoning, the RSOP is unlikely to be able to form a coherent local view whilst the approaches towards strategic planning at local level remain so different. We support the publication of these proposals alongside those considering the future of RIIO but consider that this area needs more thought.

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

We fully support working from the premise of increased accountability in consideration of design choices. However, the proposals as they stand do not set out how this would be achieved beyond noting that the body should be independent and regulated. This area needs to be developed more with a particular focus on how such a body would be accountable to the local population, industry and its relationship with central and local Government. In particular, as set out above, it is important to decide whether, for example, a local energy plan should have precedent over the RSOP's view on what is a fully cost-effective, cross-vector solution for a local area or vice versa.

Further, we support the proposal that the RSOP must have good local knowledge. This will be important for electrifying transport and heat as different regions will proceed at different speeds

and will be important for coordination with heat network zoning which will differ from region to region. Whilst we also recognise that there needs to be more standardisation at a national level, we do not think that this necessarily means a national body with regional branches. In other areas, for example, Local Authorities, the heat network zoning methodology, Heat and Energy Efficiency Scotland etc., standardisation at a national level is achieved through clear methodologies and support at national level but then with local organisations.

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

Whilst it would be ideal to have boundaries that are bigger or smaller depending on the local context, it is not clear how this would be workable. For example, it is not clear how this would ensure that all regions of the country are considered or how such RSOPs would be developed in a timely way if given such a fuzzy set-up.

Further, it is also not clear that the boundaries have to match those already in place. For example, such a RSOP could still develop a cross-vector plan for only part of a DNO region with another RSOP doing the same for another of the DNO's regions.

With respect to boundaries, the ADE considers that the principles that should guide this are: a) A large enough area that the overall number of RSOPs is not impractical b) A large enough area that the cross-vector plan created is sufficient to create a clear signal for local investment c) As far as possible, boundaries that wouldn't lead to arbitrary decisions being made about how to incorporate planning from other local actors, for example, the extent to which a certain reinforcement project should be considered within scope of the specific RSOP or not.

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

Overall, the FSO makes the most sense to carry out this role – especially with respect to aligning national and regional electricity systems, and looking across electricity and gas. Given the strategic role the FSO will play in the net zero transition, it seems to be the best placed option to become a single source of distribution and transmission market facilitation and planning going forward. However, in other respects, this has some limitations. For example it is unclear that the FSO is the right body to understand local regions or vectors beyond gas and electricity.

We also note the importance of not 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.

**Proposed governance reform: market facilitation of flexible resources**

**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. While the ADE is highly supportive of the work undertaken by Open Networks to date, the pace of change and ambition of proposals is suboptimal. Furthermore, its lack of mandate can lead to confusion and lack of transparency within industry. We appreciate the span of topics under consideration in Open Networks but this unfortunately makes it a difficult forum to resource, especially for nascent members of industry. Aligning this work under a single entity with a clear mandate is a necessary step to achieve better standardisation.

However, it is equally important that any body wielding such power 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?**

In general, yes. The only two caveats would be market oversight and identifying and specifying requirements.

Regarding the former, while in principle we support this, 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. The ADE have consistently raised concerns over skip rates and dispatch transparency in the balancing mechanism and we do not believe a sufficient monitoring system has been adopted to date. Although a specific issue, it is another example of areas where any transition of responsibilities to the ESO/FSO must be closely monitored and evolved from current practices.

Regarding the latter, this could be taken further and be allocated 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. 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?**

As set out in the consultation on the future of RIIO, the future of distribution is subject to uncertainty. It may be the case that significant innovations change the landscape quite considerably over the next decade – for example, moving from the set of flexibility tenders we have now and the largely administrative approaches to national-local coordination to a much greater focus on local balancing markets. It is not clear in Table 2 where the responsibility for supporting innovation and then making the innovations that work mainstream would sit.

Connections will play an important role in the extent to which distributed energy can participate in flexibility markets going forward. Whilst some decisions have been made at national level through the Access Significant Code Review, there remains different approaches to firm and non-firm connections at Distribution level. The responsibility for this and how this would interact with changes to flexibility service development and standardisation needs to be included.

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

We recognise that the correct entity to hold the market facilitator role will highly depend on the outcome of the Future of Distributed Flexibility CfI. Regardless, we agree with Ofgem that a centralised, mandated, single entity is the best approach and that the FSO most closely resembles these factors. On the central column of Table 2 and as per our response to the CfI, we do not believe the FSO should hold both.

**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 ADE does not have a position on this.

**Proposed governance reform: real time operations**

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

We understand the rationale behind Ofgem's proposal here but would add some reflections. 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.

Further to this, the push for transparency from the network operators has been a priority for some time. The consultation does not currently provide Ofgem's view on how well this has worked to date or the barriers and issues that have meant it has not worked as well as hoped. Furthermore, the extent to which DNOs have approached the issue of DSO function separation varies dramatically, from those embracing legal separation to those with much thinner divides. To illustrate this point, we have attached a RAG comparison the ADE submitted alongside our response to the draft business plans for RIIO-ED2.

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

Although acknowledged in the Appendix that setting the counterfactual is highly dependent on other policies (eg EV rollout) it does not fully capture the extent of that picture perhaps. In this instance, the counterfactual will include that natural evolution of the FSO already set out and any impacts of decisions made in REMA. Therefore, it may be difficult to use steady progression of the current trajectory as a counterfactual.

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

The ADE does not have a position on this as what has been set out in the consultation appears sufficient.

**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 ADE does not have a position on this as what has been set out in the consultation appears sufficient.

**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.**

The ADE does not have a position on this.

**Q15 What additional costs may arise from sharing functions with a number of interacting organisations? We welcome views on set up cost, lost synergies, and implementation barriers.**

The ADE does not have a position on this.

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## Appendix 1 | Comparison of DNO draft business plans regarding flexibility (29 October 2021)

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### **Comparing business plans**

The ADE has compared the DNOs' draft business plans with respect to several questions that are the most important to the DSR sector and RAG rated their commitments. This RAG rating reflects both whether a particular topic is covered in an absolute sense and also the level of ambition shown by a given DNO compared to the others.

## Overall comparison

	UKPN	WPD	ENWL	SSEN	SPEN	NPG
Expansion of flex markets; including at LV	Ambitious expansion to LV networks	Flexibility First only for EHV and HV. Explicitly says that LV flexibility will not be BAU in this period. Does however commit to expanding LV monitoring.	<p>Strive to secure flexibility first at all voltage levels.</p> <p>Increased HV and LV monitoring.</p> <p>Commitment to move closer to real-time flex procurement.</p>	Clear ambition to expand significantly to LV networks	<p>Automation of LV flexibility tendering and management;</p> <p>Expansion of Engineering Net Zero (ENZ) platform to facilitate LV flexibility service use.</p> <p>However, no explicit flexibility first commitment as set out by others.</p>	Flexibility First approach and explicitly committing to investing to develop and stimulate flex markets; incl. at LV. – <b>note in final business plan, explicit reference to LV is around investing in monitoring (to cover 50% or LV substations), which I guess is a first step to enable flex at LV, but not EXPLICIT commitment to flex at LB at this stage?</b>
DSO governance and conflicts of interest	Fully separate DSO. New code to govern its responsibilities.	Unclear within the Business Plan	<p>Commitment to further separation between DSO directorate and the rest of the business.</p> <p>No mention of how CLASS pertains to conflicts of interest.</p>	DSO Operating Model and annex on conflict of issue questions are not explicit about separation – only emphasising transparency and aligning with ENA stds.	One of six main areas of investment for DSO = ensure right business structure and people to deliver DSO. No further detail (unless this is in annexes not yet publicly available)	<del>Emphasises separation of systems and decision-making processes – although not as far as UKPN. –</del> Final business plan: new DSO business unit responsible for all



				Explicit that will not progress CLASS-like services unless directed by Ofgem.		core DSO functions, with accountability at executive level, separate director
Approach to anticipatory investment	Flexibility First AND explicit that this trumps anticipatory investment.	Flexibility First approach; whilst noting that anticipatory investment has been a stakeholder priority.	Unclear	Strongly emphasises the option value of flexibility in procurement over the period.	Strategic investment; “touch the network once” approach. Flexibility referred to in somewhat generic terms; no ‘flexibility first’ rhetoric. Recognition that new ways of investing required, moving away from conventional reinforcement to more flexible solutions. However, SPEN also emphasise a continued need for conventional interventions in many areas “due to a lack of mature flexible options”	Emphasise Flexibility First approach – <b>but also emphasis on low-regret investment in LV network due to forecast growth across all scenarios...</b>



Approach to data management and network monitoring	Ambition for 100% coverage of networks down to LV through mix of real-time data sensors and using smart meter data.  Implementing the EDTF recommendations.	Implementing the EDTF recommendations.  Increased network monitoring.	Implementing the EDTF recommendations.  Increased network monitoring.	Data and digitalisation highlighted as significant and committed to EDTF recommendations.	Improved LV network monitoring; ambition to roll out real time monitoring to 52% of substations, covering 76% of customers.  Implement Data Best Practice Guidance.	Significant investment in digitalisation and notes EDTF recommendations.
Approach to Active Network Management	Unclear	Expanding use of ANM (incl. by reducing the cost threshold for it to be proposed for connections)	Expanding use of ANM	Expanding use of ANM – incl. 3 <sup>rd</sup> party provision (e.g., Orkney/Electron)	Expanding use of ANM	Expanding use of ANM
Approach to broader energy planning (e.g., LAEP)	Collaborating with LAs and others	Collaborating with LAs and others	Unclear	LA engmt noted and further work indicated in innovation on e.g., heat decarbonisation	Taking 'strategic optimiser role' (setting up team of Strategic Optimisers), working alongside local authorities around Local Heat and Energy Efficiency Strategies and Local Area Energy Plans; Working with community energy schemes	Recruitment of 6 LAEP officers to work with the LA and broader energy industry
Approach to energy efficiency	Developing an energy efficiency product from 2023	An innovation theme only.	Supporting its participation in flexibility markets.	Supporting energy efficiency as an alternative to network reinforcement.	Supporting energy efficiency as an alternative to network reinforcement.	Part of CSR activities and part of broadening flex services. <b>Not highlighted in final</b>

						business plan – energy efficiency mainly talked about with regards to 1) own network assets and 2) energy efficiency from dynamic voltage optimisation of customers' equipment....
Innovation areas of focus	RDP expansion; Power Potential as BAU	Peer to peer trading as a theme of innovation	Ongoing development of ENWL's ROCBA tool for the CBA between flex, EE, deferral or network investment.  Ongoing development of the Flexr data sharing service.	Note the usefulness of LEO and the Orkney project in providing evidence for these proposals. Flex-related innovation projects are quite std – e.g., new flex products and LCT roll-out.	Unclear. Innovation areas described generically but detailed with examples of projects planned in Annex 3.1 (not available at present).	LV flex services noted as a theme for innovation, and flex more broadly
Other notes	DSO satisfaction survey is positive.	New IT system called DSR to support end to end contracting and dispatch of Flexible Power arrangements is positive	Negatively - Notes the importance of CLASS.  Positively - Is the only one to explicit commit to reviewing the cost changes as network investment projects develop (e.g., if costs are higher than forecast) and re-assess whether flex is better option	DSO ODI has the right elements and is backed up by some good quantitative metrics	N/A	Creating a digital twin of the HV and LV networks to support flex and network planning is positive