

## Future of local energy institutions and governance

### Proposed governance reform: energy system planning

*Solution: introduce a new RSP actor to ensure there is accountability for regional energy system planning.*

#### **1. 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 introduce a Regional System Planner. However, we think more work needs to be done in considering this role in parallel and conjunction with existing roles, and in defining the regional scale that it is proposed the RSP would work at.

The role of the RSP as it is defined sounds like it could be serving the function of a regional convener, across different regional planners, and it could be argued that this role currently exists in some areas, for example within Combined Authorities. We would like to know how Ofgem would differentiate the RSP role and learn from existing groups such as Energy Capital at the WMCA who, with the same statutory responsibilities, could serve the same function. There needs to be consideration of how the RSP will fit alongside those bodies, and in the instance where there isn't the existing body, how the RSP will bring together the breadth of stakeholders necessary to align in one place. We think there is a case for taking a varied approach across the country, respectful of local government structures.

It would also be extremely important to understand the **regional system operator** would link with bodies delivering flexibility/demand-side response services etc.

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

Generally, we agree with the detailed design choice and the rationale behind the need to be independent when acting across energy vectors, and to have the technical remit to do so. The RSP should be accountable to the regulator and their work should be regulated; however, we feel that since it should not be actively delivering a service in the same way the DNO/GDN does, the regulation should be appropriately scaled to still allow the RSP to work effectively.

We are less aligned with the proposal that the RSP should be a single entity that delivers via multiple branches. Retaining a centralised position is not adequately addressing the need to decentralise energy governance and we feel this will consequently limit the place-based nature that the RSP should have and its consequent benefits. We believe that to be effective and successful in its role the RSP should be embedded within the place and interface regularly with the local stakeholders it is accountable to. In many locations there is already a strong working relationship between planners at a local and regional level, which needs to be built upon.

It could be more appropriate for the RSP to be delivered by a local entity in conjunction with or supported by a core centralised entity to provide the national context. We think this is a subtle shift in the proposed model that will be more beneficial to place-based delivery utilising more of the existing locally embedded skills, knowledge and assets.

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

To capture meaningful place-based benefits across a whole system the boundary needs to be sufficiently small that essential details are captured, whilst retaining the scale needed when considering transmission and distribution infrastructure.

Taking into consideration the overwhelming trajectory for electrification in achieving net zero, Energy Capital along with other organisations believe that the scale is best aligned to existing electricity network operator areas (for England). We think that the scale should not exceed the size of an existing licence block area and should not be smaller than a combined authority area. Where established political boundaries are not aligned to a license block there should be some consideration and flexibility to accommodate this, e.g. Coventry is served by the East Midlands licence block but sits within the West Midlands Combined Authority.

Additionally, we would like Ofgem to give consideration to where a boundary is drawn around varying place typologies e.g. rural vs urban. This is a potentially significant issue: if a rural area is appended to a majority urban combined authority area the place-based approach could skew to urban trends and, as such, the rural area may not benefit in the same way as if it were associated with more similarly adjoining rural areas.

In determining this scale, it is essential that Ofgem consider the findings from PWC “Accelerating Net Zero Delivery” to understand the scale at which place-specific benefits are gained and/or lost, considering the cost of the number of RSPs that would require and identifying the optimum scale in which place-specific benefits accrue whilst not being uneconomic.

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

We think it would be more appropriate for the RSPs to report to the FSO as part of their role, but would be better delivered at a more regional/local level where the relevant skills are located. We would propose a scale along the lines of combined authorities with the addition of adjoining local authorities with matching urban/rural classifications – although this will ultimately be determined by the selected RSP boundary, and should be aligned to the relevant public sector structures.

If we were to consider a regional system operator at this point it would be incredibly difficult to build that level of functionality out into a regional context from the outset and this may initially need to be incorporated into the FSO role. However, we would like to see the definite intention for this to eventually come out of the FSO and take on a regional presence.

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

*Solution: assign a market facilitation function to a single entity with sufficient expertise and capability to deliver more accessible, transparent and coordinated flexibility markets.*

**5. *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.

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

We think that “Product development and standardisation” needs to be broken down. Whilst it would be appropriate for respective experts to be responsible for product development, the market facilitator must have a role in standardising this and ensuring that it is either universally available, or where it is geographically specific, it does not create an unfair advantage/disadvantage in market operation.

We find it confusing that the table lists three actors when the “Market enabling infrastructure and platforms” are a tool and this column should instead detail the owner group of this tool to better comment on their roles and responsibilities.

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

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

We understand the ease of assigning this role to the FSO but feel that it could introduce conflicts of interest, and we agree with the statement in regard to the ENA.

**9. Are there other options for allocating the market facilitator role you think we should consider? If so, what advantages do they offer relative to options presented?**

We think consideration should be given to a body more akin to that of Elexon, where they are already responsible for the balancing and settlement codes, with previous responsibility in administering the Government’s energy price guarantee for example. As an established, not for profit organisation funded by the electricity market participants, an extension of their current remit should be considered.

**Proposed governance reform: real time operations**

*Solution: keep real time operations within the DNOs, ensuring clear accountability for network reliability and safety while maintaining future optionality.*

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

Yes.

**Next steps**

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

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

We feel that there should be the inclusion of place in the list of benefits, along the lines of increased place autonomy, recognising that one solution cannot be relevant everywhere. Against the

counterfactual this should measure the cost and carbon savings due to making place-specific decisions, but also create a KPI for how easily a place is able to execute their place-specific decisions, e.g., if a technology presents itself most favourably compared to others but the market does not easily facilitate this delivery, it should be marked poorly.

***13. 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.***

We would advise considering which of the governance changes/policy reforms are the enabler of the benefit as a primary attributor, and as a secondary consideration which of the governance changes/policy reforms are crucial to the delivery of the benefit. To identify which of the governance changes/policy reforms are most impactful, if prioritisation is required, we would advise assigning a score of 2 to the primary, 1 to the secondary and 0 if not applicable; the governance change/policy reform with the greatest score should be prioritised (within the broader landscape of a critical path if that relies on another to be delivered before it) in order to accelerate these changes.

***14. 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.***

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