

Sustainable Energy Futures Ltd

Dear Fiona,

08/05/2023

Response to Ofgem's consultation on the future of local energy institutions and governance.

Sustainable Energy Futures Ltd is a consultancy that provides advice, analysis and challenge for zero-carbon energy transformation to clients globally. This response was drafted by SEF Director, Dr Jeff Hardy.

Thank you for the opportunity to respond to this consultation. I led the Energy Revolution Research Consortium's (EnergyREV) response to the call for input. This response is independent of EnergyREV, which finished in March 2023 at the end of the UKRI Prospering from the Energy Revolution programme.

Summary

Ofgem has set out a reasonable case for a regional system planner and for market facilitation standards. The case for the FSO taking on the regional system planner and central market facilitation role is not compelling and could have significant downsides. These include:

- Both add complexity to the role of the FSO, which could cause friction, trade-offs and slow decision-making.
- Any regional planner risks losing the connection between place-based energy plans and local economic plans (including wider spatial planning), co-benefits, and the value and preferences of local people and businesses.
- Waiting for the FSO to take on these roles introduces a delay in sorting out important issues, particularly given the timeline for establishing the FSO is uncertain.

For the regional system planning function, Ofgem has set objectives and principles for an institution that will improve coordination in energy planning. I think Ofgem has an opportunity to return to energy and planning actors and run an institutional design process to seek views on the best institution to achieve these objectives.

Ofgem has identified issues around clear rules and standards for the central market facilitator. Ofgem has within its gift the powers to speed up the development of these now. Ofgem can compel the industry (via licence conditions and existing bodies, like the ENA) to rapidly sort the rules and product standardisation quickly and allow existing and emerging flexibility platforms to compete and deliver. Ofgem can monitor the markets, which it already does in wholesale, retail and competition in connections.

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Response to your specific 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?

I agree with the case laid out for a regional system planner. In previous work for EnergyREV¹ we also identified a missing system function that we described as an “Independent coordinator to oversee net-zero and coordinate national & local (planning, investment, zoning, licensing etc.)”.

The case for the FSO taking on this role is less clear. I see several potential issues with the FSO taking on this role:

- The key point that I will return to in other questions is that it adds complexity to the role of the FSO. This potentially slows down or causes issues with the FSO fulfilling its duties. In my time at Ofgem, I saw first-hand how the range of duties and responsibilities in the organisation caused friction and delays in decision-making. Setting the FSO too many responsibilities could have the same effect.
- It risks trade-offs between the FSO's wider functions (such as energy security). In other words, regional energy planning (and the local energy considerations within this) are but one factor the FSO will consider. There is a risk that local & regional aspects are under or over-emphasised.
- It is unclear whether the FSO will adequately understand the local dimensions of local energy plans. These plans mix local area preferences, needs, resources, skill requirements and economic aspirations. There is a risk of place-based energy plans being aggregated into regional plans and losing these important considerations.
- The argument that establishing a new body would need to build the skills and capabilities from scratch does not hold. The same is true for the FSO, which does not yet exist and, as such, does not have the capabilities either. I worry that waiting several years until the FSO is fully established will be a lost opportunity for local, regional and national coordination during this period.

In summary, think that Ofgem has set objectives and principles for an institution that will improve coordination in energy planning. I think Ofgem has an opportunity to return to energy and planning actors and run an institutional design process to seek views on the best institution to achieve these objectives.

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

See Q1.

The detailed design choices are narrow in how they are framed. It does not consider the wider reasons behind place-based energy planning. These include local economic plans (including wider spatial planning), co-benefits, and the value and preferences of local people and businesses. These would be lost in the predominately techno-economic view outlined in the considerations. Failure to recognise these important place-based nuances could lead to modelling and planning outcomes that result in significant objections and push-back. Local Area Energy Planning and Distributed Future Energy Scenarios have

¹ https://www.energyrev.org.uk/media/2000/energyrev_decisiontheatre_report_final_202207.pdf



similar weaknesses and are important regional planning inputs.

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

No response.

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

See Q1.

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?

I agree that there is a need for greater transparency, standardisation and interoperability between markets. The case does not convince me for a single neutral expert entity to take on this role. My rationale is similar to that in Q1, in the case of the FSO.

For this central market facilitation role, I am concerned that linking it to the FSO will delay something required now by several years. The roles and responsibilities outlined in Table 2 of the consultation for the entity (certainly the first two) are product and rules standardisation. I feel it is within Ofgem's gift to speed up the development of these now. It could do this through licence conditions (if required) for network companies and the system operator. Whilst Ofgem rightly suggests that the ENA Open Networks process is too slow, Ofgem has the tools and means to compel the participants to move faster.

With clear rules and standard products, I don't see a strong case for a market facilitator. Transparency could be achieved through mandated reporting (e.g., through licence conditions on the DNOs). That leaves market engagement, which I see as a role for the network and system operators and the platforms themselves.

In summary, compel the industry to rapidly sort the rules and product standardisation quickly and allow existing and emerging flexibility platforms to compete and deliver. Ofgem can monitor the markets, which it already does in wholesale, retail and competition in connections.

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

See Q5.

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

No response.

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

See Q5.

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

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presented?

See Q5.

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

Yes.

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

I agree that there will be significant benefits to greater coordination. The benefits are unclear until Ofgem and the industry move to a standard whole-system costing approach.

I see two potential issues with impact assessment:

- A standard approach to impact assessment would likely fail to take account of the wider (co-) benefits that place-based energy seeks to achieve (see Q2). This has been a long-running issue with how Ofgem undertakes impact assessment.
- Given Ofgem's proposal for the FSO to take on both the regional and market facilitation role, it is unclear how other potential options, such as different institutions fulfilling those roles, would be assessed.

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

Ofgem has identified a reasonable set of factors for the counterfactual – for example, setting policy baseline at RIIO-ED2. Some issues need further consideration:

- The fact that local energy planning differs in England, Scotland and Wales.
- That there are significant decisions underway, such as REMA, which have implications for the governance and institutional roles.

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 response.

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.

Given that the functions being proposed are new to the FSO, there will be cost implications for bringing in the relevant skills and developing the relevant tools, standards, and products.

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.


No response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Hardy', with a stylized flourish at the end.

DR JEFFREY HARDY
Director

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