Decision

Making a positive difference for energy consumers

Future of local energy institutions and governance

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This document sets out our decision on the future of local energy institutions and governance, following on from the Consultation we issued in March 2023, after our Call for Input in April 2022.

We explain our decision-making process and the rationale for our decision to reform governance of key energy system functions critical to distribution system operation: energy system planning, market facilitation of flexible resources and real time operations. For each of the three functions we explain our consultation position and summarise the responses from a range of stakeholders which have helped inform our decision.

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Executive Summary

The journey to net zero demands radical changes across the energy system. Changes in the way we heat our homes, power our vehicles, and generate electricity are already happening. These changes will require significant new investment, especially in electricity network infrastructure, which will mean changing how the system is planned and operated at the national and sub-national levels.

There are three major system functions that are critical to delivering this transition effectively: energy system planning, market facilitation of flexible resources, and real time operations. These functions must be delivered by institutions with the right competence and skillsets and which are appropriately incentivised to deliver net zero at pace and at least cost. Critically there must be clear accountability and effective coordination. The challenge of delivering effective governance is in flight at the national level and must also be reflected at the local.

Effective governance is a critical enabler of the transition to a smart and flexible energy system, focusing on existing as well as evolving system needs. This decision document is part of our review of governance and institutional arrangements at a local level. The review began in April 2022 with a Call for Input[1] on the future of local energy institutions and governance, followed in March 2023 by a Consultation[2] on a proposed package of reform. We received 83 consultation responses to the Consultation, supplemented with stakeholder engagements over the summer.

This document sets out our decision and next steps:

a) Energy system planning – our decision is to proceed with our consultation proposal to create new Regional System Planners (RSPs), renamed as Regional Energy Strategic Planners (RESPs) to better reflect the intended function. RESPs will be responsible for the development of strategic energy plans at the regional level, providing critical planning assumptions to inform system and network needs. Regional plans will aggregate top-down national targets and scenarios with local and regional insights. The RESPs will be responsible for enabling effective participation and oversight via democratically aligned governance mechanisms. The Future System Operator (FSO) will be the delivery body for this role. RESPs will total between 10 and 13 across Great Britain (GB) - one in Wales, one or two in Scotland, and between eight and ten in England.

[1] https://www.ofgem.gov.uk/publications/call-input-future-local-energy-institutions-and-governance

[2] https://www.ofgem.gov.uk/publications/consultation-future-local-energy-institutions-and-governance

b) Market facilitation for flexible resources: our decision is to proceed with our consultation proposal to develop a market facilitator to align national and regional flexibility market arrangements to unlock the full value of system flexibility. The market facilitator will be responsible for market coordination, implementation monitoring, and strategic leadership. Both the FSO and Elexon were identified as credible candidates for this role; consequently, we will undertake further assessment of their suitability and consult with stakeholders in advance of reaching a decision on the delivery body for this role.

c) Real time operations: our decision is to proceed with our consultation proposal for distribution network operators to remain accountable for real time operations and maintaining network and system reliability and resilience.

In this document, we set parameters for the scope and functions of the new roles, while emphasising the need for arrangements to be dynamic and adaptable. We intend to harness existing expertise and best practice in the energy sector, cross-vector arrangements, and sub-national governance to optimise the capabilities, efficiency, and pace-based impact of the RESP and market facilitator.

We believe these decisions will address critical coordination and accountability issues in current arrangements and expedite the transition towards a coherent, cross-vector energy system. While we have firm foundations from which to build, the next phase of this reform package will involve developing the detailed operational and governance framework under which these institutions and relationships will operate.

Ofgem will continue to engage with stakeholders (through workshops and broader engagement) in the detailed design phase of these reforms – this will involve further consultation with stakeholders. We will shortly issue a Consultation to seek stakeholder views on the delivery body for the market facilitator role.

1. Introduction

Section summary

We set out the background and context for our review of local governance arrangements. We explain that significant benefits can be unlocked for consumers if there is efficient delivery and effective governance arrangements in place for the three energy system functions which are critical to distribution system operation: energy system planning, market facilitation of flexible resources, and real time operations.

We also explain our decision-making process and provide links to the local governance Call for Input and Consultation for reference.

Context

1.1 As part of our legally binding target to reach net zero greenhouse gas emissions by 2050, the UK government has set an ambition to decarbonise the power sector by 2035. Meeting these targets will require radical changes across the energy system.

1.2 The transition is already well underway: the way we heat our homes, power our vehicles, and generate electricity is changing. Completing the transition will require significant new investment, especially in electricity network infrastructure, and it will also mean changing how the energy system is planned and operated.

1.3 At the national level, the FSO is being created in response to this challenge. At a sub-national level, governance reform is needed to support the rapid decentralisation and decarbonisation of generation and demand. At present, the institutional landscape is complex, and arrangements are not fit for purpose.

1.4 There are three energy system functions that are critical to how distribution systems operate and ultimately transform: energy system planning, market facilitation of flexible resources and real time operations. These functions must be performed by institutions with the competence, skillset, and incentives to drive net zero at least cost. Clear accountability and coordination are also essential to ensure that responsibilities are well defined and understood.

1.5 Through our review of the future of local energy institutions and governance arrangements, we have identified institutional gaps and a lack of accountability. Certain components of key functions are not allocated to the institutions best placed to perform them in the future. There is also insufficient and ineffective

coordination between actors across the system, creating confusion and inefficiency.

1.6 When aligned with effective governance arrangements, efficient delivery of these functions can unlock significant benefits for consumers by facilitating a low-cost transition to a smart, flexible energy system, all of which will reduce costs for consumers. This includes through:

- Well-coordinated, whole system strategic planning that makes the most of available resources and technologies.
- Driving efficient operational and network decisions.
- Integrating distributed sources of generation, storage, and flexibility.
- Supporting the development of easy to access, liquid flexibility markets, locally and nationally.

1.7 While governance reform alone cannot deliver these benefits, it is a prerequisite to driving the radical energy system changes the that are required.

Our decision-making process

1.8 This decision document is part of our review of governance and institutional arrangements at a local level. The review began in April 2022 when we issued a Call for Input[3] on local energy institutions and governance. In the Call for Input we sought to assess the effectiveness of institutional and governance arrangements at a sub-national level.

1.9 We received 73 responses to the Call for Input from a broad range of stakeholders. Responses confirmed the need to review institutional arrangements but with notable differences in views about the issues with each of the energy system functions, and varying perspectives on where we should focus our attention. The case for change was strongly confirmed for energy system planning and market facilitation of flexible resources, but weaker for real time operations.

1.10 In March 2023 we consulted[4] on a proposed package of reforms. These included introducing regional system planners to ensure there is accountability for regional

[3] https://www.ofgem.gov.uk/publications/call-input-future-local-energy-institutions-and-governance

[4] https://www.ofgem.gov.uk/publications/consultation-future-local-energy-institutions-and-governance

energy system planning and assigning a market facilitation function to a single, expert entity, with a mandate to grow and develop local flexibility markets.

1.11 We received 83 consultation responses. There was strong support for our overall direction of travel, specifically on the creation of regional system planners and a market facilitator. Respondents expressed a range of views that we have been considering. Summaries of stakeholder views are provided in the relevant sections below.

1.12 The purpose of this document is to set out our decision regarding the proposed package of reform from the March 2023 Consultation. Following this decision, we will commence detailed design and implementation planning.

Structure of decision

1.13 This decision document is structured as follows:

- Chapter 2 – outlines our decision and assessment of how it achieves the key overarching design considerations we explored in the Consultation.
- Chapter 3 – sets out our decision and rationale to proceed with our consultation position for reforming energy system planning governance.
- Chapter 4 – sets out our decision and rationale to proceed with our consultation position for reforming market facilitation of flexible resources governance.
- Chapter 5 – sets out our decision and rationale to proceed with our consultation position for DNOs (Distribution Network Operators) to maintain responsibility for real time operations.
- Chapter 6 – sets our next steps following this decision.
- Appendix 1 – provides maps and analysis of proposed changes to regional energy system planning boundaries in Great Britain, and interaction of regions with the licence areas of gas and electricity distribution companies.
- Appendix 2 – provides links to related publications.
- Appendix 3 – a glossary of commonly used terms and concepts.

General feedback

1.14 We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned decisions?
6. Any further comments?

1.15 Please send any general feedback comments to stakeholders@ofgem.gov.uk

2. Our decision

Section summary

We summarise our decision on local governance arrangements reform for the three energy system functions: energy system planning, market facilitation of flexible resources and real time operations.

More detail on our decision and rationale for each of the functions is provided in subsequent sections, as well as next steps.

Our decision

2.1 Our decision is to proceed with reforming local governance arrangements as set out in our March 2023 Consultation:

- Energy system planning: introduce Regional Energy Strategic Planners (RESPs) to ensure there is appropriate accountability and effective coordination for strategic planning at a sub-national level.
- Market facilitation of flexible resources: assign a market facilitation function to a single entity with sufficient expertise and capability to deliver more accessible, transparent, and coordinated flexibility markets.
- Real time operations: keep real time operations within the DNOs, ensuring clear accountability for network reliability and safety.

2.2 In the Consultation we described the new role as Regional System Planners (RSPs). In reaching our decision, we have decided to amend the name to better reflect the required function and to avoid the risk of misinterpretation. Stakeholders noted that the use of 'system' in the name had broader connotations, and that it was important to clarify this was an energy function, given the interaction with other vectors and local authorities. We describe the role in fuller detail in Chapter 3.

2.3 In the Consultation we proposed the FSO as the lead option for the delivery of both new roles - the RSPs and market facilitator. Our decision is for the FSO to be the delivery body for RESPs. We intend to consult shortly on the merits of Elexon or the FSO being the delivery body for the market facilitator role. This follows stakeholders identifying Elexon as a viable option in response to our Consultation.

2.4 We expand on the detail and rationale for each component of the decision in the following chapters. This chapter sets our overall rationale for the reform package

in line with the key design considerations we set out in Chapter 2 of our Consultation.

We believe our reform package is targeted and proportionate to the issues.

2.5 Through our initial Call for Input, we validated our hypothesised case for change and established that a function-first approach to option development was necessary as opposed to one which solely focused on reforming the DNO institution. In other words, a solution must be cross-vector and the issues were different in both characteristic and materiality for each function: planning, market facilitation and real time operations. Respondents strongly emphasised the importance of avoiding high levels of complexity, and that the addition of any new parties must not dilute responsibility for key activities such as maintaining reliability and quality of supply.

2.6 In developing our consultation proposals, we analysed the pain points within each of the functions, undertaking detailed activity mapping to identify the root cause of the issue and better understand the interactions within and between functions. Consultation responses further validated the case for change and the majority were supportive of the direction and focus of the reforms.

2.7 We have engaged further with stakeholders throughout the summer, in bilateral meetings and working groups, to further refine understanding of the issues and inform the design of the new roles we are introducing. This process reinforced our view that the reform package is necessary, targeted, and proportionate to the issues identified with the current arrangements and delivers effective governance in line with the criteria we have previously set out.

Defining effective governance

Effective governance arrangements are a critical enabler of the transition to a smart and flexible energy system, and we must ensure they accommodate existing as well as evolving needs. By governance we refer to the arrangements for ensuring there is clarity in how key energy system functions are delivered. Through the Call for Input and Consultation we have shaped the criteria we consider must be met to deliver effective governance:

- *Accountability*: there is clarity on the roles and responsibilities being performed by institutions, with recourse for non-delivery.
- *Credibility*: institutions are both trusted and perceived to be credible in delivering their respective roles and responsibilities.
- *Competence*: institutions have the necessary skills and competencies to deliver their roles and responsibilities effectively.
- *Coordination*: there is effective coordination between institutions (not just at a sub-national level, but with national bodies too), supported by robust engagement with stakeholders. A key consideration for the effectiveness of coordination is the extent to which information exchange is enabled to support delivery of the critical energy system functions.
- *Simplicity*: institutional and governance arrangements are simple, such that stakeholders, such as market participants, can engage with a given set of arrangements.
- *Dynamic:* arrangements can be responsive to future changes to the system.

We believe our reform option to be value for money, with a strong benefits case

2.8 The benefits of a smart and flexible energy system are significant. Whilst improved governance will unlock some of these benefits, it is important to recognise that effective governance is an enabler and will need to be combined with other reforms for benefits to be realised.

2.9 In the Consultation, we set out that we were unable to do a full quantitative impact assessment due to the difficulties in obtaining sufficient data relevant to the specific components of the reform package, with detailed design work and implementation likely to have a bearing on this. In Appendix 1 to the Consultation, we set out a high-level approach and sought to gather the necessary data.

2.10 Stakeholder responses emphasised the importance of an impact assessment but also the challenges of quantifying the impact of changes whilst design is ongoing. Some stakeholders also suggested difficulties from the counterfactual continually evolving. As such we did not receive additional data to support our ability to quantify costs and benefits. We considered other ways of gathering data, for example a Request for Information to the network companies, but concluded that further detail on the design of the arrangements is needed.

2.11 In the Consultation, we explained that whilst we are unable to undertake a full impact assessment, our review of relevant literature and the data we do possess gives us confidence the reforms are proportionate and represent the best balance of costs and benefits. Consultation responses, subsequent engagement, and wider policy developments (for example, the Electricity Network Commissioner's recommendations emphasising the need for strategic planning[5]) have reaffirmed our consultation stance as there was strong support for the direction of travel, with stakeholders re-validating the concerns with current arrangements. We expand further on stakeholders' views on each component in the respective chapters.

2.12 We have sought to minimise cost by tightly focusing reform on the areas of greatest benefit and ensuring reforms can respond dynamically to future change. It is critical for change to be clearly and tightly defined to help mitigate wider risks, such as risks to the security of supply.

2.13 We will undertake further impact assessment as part of the detailed design phase and to inform our next steps leading to implementation.

Our reform option can realise benefits quickly

2.14 Given the pace of change to the system, we consider that timeliness of implementation is critical in realising the benefits of reform. This is both to avoid additional costs from issues becoming further entrenched, but also to maximise the benefits. For example, it is widely regarded that the benefits of decarbonisation are larger if it is done sooner. By ensuring arrangements are fit for purpose as quickly as possible, we can support delivering a rapid low-cost net zero transition.

2.15 This point was made throughout stakeholder responses to the Call for Input, and it was emphasised that the development and evaluation of a suitable option

[5] https://www.gov.uk/government/publications/accelerating-electricity-transmission-network-deployment-electricity-network-commissioners-recommendations

should take account of the implementation pathway. We consider our reform package is implementable within our powers, which will quicken implementation and ensure benefits are realised sooner.

2.16 To achieve this, we will work in close collaboration with stakeholders on the detailed design phase and leverage expertise and existing best practice. We will be iterative in how we develop the new roles, for example being proportionate in designing day 1 capabilities and then building on these.

2.17 The specific timescales of implementation will rely on the detailed design of the new roles, but we consider that late 2025/early 2026 to inform the setting of the RIIO-ED3 price control[6] to be an appropriate target. We will manage the transition to the new roles to ensure there is clarity over roles and responsibilities and no hiatus of progress.

[6] The RIIO-ED3 price control will commence on 1st April 2028.

3. Energy System Planning

Section summary

We provide the rationale for our decision on energy system planning, setting out our consultation position and a summary of responses which helped to inform our decision. We also explain next steps.

Our decision

3.1 We have decided to implement our proposal to create a new regional energy strategic planning function to ensure there is accountability for strategic energy planning at a regional level.

3.2 We have decided that the FSO will be the delivery body for the new function and will discharge its duties via multiple strategic planning roles across GB – Regional Energy Strategic Planners (RESPs). We believe between 10 and 13 regions will be optimal for GB. The borders of each nation will be respected, with one RESP for Wales, one or two for Scotland, and between eight and ten for England.

3.3 Each RESP will be responsible for developing a strategic plan in each region, that is cross-vector and fully cognisant of the regional context. We will introduce a governance mechanism for RESPs that embeds democratic representation and accountability within the process.

Background and consultation position

3.4 To ensure investment is made when and where it is needed to drive decarbonisation at pace and in a cost-effective manner, energy system planning at a sub-national level should be coordinated, cross-vector, and consider local priorities. It must also be coherent with national energy planning.

3.5 In driving this, the governance arrangements must strike an effective balance between transparency, clear accountability, democratic legitimacy, and the proportionate allocation of risk.

3.6 At present, electricity and gas network operators typically develop single energy vector plans, with inconsistent approaches to forecast creation and consideration of regional priorities. These inconsistencies exacerbate the challenge of managing uncertainty around where and when demand growth will materialise at a distribution level. Further, the current approach to planning across vectors lacks accountability, meaning there is no formalised process for, nor owner of, transparent decision-making and conflict resolution.

3.7 To address these issues, in our Consultation we proposed the introduction of Regional System Planners (RSPs) - a body responsible for undertaking regional strategic planning activities. We defined strategic planning as a mixture of both subject-specific and technical planning activities:

- Develop and own critical planning assumptions, using inputs from local actors (DNOs, Gas Distribution Networks (GDNs) and Local Authorities (LAs)).
- Coordinate, facilitate and ensure effective participation between local actors.
- Develop and own a regional whole system strategic plan that is coherent with national and local net zero ambitions and energy security priorities.
- Provide independent technical analysis to support decision-making, primarily within price control setting.

3.8 We emphasised the need for RSPs to focus on coordination and coherence, to ensure common starting points and objectives.

3.9 In our Consultation, we proposed the FSO as the lead option to deliver the role. Our view was that the FSO was the most suitable candidate with the characteristics the RSP must have. Specifically, independence, a whole system mandate, and appropriate technical expertise and skills. We emphasised that regional coordination and a place-based perspective would be critical.

Responses to the consultation

3.10 The Consultation addressed four topics: views on introducing RSPs; detailed design considerations; appropriate regional boundaries; and the potential of the FSO or alternative bodies to be the RSP.

3.11 There was strong support in favour of a new regional entity to orchestrate coordination and ensure consistency of energy system planning. It was widely agreed that the RSP has the potential to streamline the current patchwork planning approach and overcome inefficiencies in existing processes. Some stakeholders felt a greater degree of detail about the RSP function was required before they could offer substantial feedback.

3.12 While respondents supported the view that network planning stays within network operator remits, many cautioned against the risk of activity duplication by the RSP with concerns of creating confusion and new inefficiencies within the network planning process.

3.13 Further, democratic accountability was repeatedly emphasised as a key design consideration needed from the outset. The RSP was widely envisaged as a

mechanism by which energy users, economic, environmental, and social stakeholders, and democratic institutions responsible for broader spatial development, could share their analysis of local energy needs, and via which a coherent strategic energy plan could be developed and adopted.

3.14 Consultation respondents reasoned that RSP regions should be granular enough for truly place-based understanding, yet sizeable enough to facilitate coherence within regions. Several responses proposed that regional boundaries align to existing individual DNO perimeters, or clusters of these. Most respondents recommended that RSPs reflect the respective borders of Scotland, England, and Wales, and that wherever possible they should be consistent with local government areas.

3.15 Many respondents agreed the FSO was the entity most suited to delivering the RSP. However, given that the FSO is a new entity some stakeholders felt uncertain about its suitability to undertake the responsibilities. A number of stakeholders expressed concerns about the FSO lacking the required capacity and expertise and indicated the risk of overburdening.

Reasons for our decision and next steps

3.16 We have decided to proceed with our proposal to create the new function and role – the Regional Energy Strategic Planner (RESP) - to deliver accountability for coordinated whole system planning at a regional level. In reaching this decision, we have amended the name of the role from that used in the Consultation (RSP) to better reflect the purpose of the role and avoid misinterpretation. From here onwards, we refer to RESPs, the plural signifying both that the FSO will work with strategic and democratically accountable institutions in each of the regions, and that each region will produce its own RESP.

3.17 We received broad support from stakeholders to introduce RESPs, who emphasised the need for a strategic planning approach at regional level - both through recognition of the issues we set out with current arrangements and in their support for a new body to deliver strategic planning and ensure coordination and consistency.

3.18 There was broad consensus with our vision for regional energy system planning needing to be whole system and fully cognisant of regional context. Stakeholders considered net zero will not be achieved through top-down national approaches alone and must be supported by a bottom-up approach. For regional energy planning this must include inputs from devolved and local governments.

3.19 A small minority of stakeholders suggested that rather than introducing a new role and entity to resolve the issues, the existing obligations of DNOs/GDNs and price control arrangements could be strengthened. Whilst this could result in improvements to how planning is conducted, we consider it would still lead to insufficient accountability and coordination for cross-vector, strategic planning as no actor would have a whole system mandate. As such this would not realise the required outcomes.

3.20 The RESPs will ensure a more coordinated and strategic approach to energy system planning by bringing together a range of local and national inputs in a consistent way. The output will be a regional strategic energy plan for each area, that is spatial in nature, cross-vector in scope and sets the direction for infrastructure investments - particularly in network capacity. This should ensure investment is made when and where it is needed, in anticipation of future requirements, and support the delivery of decarbonisation at all levels of the energy system.

Function of RESPs

3.21 The RESPs will be responsible for developing a regional whole system strategic plan that is coherent with national and local net zero ambitions and energy security priorities, and that supports achieving the most cost-effective decarbonisation outcomes derived from, and informing, the individual plans of local actors. The key functions it will be responsible for delivering are cross-vector strategic planning; technical coordination activities (eg energy demand modelling, whole system optioneering, conflict resolution); place-based engagement and coordination; and supporting local actors.

3.22 In developing a strategic plan, we expect the RESPs to develop an aggregated regional view using a wide range of inputs - for example national forecasts, electricity and gas network operator data, heat networks, local plans (eg Local Area Energy Planning (LAEP) in England and Wales, Local Heat and Energy Efficiency Strategies (LHEES) in Scotland) and relevant exogenous sources. The inputs should be cross-vector and we would expect the inputs to expand over time, responding to the evolution of policy (eg CCUS and Hydrogen) where this influences network infrastructure planning.

3.23 The output will be a strategic plan which is spatial and supports infrastructure investment planning and a set of key planning assumptions for use in constituent actors' planning. Beyond that, the granularity and form of the output will be developed further in the detailed design phase.

3.24 Our decision is that under these new arrangements network companies will remain responsible for detailed network planning activities, but these must align to the regional strategic plan. The arrangements for formalising this through the price control will be consulted upon as part of the development of RIIO-ED3.

3.25 To ensure individual network plans are aligned to the strategic plan, a key task of the RESPs will be to undertake the technical coordination of plans. For example, coordinating whole system optioneering to deliver an optimised solution. Where there are trade-offs across vectors, the RESPs will ensure well-informed decision-making on network infrastructure investment. Therefore, arbitration and conflict resolution[7] will be part of the RESP's function, albeit effective coordination in developing the region's strategic direction and whole system optioneering should support easier resolution.

3.26 We recognise there are varying levels of capacity and expertise across LAs, with some areas having highly developed local energy plans, others in the initial stages or with limited activity. The quality of the inputs available to RESPs will enhance the output fidelity and quality. We therefore consider it appropriate that part of the RESP's remit will be to support LAs, however this should be proportionate to its overall function – for example providing data and tools to support better inputs to strategic planning, as opposed to assuming a direct role in local planning. For the avoidance of doubt, our proposal does not prescribe the use of the LAEP methodology by LAs and this is an area of consideration for government.[8]

3.27 While current actors, including network companies, will play a key role in developing a regional energy strategic plan, it is our view that having an independent and accountable body delivering these functions will represent a significant improvement on current arrangements.

[7] We will further develop the parameters and process for this in the next phase and ensure there is clarity over decision-making responsibility. Ofgem will remain responsible for signing off the individual network companies' plans that derive from the RESP process and that are submitted as part of the RIIO price setting mechanism.
[8] There is no formal requirement for LAs to produce a LAEP. However, the Welsh Government have committed to each LA developing a LAEP, and in Scotland, LAs are required to produce an LHEES.

Table 1 Regional Energy Strategic Planner functions and activities

Function	Potential activities
Strategic planning	• Aggregate top-down national targets and scenarios with local insights and data and cross-vector data to develop regional pathway(s). • Develop a regional whole system strategic plan to give an informed picture of where current energy demand is, how it may change over time and set out a common regional objective. • Provide supporting information to guide when and where capacity is needed to form the basis for detailed network planning.
Technical coordination	• Technical coordination and analysis of plans to ensure cross-vector integration and maximise opportunities for system optimisation. • Ensure consensus driven decision-making with a clear conflict resolution route.
Place-based engagement and coordination	• Establish transparent processes for local actors to participate in energy planning. • Act as an accountable owner to bring network companies and local actors together to work towards a common objective. • Facilitate engagement with stakeholders to understand their priorities.
Support to local actors	• Provide proportionate resources to LAs, where needed, through technical advice, data, and tools to enable them to turn local targets into credible plans.

Next steps

3.28 We will continue the detailed design of the RESP functions, with a particular focus on how these will be delivered, detailing the processes and interactions involved. This will include the form of the RESP's output, with a focus on what information is critical for making long term investment decisions with confidence.

3.29 In progressing detailed functional design, we will set out implementation timescales including plans for transitioning to the new arrangements.

3.30 We will engage further with expert stakeholders and take learnings from pilot projects to inform the detailed development.

Regional engagement and democratic accountability

3.31 We have decided to introduce a governance mechanism within the strategic planning process to ensure regional democratic accountability. As described above, a key pillar of the RESP role will be place-based engagement and coordination. At present, there are inconsistent approaches as to how input from local democratic institutions is used.

3.32 Ofgem regulates the monopoly companies which run the electricity and gas markets and, therefore, our starting point of reform is the institutional and governance arrangements of those bodies we directly regulate. However as explained earlier, we consider that strategic planning must be fully cognisant of the regional context and that there must be democratic legitimacy within the process.

3.33 The Consultation responses emphasised the need to make this ambition formalised and consistent. Stakeholders strongly supported the need to transform the current approach and introduce a more placed-based approach. Therefore, we consider that a governance mechanism that convenes the critical actors involved in energy system planning at a sub-national level in each area is important for achieving the necessary coordination.

3.34 The governance mechanism will convene LAs, delivery partners (eg network operators) and other relevant local actors, and its purpose will be to provide oversight and assurance. This will formalise the process for how those with a democratic mandate interact with and influence the more technocratic aspects of energy planning, and vice versa.

3.35 Whilst we have not yet defined the specific form of the mechanism, we consider it should adhere to the following good governance principles: be trusted, transparent, adaptable, representative, accessible, efficient, and supportive of innovation. In developing our decision, we have engaged with governance experts, organisations with similar responsibilities (such as Transport for the North) and combined authorities to understand the key principles necessary for an effective solution.

3.36 Transparency is especially critical as there will inevitably be trade-offs in decision-making. The governance mechanism's purpose is to support strategic planning and its form will be reflective of the distinct roles within the system. Most critically, it will reflect the fact that network operators remain responsible for the real time operations of their network, and are accountable for reliability and safety.

Next steps

3.37 In the next phase of this work, we will continue to engage with stakeholders and governance experts to develop a deeper understanding of effective governance mechanisms, what high quality local input involves, to ensure that RESPs can effectively represent the common features and needs of a region, as well as the specific characteristics of specific sub-regions.

RESP scale and boundaries

3.38 We believe between 10 and 13 RESP regions will be optimal for GB. The borders of each nation will be respected, with one RESP for Wales, one or two for Scotland, and between 8 and 10 for England.

3.39 Stakeholders are agreed that RESPs should not span national borders and should align to established democratic place-based boundaries as a first order design principle; although this should not preclude alignment to energy networks where this better reflects local needs. Respondents also made clear that RESPs' boundaries should be based on and build from existing regional archetypes for cross-vector functional planning. Most of the suggestions for archetypes were England specific, including combined authorities (CAs), Local Enterprise Partnerships (LEPs), Sub-national Transport Bodies (STBs) and the Department for Energy Security and Net Zero's (DESNZ's) Net Zero Hubs.

3.40 We adopted a principles-led approach to identifying and assessing potential RESP candidates. As well as respecting national borders and aligning to democratic boundaries, the principles included consideration of cross-vector planning potential, sufficiency of scale, fullness of GB coverage, cumulatively falling within a GB range of 8-20 and, critically, being deliverable at pace.

3.41 For Scotland, we believe either one or two RESPs would be optimal. From a scale perspective, one regional strategic planning function would arguably be sufficient, but Scotland's natural and functional economic geographies could warrant a two-region solution either modelled on a north/south split roughly reflecting the existing SSEN-SPEN DNO border, or potentially one covering the more urban central region (the triangle of Glasgow, Edinburgh and Aberdeen), and the other combining the northern and southern areas which are characterised by their rurality and isolated communities.

3.42 For Wales, we concur with stakeholders that one RESP is optimal, best satisfying the principles set out.

3.43 For England, we believe STBs are the most established and optimal archetype that covers the whole of the country, is cross-vector in nature, aligns to democratic boundaries and operates at sufficient scale. While CAs also provide cross-vector functionality and democratic alignment, collectively they cover a minority of the English population and, individually, their average scale is smaller than STBs.

3.44 There are seven STBs, with similar powers afforded to the Greater London Authority; for ease we refer to these as the eight STBs. The mean average population covered by an STB is 7.10m (median of 6.55m). However, two STBs (Transport for the North and Midlands Connect) are significant outliers covering 15.84m and 10.05m people respectively. We think the scale of these areas may be too large to effectively represent intra-regional functional economic and energy differences; there may, therefore, be a case to split these STBs, or to maintain the integrity of the STBs' boundaries, but produce two separate regional strategic energy plans.

3.45 As such, while tweaks are needed, we consider that the STB model provides the foundations on which England's strategic energy planning landscape can be laid; while this regional map looks different to DNO and GDN boundaries, we are content this is the right solution for spatial energy planning at a sub-national level.

3.46 While regions will provide the apparatus around which strategic energy planning can be undertaken (looking both to the national and local levels), no region is a functional island with energy, planning and economic considerations not respecting administrative boundaries. As such, it is critical that RESPs can effectively collaborate on adjacent issues, and on matters of shared and common interest.

3.47 In addition, GB's strategic planning landscape is not static, a dynamism which the RESP role and operating model must be responsive to.

Next steps

3.48 We are confident that current devolved, sub-national and regional arrangements provide the basis on which the RESP model can be progressed and delivered at pace. However, further design choices need to be made for Scotland and England. Next steps will involve further stakeholder engagement to determine the optimal solutions for both. Appendix 1 provides maps showing our preferred archetypes and their interactions with DNO and GDN boundaries.

3.49 In our next steps we will also consider how adjacency, commonality, and dynamic evolution will be built into the RESP DNA.

Delivery body

3.50 We have decided that the FSO will be the delivery body for the RESP role. This was the lead option set out in our Consultation. Responses to the Consultation and our continued development of the function reinforce our view that the FSO is the most suitable delivery body. Stakeholders did raise concerns regarding the FSO, particularly around distribution level capability and capacity, however the majority recognised it as the most viable body. Additionally, no credible alternatives were raised, and a new entity was not deemed credible due to the complexity of building capability from scratch.

3.51 The function of the RESP aligns to the strategic planning duties that will reside with FSO and stakeholders strongly endorsed the need for strategic planning that aligns and reaches across all levels of the system. The FSO will be well placed to deliver such consistency and coherence across the entire system, and to align transmission and distribution level planning.

Next steps

3.52 To mitigate the concerns outlined by stakeholders regarding capacity and place-based capability, we plan to take an iterative and proportionate approach to the development of the role, co-designing with stakeholders. This will particularly focus on building the FSO's capability in areas that are newer – for example place-based approaches. In doing so, we plan to learn from existing practices to build FSO capability quickly and ensure that there is an effective transition to the new arrangements. Lastly, we will ensure day 1 expectations for the RESPs are proportionate and then build on these.

3.53 Additionally, in developing the output of the RESPs in the detailed design phase we will ensure it is coherent with the wider strategic planning function of the FSO and develop the framework for how RESP outputs will interact with the Central Strategic Network Plan (CSNP) and Strategic Spatial Energy Plan (SSEP).

4. Market facilitation of flexible resources

Section summary

We provide the rationale for our decision on the market facilitation of flexible resources, setting out our consultation position and a summary of the responses which have helped to inform our decision. We also explain next steps.

Our decision

4.1 We have decided to proceed with our proposal to create a new market facilitator role. It will be tasked with reducing friction across Distribution System Operator (DSO) markets and aligning ESO-DSO market arrangements. To do so, we have decided to assign three functions to the market facilitator: strategic leadership, market coordination, and implementation monitoring. These functions are described in more detail below.

4.2 We intend to consult shortly to gather views on whether the FSO or Elexon should take on the market facilitator role, as both appear to be credible options.

Background and consultation position

4.3 Effective governance arrangements for the market facilitation of flexible resources should deliver open, transparent, and coordinated markets that enable participants to unlock the full value of flexibility. Participation and revenue stacking[9] in a range of markets should be easy, supporting high liquidity.

4.4 We believe that current arrangements are preventing these outcomes from being realised. The lack of clear accountability and information asymmetries are impeding the development of fair and transparent rules for procuring flexibility services, causing unnecessary friction, and making it harder to unlock the full value of flexibility for consumers and the system.

4.5 To address these issues, in our Consultation we proposed creating a new market facilitator role allocated to a single, expert entity. It would be tasked with reducing friction across distribution markets and aligning distribution and transmission market arrangements.

4.6 We emphasised the importance of the market facilitator being an independent expert body that can be held accountable for its decision-making and driving

[9] Revenue stacking is where a flexibility service provider uses the same asset to provide multiple services, enabling them to maximise their value by earning revenue from as many different sources as possible.

forward technical discussions at pace through open, transparent and participatory engagement.

4.7 We considered three options for organisations to take on the market facilitator role. We set out the FSO as our lead option: there are close synergies with the FSO's proposed strategic role, it can be held to account and having transmission and distribution under one institution's remit will be beneficial. However, we recognised that stakeholders may have impartiality concerns as the FSO will also be a flexibility buyer. We asked for stakeholder views on the materiality of this risk.

4.8 The second option we considered was the Energy Networks Association (ENA) which we rejected in our Consultation as it lacks the required authority and accountability. Our third option was a neutral third party. We noted this may prove challenging, as we did not consider there to be an obvious candidate for the role, the regulatory approach is not clear, and it would mean separating responsibility for transmission and distribution market facilitation.

Responses to our consultation

4.9 We asked five questions about market facilitation, seeking views on whether we should create a market facilitator, and if so, what its roles and responsibilities should be. We also asked who should take on the market facilitator role.

Market facilitator role and responsibilities

4.10 There was strong support for creating a market facilitator. Stakeholders recognised the issues with current arrangements and asked for the market facilitator to have a clearly defined remit, be transparent, accountable, and agile. They also highlighted the importance of DNOs and market participants being able to input effectively into the market facilitator's deliverables.

4.11 A strong theme from consultation responses was a concern that the implementation of the market facilitator role risks a hiatus whilst activities are transferred over from the Open Networks programme.

4.12 The small number of respondents who disagreed with our proposal raised concerns over the cost of moving to the new arrangements, with some suggesting we should focus on accelerating the progress of the Open Networks programme. Some respondents were concerned that creating a market facilitator would add complexity or that a centralised function may limit opportunities for local projects. There were also some concerns that standardisation and centralisation risk stifling innovation.

4.13 Respondents were broadly supportive of the proposed roles and responsibilities. Some stakeholders suggested that performance assurance and dispute resolution procedures be considered, either within the market facilitator's remit or performed by a separate entity to arbitrate between market participants and the market facilitator. Other stakeholders called for us to clarify Ofgem's role relative to the market facilitator. Stakeholders emphasised that standardisation must not prevent innovation and that DNOs could input effectively and continue to engage with flexibility service providers (FSPs).

Delivery body

4.14 There were a range of views on our proposal to allocate the market facilitator role to the FSO. Respondents recognised that the FSO was most aligned to the characteristics required for the market facilitator role, suggesting it is the most logical option given its central role in the energy system and its existing market design expertise (as the ESO). However, respondents also suggested that a clear remit, governance, rules, and transparency will be needed to overcome any potential conflicts of interest.

4.15 The main concerns about the FSO's suitability related to its capacity, lack of distribution expertise and its current approach to opening its markets up to smaller distributed assets. Respondents also flagged the potential risk of a conflict of interest, as the FSO would also be a buyer from flexibility markets.

4.16 A minority of respondents disagreed with our proposal for the FSO to take on the market facilitator role for similar reasons. There were also concerns raised about whether it has the capacity to deliver the market facilitator role alongside other activities.

4.17 We asked if there were other options that we should consider. Elexon was suggested by several respondents, and the Energy Systems Catapult was proposed by another. Other suggestions included the government selecting multiple parties to co-deliver via an open competition that would be accessible to independent market platforms. Finally, some respondents suggested making amendments to the current arrangements, for example by reforming the Open Networks programme or making more use of existing licence conditions.

Reasons for our decision and next steps

4.18 We have decided to proceed with our proposal to create a new market facilitator role. There was strong support for this proposal with stakeholders confirming the

need for a single, expert body with a mandate to grow and develop local flexibility markets.

4.19 We believe that having a single organisation responsible for market facilitation will provide clear accountability, addressing a key issue with current arrangements and unlocking delivery at pace. At present accountability and decision-making are split across many different entities.

4.20 Instead, the market facilitator will be empowered and responsible for delivering standardised, easily accessible DSO markets and for aligning ESO and DSO market arrangements. This will mean the rules, standards, and processes underpinning local flexibility markets can be developed at pace, accelerating efforts to create liquid, easy to access flexibility markets.

4.21 DNOs will continue to play a role in growing and developing their flexibility markets but the creation of the market facilitator will free them up to focus on where they can add most value, leveraging their expertise to input effectively into the development of common processes, rules and standards.

4.22 In response to stakeholder concerns about complexity, we believe the opposite is true: creating a single market facilitator should reduce complexity. Specifically, the market facilitator role should clarify roles and responsibilities and ensure there is clear, singular accountability. This is turn should make it easier for stakeholders to engage and contribute.

4.23 Similarly, in response to concerns about the impact on innovation and local projects, our intention is that the market facilitator's function will help embed new, innovative solutions into business as usual. Innovation and local projects will be a key input into the market facilitator's outputs which we will factor into our detailed design work.

Market facilitator functions

4.24 The market facilitator will be responsible for three specific functions: market coordination, implementation monitoring, and strategic leadership. They are set out alongside an indicative list of associated activities in Table 2 below.

Table 2 Market facilitator functions and activities

Function	Potential activities
Strategic leadership	• Translate Ofgem and DESNZ's vision for local flexibility markets into a market coordination delivery plan. • Monitor developments across policy, regulation, innovation, and energy markets and proactively identify upcoming challenges, opportunities and risks that may require intervention. • Identify if changes are required to the market facilitator's functions, engaging with Ofgem where necessary to update roles and responsibilities. • Provide advice to government and Ofgem where regulatory or policy gaps are identified or where there is a need for joining-up and coordination.
Market coordination	• Propose and manage changes to the processes, rules, and standards in a transparent and collaborative way. • Develop and publish a delivery plan and implementation timetable, identifying the deliverables required for open, transparent and coordinated local flexibility markets. • Facilitate open, participative discussions with wide stakeholder representation as part of the change management process. • Commission or undertake market and technical research, analysis or modelling. • Decision-making on processes, rules, and standards.
Implementation monitoring	• Monitor whether and how the agreed processes, rules or standards are adopted to ensure they are implemented on time and as intended. • Report implementation issues[10] to Ofgem which will assess whether compliance and enforcement action are required. • Assess how the new processes, rules and standards work in practice, creating a feedback loop to the market coordination function where issues or potential improvements are identified.

4.25 These functions and activities build on the roles and responsibilities we proposed in our Consultation document. By including these functions and activities, our intention is to set out the scope and parameters of what the market facilitator should do. The activities were developed in answer to the consultation responses

[10] We intend to require DNOs and the FSO to adopt the outputs specified by the market facilitator through changes to their licences. Compliance and enforcement would therefore relate to whether DNOs and the FSO are meeting their licence obligations.

and stakeholder engagement. We recognise they may change through the detailed design work that we will be undertaking or as a result of the forthcoming decision on the market facilitator delivery body.

4.26 The market coordination and implementation monitoring functions will give the market facilitator the tools to deliver standardised, easy to access DSO markets, and coordinated ESO and DSO market arrangements. They are at the heart of the market facilitator's role.

4.27 In delivering the market coordination activities, the facilitator will be responsible for identifying which rules, standards, and processes need to be created or amended to realise DESNZ and Ofgem's vision of local flexibility markets. The required changes will be laid out in a delivery plan with implementation timetable, the cadence of which we will determine as part of the detailed design work. We believe the market facilitator should consult on and publish the delivery plan, which would support transparency and scrutiny.

4.28 There was strong support for reforming the current arrangements for market coordination. We believe that allocating accountability for delivery and decision-making of market coordination activities described in Table 2 will empower the market facilitator to progress the processes, rules and standards required to unlock local flexibility. This is important to address the lack of singular accountability under current arrangements.

4.29 At present, it is not possible to track implementation of the common processes, rules, and standards. This can result in divergences and missed implementation deadlines, undermining and undoing standardisation. We believe the implementation monitoring function is therefore a vital part of the market facilitator’s remit, enhancing transparency of implementation.

4.30 In delivering these functions, the market facilitator will need to be collaborative, gathering input and evidence from across industry to make robust, well-justified decisions.

4.31 We also want the market facilitator to be agile, strategic and proactive. The strategic leadership function is designed with this in mind. We believe explicitly assigning a strategic leadership function is vital to ensure the market facilitator actively identifies risks, challenges and opportunities to grow flexibility markets through horizon-scanning and industry engagement.

4.32 Finally, the strategic leadership function will help future-proof the market facilitator, ensuring it can update its work programme and functions as the regulatory, policy and market landscape evolves.

4.33 Under these new arrangements, DNOs will remain responsible for procurement and dispatch, as set out in our Consultation. There was strong support for this in the consultation responses. Keeping procurement and dispatch with the DNO balances the need to standardise DSO markets (which will be delivered by the market facilitator) with the need for DNOs to retain key operational activities. This means DNOs remain accountable for network reliability and safety, as discussed in Chapter 5 below.

4.34 Similarly, given stakeholder views on DNOs being able to engage directly with industry, we recognise the importance of DNOs maintaining an ongoing relationship with FSPs and expect this to continue.

4.35 DNOs and the FSO (as flexibility procurers) will be required to adopt the rules, processes, and standards specified by the market facilitator. As such, we expect them to play a significant role in helping shape the processes, rules, and standards for local flexibility procurement. However, the market facilitator will ultimately have the final say on defining the outputs. We think this is essential to ensure the market facilitator can be ambitious, accountable and deliver at pace.

Next steps

4.36 We will develop the next level of detail for the market facilitator's functions, including how the functions will be delivered, detailing the processes and interactions involved. We will also be developing a transition plan to move to the new arrangements once we have decided on the market facilitator delivery body.

Preventing a hiatus in activity

4.37 We engaged with the ENA, DNOs and FSPs over the summer in light of stakeholder concerns about a slowdown in activity ahead of our market facilitator proposals being implemented. We issued an open letter[11] in July which reiterated our support for the Open Networks programme, set out how we intend to engage going forwards and our expectations for the rest of 2023 and for 2024. Specifically, we see no justification for a hiatus in progress.

4.38 This engagement also validated our thinking that amendments to the current arrangements would not be sufficient to deliver on our vision for market facilitation, confirming that more substantive governance reform is necessary.

[11] https://www.ofgem.gov.uk/publications/open-letter-open-networks-project

4.39 We issued the open letter because we believed it was important to clarify our expectations of the Open Networks programme. There was clear appetite from consultation responses and our engagement for Ofgem to be more closely involved in the work, both to ensure alignment with our ongoing work and to support delivery at pace.

Next steps

4.40 We will continue to be closely involved with the Open Networks programme going forward. Our engagement will be aimed at maintaining momentum under the current arrangements and managing a smooth transition to the new ones.

Delivery body

4.41 Following consultation suggestions, we have been exploring whether Elexon could be a viable alternative to the FSO, the lead option we presented in our Consultation. Our initial assessment and engagement suggest that Elexon is a credible option that offers advantages but also disadvantages relative to the FSO.

4.42 On balance, we believe that the FSO remains the lead candidate for taking on the market facilitator role, for the reasons outlined in the Consultation. That said, we believe it is important to provide an opportunity for stakeholders to input. We have therefore decided to consult specifically on the market facilitator delivery body.

Next steps

4.43 We intend to consult shortly on the delivery body for the market facilitator. In the consultation we will look to provide further details for both options to ensure stakeholders can take an informed view.

4.44 We intend to make a final decision on assigning the market facilitator role in early 2024. We will then work with the relevant organisation and wider stakeholders on the detailed design of the market facilitator role and the implementation of a transition plan. We intend for the market facilitator to go live by late 2025/early 2026 or sooner if possible.

5. Real time operations

Section summary

We provide the rationale for our decision on real time operations, setting out our consultation position and a summary of the responses which have helped to inform our decision. We also explain next steps.

Our decision

5.1 We have decided to proceed with our consultation proposal for real time operations. DNOs will remain responsible for real time operations, ensuring that accountability for reliability and safety sits with one entity. There will be no requirement for DNOs to create legally separate or independent DSOs.

Background and consultation position

5.2 Our vision for real time operations is for reliable and transparent system operation underpinned by efficient decision-making. This requires DNOs to proactively manage their networks, making full use of network visibility and monitoring tools to identify and resolve planned and unexpected issues. They will also be required to work closely with the ESO (then FSO) to ensure actions taken on the distribution and transmission network are coordinated and support system stability and management.

5.3 In our Consultation we proposed that real time operations should remain with DNOs. This ensures that accountability for network reliability and safety sits with one entity. We explained that we did not think requiring legal or ownership separation of DSOs addresses the issues we identified in the Call for Input. We also explained that requiring further separation was not aligned with our function-first approach to reform, and that we did not believe it was justified due to the complexity, time, and cost involved. We did however suggest that improvements are required on operational transparency and coordination.

Responses to our consultation

5.4 We asked stakeholders if they agreed that DNOs should retain responsibility for real time operations. There was strong support for this, with a significant majority of respondents agreeing. Stakeholders agreed with the rationale we set out, recognising the importance of DNOs being responsible for reliability and safety, and that restructuring is likely to be very disruptive and present a risk to reliability.

5.5 Some stakeholders, while agreeing with our proposal, did not believe the current arrangements are flexible enough to allow DNOs to adapt to changes in technology and business models. Some stakeholders also argued that there needs to be more transparency. A handful of respondents disagreed with our proposal. They raised concerns that not enough is being done to mitigate conflicts of interest and called for us to reconsider our position on legal or ownership separation.

5.6 Stakeholders also flagged the importance of more coordination between DNOs and the ESO, the need for data and digitalisation enhancements and improved transparency of operational and decision-making.

Reasons for our decision and next steps

5.7 We have decided to keep real time operations with DNOs as this will ensure we have a safe, reliable energy system. We are firmly of the view that DNOs are best placed to retain responsibility for real time operations, having the required expertise and capabilities to deliver a safe and reliable network while growing their DSO capabilities.

5.8 We do not believe there is a case for changing roles and responsibilities for real time operations as it would create unjustifiable risk to quality of supply and safety. We believe mandated separation and duplicating control rooms would be costly and time-consuming, taking up significant industry, government and Ofgem resource for little tangible benefit. There was strong support for this position in consultation responses with stakeholders agreeing that DNOs retaining singular accountability for real time operations was sensible. As set out in the Consultation document, DNOs provide high levels of reliability and safety under the current arrangements, which offer strong incentives and clear accountability.

5.9 That said, we expect DNOs to identify and implement any reforms necessary to enhance their DSO capabilities, including to ensure their organisational culture unlocks high-performance. We will use the DSO incentive where appropriate to ensure DNOs are delivering in line with our expectations.

5.10 We also expect DNOs, the ESO and GDNs to deliver improvements in operational coordination. Decision-making also needs to be more transparent. RIIO-ED2 investments in data and digitalisation will make data more accessible, delivering greater transparency. In addition, DNOs have committed to provide greater levels of operational transparency in their RIIO-ED2 business plans. We will use our existing tools to ensure that all parties deliver the improvements in operational coordination and transparency they have committed to.

5.11 Our decision on energy system planning, real time operations and market facilitation provides certainty on the DSO role, enabling DNOs to focus on their core duties. RESPs will build confidence in strategic network requirements while the market facilitator will make it clearer what flexibility the market can provide.

5.12 We expect DNOs to develop their DSO capabilities over the course of RIIO-ED2 to provide a safe, reliable system that is fit for the future, with greater transparency around decision-making and effective coordination. We also expect DNOs to deliver their RIIO-ED2 DSO strategies in full, including their conflict of interest mitigation proposals. They will be held to account for doing so through their licence conditions and the DSO incentive.

5.13 While a small minority of respondents raised concerns that we did not propose requiring legal or ownership separation, we believe doing so for all DNOs would be time-consuming, disruptive, costly, and lacking a strong benefits case. This was confirmed in consultation responses where a large majority of stakeholders agreed with our view that a fundamental restructuring of institutional arrangements for real time operations is not warranted.

5.14 Our decision targets the issues identified in the Call for Input and subsequently validated in consultation responses and our engagement. It avoids unnecessary disruption, cost, and uncertainty. We are confident this represents a proportionate approach that has strong support.

Next steps

5.15 We will ensure that real time operations function is effectively integrated into our energy system planning and market facilitation proposals, and vice versa. We will also engage on efforts to support greater transparency and coordination.

6. Next steps

Section summary

This section summarises our next steps as we progress to the detailed phase of design work.

6.1 We will undertake detailed design work as part of our next phase of work across all local governance areas. This will involve conducting stakeholder engagement and issuing further policy consultations as required.

6.2 On energy system planning specifically we will work through the detailed design questions on the functions of the RESP and its outputs, as well as progressing our thinking on coordination and geographic scale. We will engage bilaterally and through workshops as part of this work. Where appropriate we will also explore the possibility of trial projects.

6.3 We will consult on the delivery body for the market facilitator role shortly with a view to deciding in early 2024 whether Elexon or the FSO should be appointed. Following our decision, we will then work with the relevant organisation to progress more detailed market facilitator design work and implement a transition plan.

6.4 We will continue engaging with the Open Networks programme going forward to help maintain momentum and manage a smooth transition to the new arrangements, which will be factored into the transition plan.

Appendix 1 RESP Boundary Proposals

Introduction

A1.1 The following maps and tables show the proposed boundaries of the RESPs in Scotland, Wales and England and the number and names of the DNOs and GDNs that will serve each area. These reflect the positions in this decision document and may change as the options and boundaries are refined in the next stage of the process.

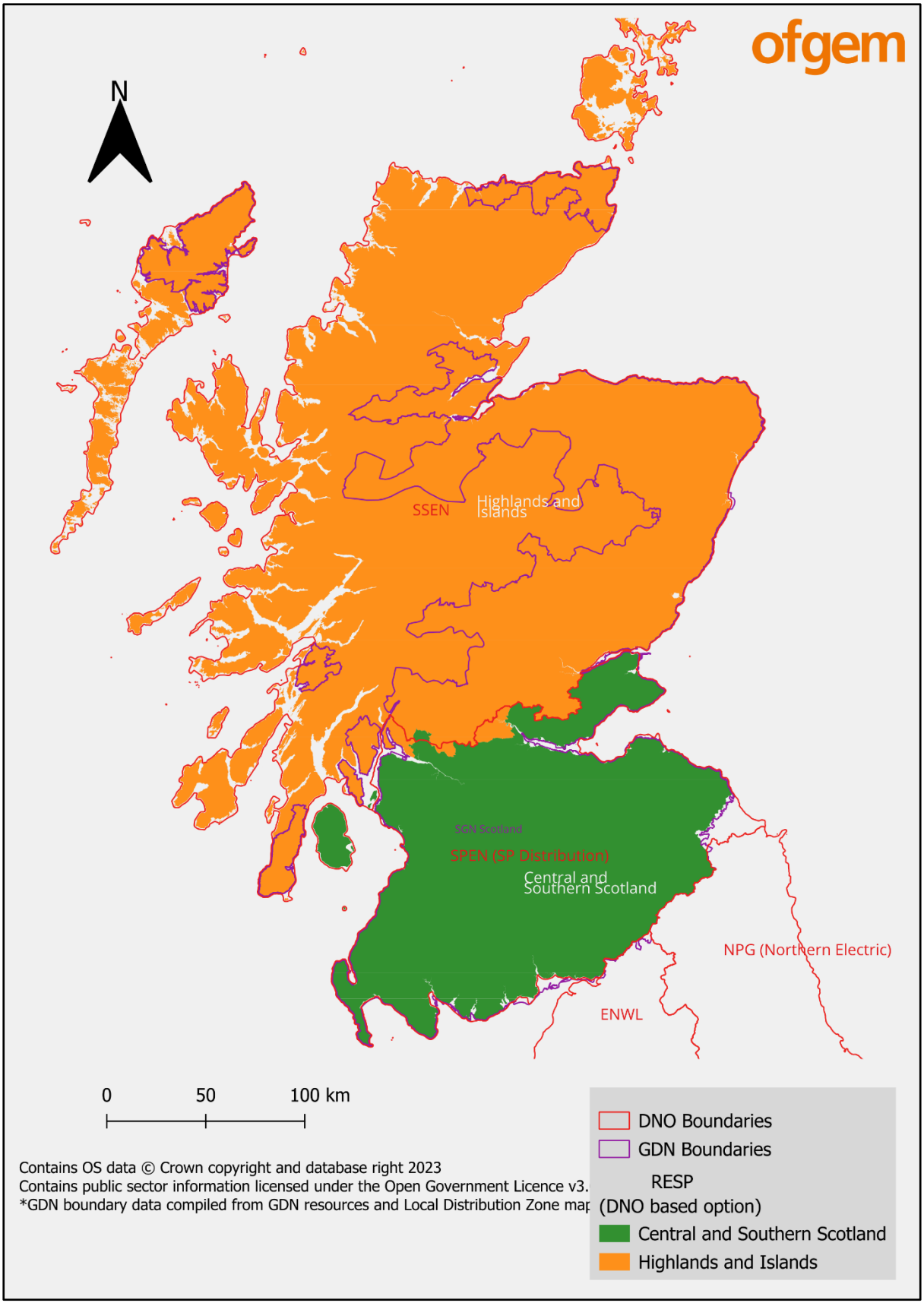
A1.2 The information used to develop these maps and analysis was provided by DNOs and GDNs, combined with publicly available data about administrative boundaries, demographics and energy consumption in GB. Not all data were available to the same level of geographically granularity; as such, there may be some border alignment issues that manifest in the next phase of this work.

A1.3 For Wales, the modelling is based on 1 RESP. For Scotland, 2 RESPs are illustrated, but there remains an efficiency case for 1 RESP. For England, the 8 RESP model is shown, although there is a scale-based case to separate the Transport for the North and Midlands Connect STBs into 2 (or produce 2 strategic plans for each RESP instead of 1).

Scotland: RESP boundary proposal

A1.4 The following map and tables provide an overview of a two RESP solution for Scotland, although (as noted in Chapter 3) we believe there is an efficiency case for a single RESP covering all of Scotland.

Map 1 – Scotland RESP boundary proposal



A1.5 Table 3 provides summary data (population, area size, gas and electricity consumption) for the two RESPs proposed for Scotland.

Table 3 – Scotland – RESP statistics

RESP	Pop (m)	Area (km^2)	Gas Consumption (GWh)	Electricity Consumption (GWh)
Highlands and Islands	1.48	57,375.26	11,510.40	7,325.20
Central and Southern Scotland	3.96	21,444.06	35,402.50	15,245.20

A1.6 Table 4 lists the DNOs and GDN operating in Scotland, showing which of the RESPs their networks operate in.

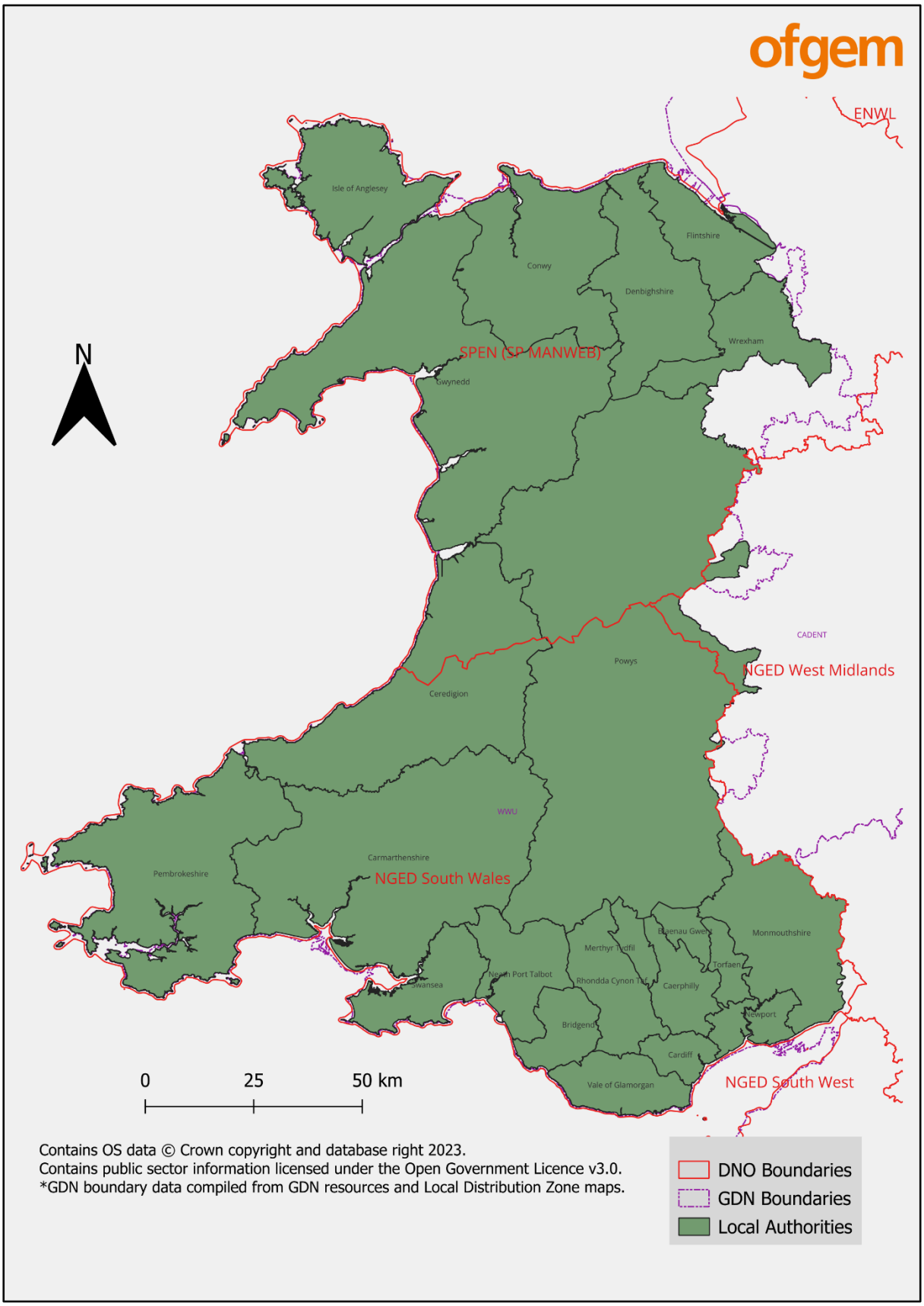
Table 4 – Scotland – DNO/GDN breakdown

Network	DNO or GDN	RESPs served	RESP
SSEN (SHEPD)	DNO	1	• Highlands and Islands
SPEN	DNO	1	• Central and Southern Scotland
SGN Scotland	GDN	2	• Highlands and Islands • Central and Southern Scotland

Wales: RESP boundary proposal

A1.7 The following map and tables provide an overview of the single RESP solution for Wales as advocated for by stakeholders and supported by Ofgem.

Map 2 – Wales RESP boundary proposal



A1.8 Table 5 provides summary data (population, area size, gas and electricity consumption) for the single RESP proposed for Wales.

Table 5 – Wales – RESP statistics

RESP	Pop (m)	Area (km^2)	Gas Consumption (GWh)	Electricity Consumption (GWh)
Wales	3.11	20,782	23,597.20	14,063.50

A1.9 Table 6 lists the DNOs and GDN operating in Wales.

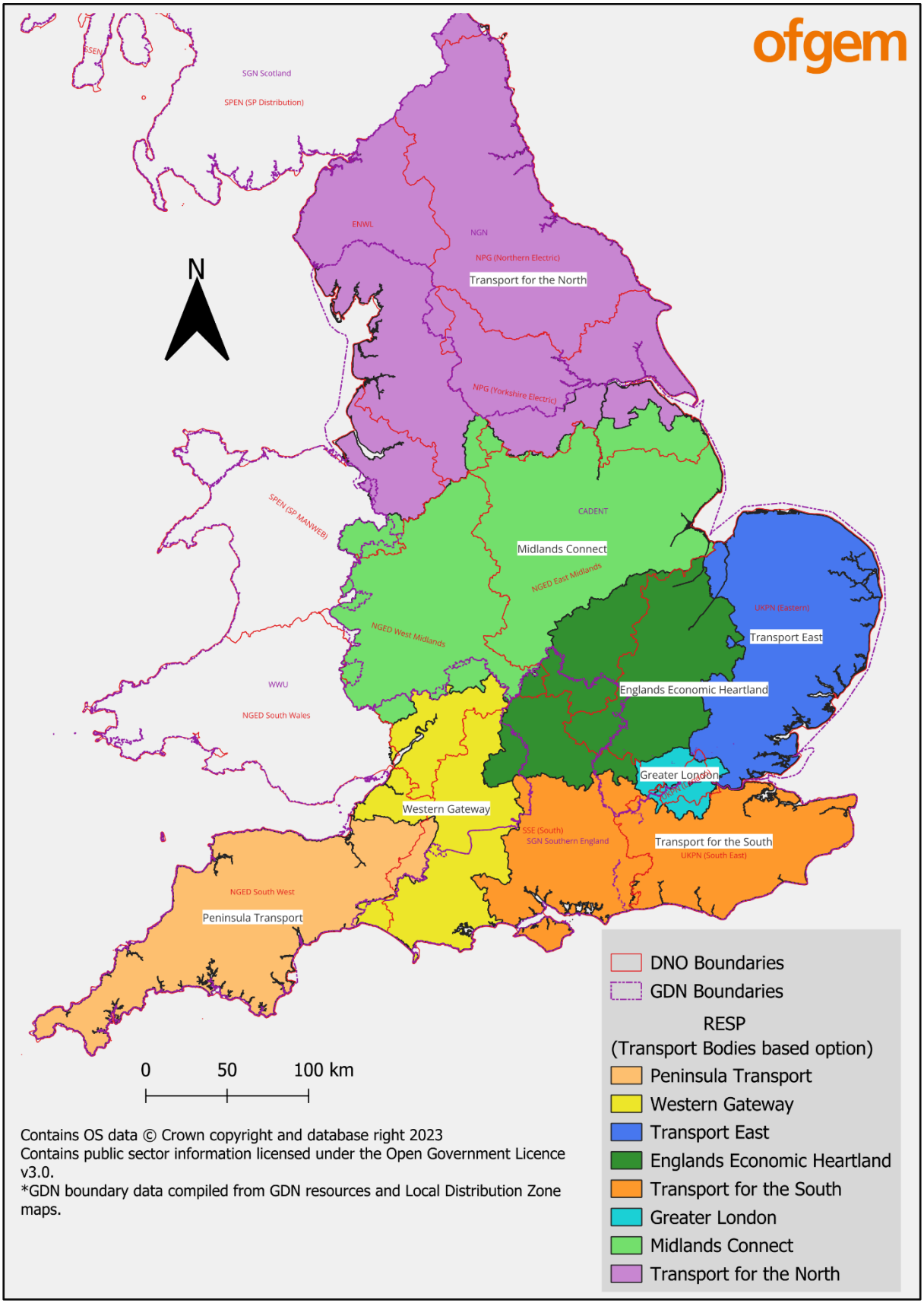
Table 6 – Wales – DNO/GDN breakdown

Network	DNO or GDN	RESPs served	RESP
NGED South Wales	DNO	1	• Wales
SPEN Manweb	DNO	1	• Wales
Wales and West Utility (WWU)	GDN	1	• Wales

England: RESP boundary proposal

A1.10 The following map and tables provide an overview of the proposed RESP solution for England, based on the eight STBs. As set out in the analysis above, we believe two of the STB regions are sufficiently large that there is a case to split the Transport for the North and Midlands Connect regions in two (the STB+2 approach), or alternatively maintain alignment with the STB boundary, but for these RSEPs to produce two separate regional strategic plans.

Map 3 – England RESP boundary proposal



A1.11 Table 7 provides summary data (population, area size, gas and electricity consumption) for each of the proposed RESP regions.

Table 7 – England – RESP statistics

RESP	Pop (m)	Area (km^2)	Gas Consumption (GWh)	Electricity Consumption (GWh)
Peninsula Transport	2.36	13,714.35	12,215.20	9,361.60
Western Gateway	3.11	9,901.11	19,871.80	11,898.30
Transport East	3.54	12,855.95	21,885.60	13,687.10
England's Economic Heartland	5.38	13,358.25	38,158.50	22,034.10
Transport for the South	7.71	14,613.74	51,466.80	29,228.80
Greater London	8.80	1,573.98	60,334.70	34,671.30
Midlands Connect	10.05	26,297.96	79,279.90	38,810.40
Transport for the North	15.84	38,199.73	139,369.70	61,456.20

A1.12 Table 8 lists each DNO and GDN operating in England, detailing which of the RESPs their networks operate in.

Table 8 – England – DNO/GDN breakdown

Network	DNO or GDN	RESPs served	RESP
Electricity North West	DNO	2	• Midlands Connect • Transport for the North
NGED East Midlands	DNO	4	• England's Economic Heartland • Midlands Connect • Transport East • Transport for the North
NGED South Wales	DNO	1	• Western Gateway
NGED South West	DNO	2	• Peninsula Transport • Western Gateway
NGED West Midlands	DNO	4	• England's Economic Heartland • Midlands Connect • Transport for the North • Western Gateway
NPG Northeast	DNO	1	• Transport for the North
NPG Yorkshire	DNO	2	• Midlands Connect • Transport for the North
SPEN	DNO	1	• Transport for the North
SPEN Manweb	DNO	2	• Midlands Connect • Transport for the North
SSEN South	DNO	6	• England's Economic Heartland • Greater London • Midlands Connect • Peninsula Transport • Transport for the South • Western Gateway
UKPN Eastern	DNO	4	• England's Economic Heartland • Greater London • Midlands Connect • Transport East
UKPN London	DNO	3	• Greater London • Transport East • Transport for the South
UKPN South East	DNO	2	• Greater London • Transport for the South

Table 8 – England – DNO/GDN breakdown

Network	DNO or GDN	RESPs served	RESP
Cadent	GDN	7	• England's Economic Heartland • Greater London • Midlands Connect • Transport East • Transport for the North • Transport for the South • Western Gateway
Northern Gas Networks (NGN)	GDN	2	• Midlands Connect • Transport for the North
SGN Scotland	GDN	1	• Transport for the North
SGN Southern England	GDN	6	• England's Economic Heartland • Greater London • Midlands Connect • Peninsula Transport • Transport for the South • Western Gateway
Wales and West Utility (WWU)	GDN	6	• England's Economic Heartland • Midlands Connect • Peninsula Transport • Transport for the North • Transport for the South • Western Gateway

Great Britain: RESP boundary proposal summary

A1.13 Table 9 is a summary overview of each proposed RESP region in Great Britain, listing the relevant DNOs and GDNs that will operate in each region.

Table 9 – Great Britain – DNOs/GDNs listed by RESP

RESP area	DNOs	GDNs
England *Transport for the North*	7 licence areas operated by 4 DNOs • Electricity Northwest • NGED East Midlands • NGED West Midlands • NPG Northeast • NPG Yorkshire • SPEN • SPEN Manweb	4 GDNs • Cadent • NGN • SGN Scotland • WWU
England *Midlands Connect*	7 licence areas operated by 6 DNOs • Electricity Northwest • NGED East Midlands • NGED West Midlands • NPG Yorkshire • SPEN Manweb • SSEN South • UKPN Eastern	4 GDNs • Cadent • NGN • SGN Southern England • WWU
England *Transport East*	3 licence areas operated by 2 DNOs • NGED East Midlands • UKPN Eastern • UKPN London	1 GDN • Cadent
England *England's Economic Heartland*	4 licence areas operated by 3 DNOs • NGED East Midlands • NGED West Midlands • SSEN South • UKPN Eastern	3 GDNs • Cadent • SGN Southern England • WWU
England *Greater London*	4 licence areas operated by 2 DNOs • SSEN South • UKPN Eastern • UKPN London • UKPN South	2 GDNs • Cadent • SGN Southern England
England *Western Gateway*	4 licence areas operated by 2 DNOs • NGED South Wales • NGED South West • NGED West Midlands • SSEN South	3 GDNs • Cadent • SGN Southern England • WWU
England *Transport for the South*	3 licence areas operated by 2 DNOs • SSEN South • UKPN London • UKPN South	3 GDNs • Cadent • SGN Southern England • WWU

Table 9 – Great Britain – DNOs/GDNs listed by RESP

RESP area	DNOs	GDNs
England *Peninsula Transport*	2 licence areas operated by 2 DNOs • NGED South West • SSEN South	2 GDNs • SGN Southern England • WWU
Scotland *Highlands and Islands*	1 licence area operated by 1 DNO • SSEN (SHEPD)	1 GDN • SGN Scotland
Scotland *Central and Southern Scotland*	1 licence area operated by 1 DNO • SPEN	1 GDN • SGN Scotland
Wales *Wales*	2 licence areas operated by 2 DNOs • NGED South Wales • SPEN Manweb	1 GDN • WWU

Appendix 2 – Related Publications

- Consultation: Future of local energy institutions and governance (March 2023)

  https://www.ofgem.gov.uk/publications/consultation-future-local-energy-institutions-and-governance

- Call for Input – Future of local energy institutions and governance. (April 2022)

  https://www.ofgem.gov.uk/publications/call-input-future-local-energy-institutions-and-governance

- Proposal for a Future System Operator role – Decision (April 2022)

  https://www.ofgem.gov.uk/publications/proposal-future-system-operator-role-decision

- Elexon Ownership Government and Ofgem's response to consultation (March 2023)

  https://www.ofgem.gov.uk/publications/elexon-ownership-government-and-ofgems-response-consultation

- The future ownership of Elexon (July 2022)

  https://www.gov.uk/government/consultations/the-future-ownership-of-elexon

- Call for Input: The Future of Distributed Flexibility (March 2023)

  https://www.ofgem.gov.uk/publications/call-input-future-distributed-flexibility

- Consultation on proposals for a Future System Operator role (July 2021)

  https://www.ofgem.gov.uk/publications/consultation-proposals-future-system-operator-role

- Review of GB energy system operation (January 2021)

  https://www.ofgem.gov.uk/publications/review-gb-energy-system-operation

- Full chain flexibility (2022)

  https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/full-chain-flexibility

- Net Zero Strategy: Build Back Greener (October 2021)
  https://www.gov.uk/government/publications/net-zero-strategy

- The Climate Change Act 2008 (2050 Target Amendment) Order 2019 (June 2019)

  https://www.legislation.gov.uk/uksi/2019/1056/contents/made

- The Energy Act (October 2023)

  Energy Act 2023 - Parliamentary Bills - UK Parliament

- Smart Systems and Flexibility Plan 2021

  https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1003778/smart-systems-and-flexibility-plan-2021.pdf

- Ofgem's Future Insights Paper 6 - Flexibility Platforms in electricity markets (September 2019)

  https://www.ofgem.gov.uk/publications/ofgems-future-insights-paper-6-flexibility-platforms-electricity-markets

Appendix 3 – Glossary

Term	Definition
Centralised function	The concentration of management and decision-making power in one entity for the purpose of coordinating resources.
Central Strategic Network Plan (CSNP)	Plan of the onshore and offshore transmission network to cope with the additional demand and generation and planning where interconnection should be sited on the system.
Combined authority (CA)	A legal body set up using national legislation that enables a group of two or more councils to collaborate and take collective decisions across council boundaries.
Coordinated approach	An accountable owner brings actors together and sets a common objective to work towards, and clear roles and responsibilities. There is consensus driven decision-making with a clear direction of travel.
Cross-vector	Considering the impacts and efficiencies needed between vectors, eg electricity, gas, heat, transport, rather than just the best outcome for one part.
Decentralisation	Refers both to the general trend of smaller scale sources of generation and storage, but also a trend towards decisions being made at a smaller scale when it comes to the energy transition.
Deliverables	Refers to the outputs of delivery bodies. In the context of the market facilitation of flexible resources, the deliverables may include the common outputs that are developed by the market facilitator to be adopted by DNOs and the FSO. In the context of the regional planning, the deliverables may include a strategic plan.
Delivery body	An entity responsible for overseeing, managing and driving forward initiatives, to meet the expectations of the role.
Democratic accountability	A principle convening local authorities and other relevant local actors to oversee the RESP (Regional Energy System Planner) development process. Ensures those with a democratic mandate interact and influence the more technocratic aspects of energy planning. Holds the RESP to account, through monitoring its effectiveness and receiving stakeholder attitudes.
The Department for Energy Security and Net Zero (DESNZ)	A ministerial department focused on the energy portfolio from the former Department for Business, Energy and Industrial Strategy (BEIS).
Digitalisation	The use of digital technologies to change an organisation's operating model and provide new revenue or equivalent value creating opportunities; it is the process of moving to a digital business/organisation.

Term	Definition
Distribution Network Operator (DNO)	A DNO is a company that operates the electricity distribution network, which includes all parts of the network from 132kV down to 230V in England and Wales. In Scotland 132kV is a part of transmission rather than distribution so their operation is not included in the DNOs' activities. There are 14 DNO licensees that are subject to RIIO price controls. These are owned by six different groups.
Distribution system	The system of low voltage electric lines and low-pressure pipelines providing for the transfer of electricity and gas within specific regions of Great Britain.
Distribution System Operation (DSO)	The set of activities that are needed to support the transition to a smarter, flexible and digitally enabled local energy system. DNOs have been building capabilities in planning, operating and market facilitation of flexible resources to drive more efficient development and use of the decarbonising electricity system. This differs from the more traditional responsibility of a DNO, which is to take power from the transmission network and deliver it at safe, lower voltages to homes and businesses.
Energy Networks Association (ENA)	The Energy Networks Association represents the companies which operate the electricity wires, gas pipes and energy system in the UK and Ireland.
National Grid Electricity System Operator (ESO)	National Grid is the electricity transmission system operator in Great Britain. The entity responsible for operating the electricity transmission system and for entering contracts with those who want to connect to and/or use the electricity transmission system.
Flexibility	Modifying generation and/or consumption patterns in reaction to an external signal (such as a change in price) to provide a service within the energy system.
Flexibility markets	Flexibility market refers to the arena of flexibility service procurement processes across various market operators within GB. This includes DNO local flexibility markets, ESO Frequency and Ancillary services, Balancing Mechanism, Wholesale Market, Capacity Market, P2P services (ie PPAs) etc
Flexibility services	Using on-network or customer owned equipment to control power and energy flows across network infrastructure, leading to more efficient and cost-effective outcomes.
Flexibility service provider (FSP)	An umbrella term to cover the contracting party who takes delivery and other contractual risks when selling flexibility services, such as asset owners, asset operators and aggregators.

Term	Definition
Forecasting	The process of using data to estimate the likely future energy demand. Used to ensure the proper allocation of resources and assist in infrastructure investment decisions.
Future System Operator (FSO)	The FSO will take on all the main existing roles and responsibilities of National Grid ESO and the longer-term planning, forecasting and market strategy functions.
Gas distribution network (GDN)	Transport gas from the National Transmission System to final consumers and to connected system exit points. There are eight network areas managed by four companies that are subject to RIIO price controls.
Governance	A framework overseeing and directing changes in the energy sector, through mechanisms underpinned by democracy.
Local Area Energy Planning (LAEP)	A collective term for an integrated approach designed to define detailed place-based whole energy systems pathways and delivery plans for Net Zero, usually undertaken by local or combined authorities. LAEP uses data, analysis and modelling to develop a strategy and a delivery plan to meet the objectives.
Local Enterprise Partnership (LEP)	A non-statutory body responsible for local economic development in England bringing together the businesses, universities, councils and Combined Authority of a region.
Local Heat and Energy Efficiency Strategies (LHEES)	Underpin an area-based approach to heat and energy efficiency planning and delivery in Scotland. The scope of LHEES is focused on energy efficiency and heat decarbonisation The LHEES Order places a duty on local authorities to prepare, publish and update a LHEES.
Market facilitation	Creating accessible and coordinated markets which enable the full value of flexibility to be realised.
Market facilitator	In the context of the local governance review, it is a new role we are defining with responsibility for delivering more joined up flexibility markets
Market participants	Actors that interact to execute trades, invest capital, ensure compliance, and maintain market stability
Net Zero Hubs	Five regional bodies across England that focus on helping the UK reach net zero by 2050. They work with public sector organisations, their stakeholders, and communities to develop net zero projects and support local energy planning.
Net zero pathway	A route and sequence of steps that a region will take to decarbonise.
Network planning	Refers to the transmission and distribution of energy. Delivering sufficient capacity, when it is it is needed, using the most cost efficient solutions whilst maintaining network resilience and reliability.

Term	Definition
Network visibility	The ability of DNOs to collect and utilise data related to the operation of their network in planning and operational timescales.
Open networks programme	The Open Networks programme is a project led by the ENA and supported by DNOs and the ESO to support the development of local flexibility markets. It was launched in 2017 in response to the Smart System and Flexibility Plan.
Place-based	A bottom-up approach of looking at the needs and requirements of a local area and applying this lens to how decisions are made.
Planning	Any activity that involves taking a forward look, rather than considering options or issues as and when they occur.
Price control	The control developed by Ofgem to set targets and allowed revenues for network companies. The characteristics and mechanisms are developed in the price control review period depending on network company performance over the last control period and predicted expenditure (companies' business plans) in the next.
Region	An area granular enough for truly place-based understanding, yet sizeable enough to facilitate coherency across the UK. The RESP regions and boards will be sized to ensure effective and swift communication.
Regional Plan	The key deliverable of the RESP, that will define when and where energy demand is expected in a region. It will be coherent with national and regional net zero ambitions and will be derived from individual plans made by local actors. The plan will be used to inform network planning and infrastructure investment.
Regional Strategic Energy Planner (RESP)	A new role responsible for the development of strategic energy plans at the regional level and providing critical planning assumptions to inform system and network needs.
Regional system planner (RSP)	The term previously used to address the new distribution planning entity. This has since been replaced by the title 'Regional Strategic Energy Planner'.
Revenue stacking	The ability to earn revenue simultaneously from multiple sources using the same capacity
RIIO-ED2	The price control applying to the electricity distribution network operators. It runs from 1 April 2023 to 31 March 2028.
RIIO-ED3	The price control applying to the electricity distribution network operators that will apply from 1 April 2028.

Term	Definition
Scenarios	A range of credible future situations that the energy sector will need to prepare for through planning. Scenarios consider how, when and where energy may be needed across a spatial area.
Sign off	The process of obtaining final approval.
Stacking rules	Stacking rules enable an asset to know if it can deliver multiple products.
Standardisation	The process of developing, promoting and possibly mandating standards focused on ensuring quality, consistency, compatibility, interoperability and safety.
Strategic planning	A planning approach which seeks to optimise for future uncertainties over net zero pathways, incorporating whole system dependencies (ie gas, electricity, and wider vectors) and ensuring it meets regional and national targets.
Strategic Spatial Energy Plan (SSEP)	A spatial energy plan to inform energy network plans, whereby government targets across the whole energy system would be spatially mapped across GB and over a time period of several years.
Sub-national Transport Bodies (STB)	The eight organisations for transport governance in England, responsible for coordinating local arrangements to maximise efficiency
System needs	The amount of energy needed (MWh). Dependent on regional customers and economic, net zero and cross vector plans.
Technical coordination	Integrating and analysing plans across different vectors and identifying improvements and opportunities for system optimisation.
Transmission network	The system of high voltage electric lines and high-pressure pipelines providing for the bulk transfer of electricity and gas across GB.
Whole System	An approach that considers the gas, electricity (transmission and distribution) networks as well as the impact the heat and transport sectors have on the system as a whole