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Dear Fiona,

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Wales & West Utilities (WWU) response: Regional Energy Strategic Plan policy framework consultation

Thank you for the opportunity to respond to this consultation. WWU is a gas transporter serving 2.5 million supply points in Wales and south-west England. This response is not confidential and may be published by Ofgem.

Our key points are:

- the role of the RESP Plan in relation to future network licensee business plans needs to be clearly stated by Ofgem; is it something the networks must adhere to, or is it advisory?
- expectations on network licensees around engagement and provision of information to NESO should be clearly stated; the lack of clarity on this point means that we will probably be reliant on uncertainty mechanisms to fund this resource in the GD3 price control;
- a clear definition of 'whole system' is vital; and,
- practical considerations on areas such as planning and supply chain, including workforce, materials and equipment, must be included in RESP Plans.

Before answering the specific questions, we have the following comment on the Introduction.

Local Governance Journey

This reads as focused on governance and changes to the electricity system. It should better reflect the fact that gas networks transports around three times as much energy as the electricity system in GB annually, and within regions.

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Responses to questions

- 1. What are your views on the principles (in paragraph 2.8) to guide NESO's approach to developing the RESP methodology? Please provide your reasoning.**

Place based

The RESP Plan will need to be place based if it is to inform networks' investment decisions. We agree that it should also reflect local ambitions; however, it needs to be recognised that some local ambitions may not be achievable or may need to have timescales adjusted if they are not consistent with wider network plans or national priorities.

As a minimum, NESO needs to consult on and publish clear guidelines on the parameters of RESP Plans, for example around the scope of 'national' assets within specific regions. The guidelines must also cover:

- the treatment of emissions from sources such as ports, airports or motorways;
- assumptions around import and export of energy between regions and to/from other jurisdictions;
- required levels of resilience; and,
- fundamental assumptions such as economic growth.

In our experience of Local Area Energy Plans there has been some inconsistency in areas such as these which, if continued, will make it challenging to develop coherent RESP Plans. However, this needs careful consideration as there are clearly also regional differences which need to be taken into account.

Whole system

We agree that a whole system approach is required; however, to do this we need a clear definition of whole system. The consultation gives the impression that it is not sure of what whole system means as it states "i.e. gas and electricity, but also heat, transport and industry". We think that this demonstrates the need for a clear definition of whole system coupled with clarity as to whether gas means natural gas or gas in general which would include hydrogen and carbon dioxide. Despite suggestions to include a definition, NESO's Gas Strategic Planner and Electricity System Operator and Planner licences do not contain a definition of "whole system". If basic concepts are not clearly defined, it is likely that the outputs will be imprecise because different people interpret an imprecise concept in different ways. Our view is that whole system should include all energy vectors: electricity, natural gas (and biomethane), hydrogen, heat and carbon dioxide, but we recognise the importance of whole system also considering impacts on other areas such as water. We note the reference in paragraph 2.18 to consider system optimisation opportunities and consider that this should include consideration of whole system solutions to managing constraints on electricity distribution networks.

Vision led

There should be a clear long-term objective that reflects both the region's characteristics while ensuring that they align with national objectives; however, the RESP Plan needs to be clearly evidence based and reflect practical considerations such as:

- supply chain constraints both in materials and people;
- planning considerations and public acceptance of new large scale infrastructure requirements;
- potential risks of an approach that makes transport, telecommunications, heat reliant on one energy vector and whether that requires substantially additional infrastructure to provide the necessary resilience especially in rural areas; and,
- delivery of a just transition and support for customers in vulnerable situations.

Our review of Local Area Energy Plans (LAEP) from local authorities in the WWU area shows that the first two points have not generally been considered in the scope of existing analysis, nor to a sufficiently robust level for them to form the basis of a coherent and deliverable RESP plan.

Whilst we recognise the need for LAEPs to support the RESP Plan in its development, there must also be guidelines and impacts that the LAEP must consider when being developed. This will ensure it has realistic delivery timescales and is co-ordinated with the RESP Plan. It is likely that this will require new or additional analysis considering the current status of many LAEPs.

Proactive

The consultation states that there should be proactive development and investment to enable networks to enable net zero but allowing for agility to account for uncertainty. We note that The National Energy System Operator is required to produce pathways that are consistent with achieving the Net Zero 2050 target and Carbon Budget plans¹. This in turn means that RESP will be required to develop plans that are consistent with that requirement so there seems to be no scope for RESP to produce plans that are not consistent with the pathway should it become clear that the targets are not going to be met. We therefore question what is meant by “remaining agile and taking an adaptive approach to account for uncertainty”. This may mean moving investments around within an overall consistent plan but ignoring the possibility that the targets become unachievable. We saw this issue with the smart meter rollout whereby sticking to the target approach when there was a delay to the availability of SMETS 2 meters meant that Suppliers had to install a large number of SMETS 1 meters, some, but not all of which, can be used in smart mode following adoption by the DCC. The smart meter rollout has only recently passed the halfway mark.

- 2. Do you agree that the RESP should include a long-term regional vision, alongside a series of short-term and long-term directive net zero pathways? Please provide your reasoning.**

Long term regional vision

We understand from meetings that long term is about 25 years. The use of the term “vision” suggests that it is an aspiration rather than something that is necessarily deliverable. The RESP Plan needs to deal with the situation as it is and be a credible and deliverable plan to

¹ The Gas System Planner licence condition C8.12 requires compliance with Energy Act 2023 section 163 that imposes these obligations.

progress to the long-term target. The plan needs to be evidence based and not based on aspirations of what the future could look like.

Short term and long-term directive pathways

We are unclear what is meant by “directive pathways”. The natural meaning of the term is that they state the path that networks and local authorities should follow with no ability to deviate from the pathway. If this is the case, we strongly oppose this proposal. Networks have statutory and licence obligations regarding provision, operation and maintenance of their network and they must be allowed to fulfil these obligations as they see best. Their business plans are also subject to funding decisions by Ofgem. Local Authorities also have statutory obligations and cannot be required to meet a RESP pathway if to do so would cause them to breach statutory obligations.

It is important that terms such as plan, “vision”, “pathway”, “scenario” and “forecast” are defined, otherwise there will be a lack of clarity. The statement in the question that the RESP Plan (noting that the consultation uses RESP to mean the RESP Plan) should include a long-term vision and directive pathways suggests that it may include other elements as well; if so these other elements need to be identified and defined.

We understand that short term is seen as 5-10 years. It is not clear whether the short-term pathway would marry with the longer-term pathways or whether there would be a gap and if so, how this gap is overcome. The short-term pathway should clearly flow into the long-term pathway without discontinuities caused by changes in assumptions between the two pathways. A key issue is the constraints in the electricity system. The guidance for the Future Energy Pathways states that the short-term assumption is that the electricity system is constrained (a consequence of the “connect and manage” decision taken by Ofgem in 2010), whereas the long-term assumption is that it is not constrained; however, how it moves from a constrained to unconstrained system is unclear. The RESP Plan must not contain such discontinuities otherwise it will not be a realistic view of what is practically required. As we have noted elsewhere, it is essential that Ofgem provides more clarity on how RESP Plans are to be considered and treated in future network business plans.

Strategic direction setting – modelling supply and demand

While a vision can provide a useful basis for discussion and agreement on ambition, NESO will need to carefully consider and balance the roles and views of a range of stakeholders within regions and nationally. It is not clear from these proposals how, for example, NESO would resolve potentially divergent views on visions between local authorities within regions, or differences between the ambitions of local and national authorities. Since all these institutions have a democratic remit from their voters, this may be difficult to reconcile, therefore, clear guidance from Ofgem is required.

A vision is inherently likely to be aspirational rather than predictive; modelling of supply and demand should be based on known facts. The text in paragraph 3.1 refers to detailing where energy demand is situated, it also needs to detail where local energy supply is situated. It needs to take into account that a demand on one system, for example gas, can be a supply

on another system, for example electricity. Paragraph 3.3 states “...electrification of power, heat, transport and industry to reach net zero require significant changes in how infrastructure investment is undertaken”. This gives the impression that UK Government policy has been set, this is not the case. The decision on hydrogen for heat is set to be made in 2026 and the UK Government has already stated that it sees a need for hydrogen in power generation and for industry. It is important that statements about policy are accurate and do not give readers a false impression.

A vision suggests an aspiration ahead of policy. It seems strange for an Ofgem regulated entity to make plans based on a vision that is not directly related to UK Government policy.

Strategic direction setting – identifying system need

Consistent assumptions across all parties are essential and these should be based on established policy and facts. These need to be spatially identified and deliverability of these needs in the context of supply chain constraints and realistic timescales for planning and approvals for infrastructure must be included. It is no good identifying a need if it cannot be delivered in the time available.

Paragraph 3.11 states “The single short-term pathway will set direction and ensure investment is made with confidence and ahead of need,...”. While some level of investment ahead of need may be required to deliver infrastructure for net zero energy systems, there is a risk of inconsistency and confusion if Ofgem does not set a consistent regulatory approach across all sectors. As investment ahead of need is a change from the regulator’s historical approach to justification of capital expenditure, a wider policy should be developed by Ofgem stating how it will approach such proposals across the energy system, including how it will take into account RESP Plans when assessing networks’ business plans.

Technical coordination

This is vital to ensure that any plans are coordinated between parties. For example, it is no use assuming that a local authority will have zero emission at point of use public transport if the necessary hydrogen or electric buses will not have the necessary refuelling infrastructure until some years later. The RESP Plan needs to look at innovative cross vector whole system solutions, for example to address constraints on the electricity system.

3. Do you agree there should be an annual data refresh with a full RESP update every three years? Please provide your reasoning.

The RESP Plan should be updated with actual outturns each year. This will enable parties to easily see whether the outcomes are meeting the Plan’s requirements. We understand that an annual data refresh is envisaged with a full data refresh every three years. The detail of these refreshes needs to be established but it is vital that actual outturns are made available each year so that all parties can compare the outturns with the current RESP Plan at the earliest opportunity.

We note that the consultation on guidance for the Future Energy Pathways states that the Centralised Network Strategic Plan will be published on a three-year cycle so it is logical that the RESP Plan will also be published on a three-year cycle. This raises two issues:

- Publishing the Future Energy Pathways, the Spatial System Energy Plan, the Centralised System Network Plan and the Regional Energy Strategic Planner Plan on the three-year cycle requires four major plans to be published in a regular three year cycle. This will require careful planning and significant engagement if it is to be adhered to. Related to this is that network price controls follow a five-year cycle meaning that RESP Plan would come at different points through the networks' business planning cycles at different times. Ofgem should clarify how this impacts the role of RESP Plans in network business plans;
- the RESP Plan comes at the end of this process and so will be based on a FEP that is almost three years old and about to be revised. We anticipate that the FEP may change significantly in the first few iterations (its predecessor the Future Energy Scenarios changed considerably between publications); if so, this would mean the RESP Plan would be based on a FEP that was three years old and may lead to questions as to its credibility.

4. Do you agree the RESP should inform the identification of system need in the three areas proposed? Please provide your reasoning, referring to each area in turn

We agree that the RESP Plan should provide a useful input into networks' investment and maintenance plans. For example, the RESP Plan might indicate that investment in new hydrogen infrastructure is required or that a natural gas facility will be required for a further period of time, this may affect a decision on the maintenance or refurbishment required to ensure that the asset is fit for purpose for the required period. However, while it can **inform**, it cannot **define** the networks' plans as the networks have the obligation to provide a fit for purpose network to meet demand. In addition, Ofgem has historically refused to fund investment ahead of need on the grounds that it unnecessarily imposes additional cost on consumers and that requirements may change meaning that anticipated demand does not appear when expected resulting in under used assets. For these reasons the RESP Plan can only inform network's plans and business plans submitted as part of the price control process. This is the approach described in paragraph 2.19. It is vital that this point is both communicated to and understood by all stakeholders and that the language of all documents is consistent with this.

Common assumptions

We reserve judgement on the benefit or otherwise of common assumptions, though as noted above some greater consistency will be helpful in some areas. There is significant regional variation across Great Britain including weather, household income and other factors that may challenge the use of common assumptions even with a range of variation. All assumptions need to be documented and clearly justified. It is no use having an assumption that the target required to achieve a particular Future Energy Pathway pathway will be achieved if the

evidence to date does not support the assumption. If the RESP Plan is to have credibility as an aid to planning network infrastructure it must use realistic evidence based assumptions.

Spatial view

The proposal seems very ambitious. Despite the electricity centric language, we assume that this spatial view would cover natural gas and hydrogen rather than just electricity. To be useful the model would need to model a wide variety of flows into and out of the networks at various points under various demand and supply conditions. The answer will almost certainly be that networks have headroom at some times and not others and different parts of networks may have headroom at different times to other parts. For natural gas networks, in which the distribution networks store gas overnight and release it during the day, capacity can mean diurnal storage, flows at peak demand and locally ramp rates (for example how quickly a gas fired power station can go from zero to maximum flow rate). For a given network each element of capacity may be constrained at different times of the day and in general they will be constrained on a peak (1 in 20) demand day; that is a day on which demand is forecast to be at a level that occurs one day in 20 years which is the standard to which networks are designed. We also do not think that RESP will have the granularity of data required to determine investment needs for example, operating profiles, peak demands and so forth.

Directive role in identifying the location for strategic investments in line with the long-term vision for the region

For the reasons stated above we do not think that the RESP Plan should direct networks. We also question the statement that the RESP Plan should be in line with the long-term vision as we think that the RESP Plan should be evidence based and not aspirational. The RESP Plan does have a role in indicating that a strategic investment is required in a region or sub-region, but the precise location needs to be decided by the networks and local authorities and other parties as it will be subject to planning and environmental controls and will need to fit with other infrastructure in the locality.

5. Do you agree technical coordination should support the resolution of inconsistencies between the RESP and network company plans? Please provide your reasoning.

Paragraph 3.32 states “In our November decision, we set out that NESO will have a technical coordination role in delivering the RESPs. Whilst network companies will remain responsible for optioneering and developing their business plans, this role will ensure there is coordination and cross-vector integration across strategic planning and the network companies’ plans. We have termed this “technical coordination”.

This statement seems to mean that NESO will make decisions about whether new infrastructure is required; given that some existing infrastructure is coming to the end of its life this also means that NESO will make decisions about whether certain infrastructure should be replaced. They cannot do this without detailed knowledge of network assets. We do not believe that NESO has the resource nor the knowledge to do this. Networks will have a greater role than merely optioneering infrastructure decisions made by NESO. Networks retain the

obligations to operate economic and efficient systems and must retain the decision making to achieve this. We agree that there needs to be coordination between networks but not to the extent proposed. If the coordination role is more advisory than directive this needs to be made clear.

There is also good reason why network company plans may differ from the RESP Plan. Even if we assume that the RESP Plan is not constrained to meeting carbon budgets, and assume that the RESP Plan will provide the most likely central case, networks will continue to use their own 1:20 forecasts for their planning. Where the RESP Plan forecasts that investment in infrastructure is required then networks will probably plan to have that in place just ahead of need to meet their obligations. Similarly, where the RESP Plan forecasts that assets will become redundant, networks will wait until after the requirement has ended before decommissioning or repurposing those assets. In the first case this means that networks may plan investment slightly ahead of the plan and in the second case that they continue with planning maintenance until after the plan suggests it may not be required.

Another reason why network plans may differ from the RESP Plan is if they think the RESP Plan is unrealistic based on actual data. This point is likely to become more relevant as the current RESP Plan ages given that it will only be revised every three years.

6. What are your views on the three building blocks which come together to form the RESP in line with our vision? Are there any key components missing?

We agree that the three building blocks:

- Strategic direction setting: modelling supply and demand
- Strategic direction setting: identifying system need
- Technical coordination

are reasonable but as stated above we have concerns over the concepts of “vision” and “directive paths”. We are still concerned that the role of the RESP Plan in informing network business plans is unclear. In some places the consultation gives the impression that the RESP Plan will direct network business plans and in others that it will be advisory. The message coming from NESO in conversations is that it will be advisory, but this must be clearly stated and understood by all parties otherwise the role of the Strategic Board will be unclear.

7. Do you agree with the framework of standard data inputs for the RESP? Please provide your reasoning.

The information in the consultation is very high level so it is difficult to comment in detail. It is important that data is granular enough to model peak and minimum demands and peak and minimum supply and does not just model mean / annual values as has happened previously with UK Government modelling of heat. We anticipate that the flows of data to and from NESO will be facilitated by the digitalisation work that is ongoing. In our response to question 4 on spatial planning we express doubt that the RESP will have access to the required level of granular data to enable it to understand and model the distribution system to understand investment needs at a detailed level. As we state in our response to question 5, we think that

the networks will be doing more than optioneering around RESP proposals as we do not think that the RESP will be able to provide that level of detail of investment need.

The consultation states that top-down national inputs will include.

- UK Government, Scottish and Welsh Government net zero targets and plans.
- Climate Change Committee scenarios.
- Future Energy Scenarios.
- CSNP and SSEP outputs.

We note that there are a number of references to scenarios and targets. We think that the inputs to the RESP Plan need to be credible evidence based forecasts not aspirational targets and this conflicts with the on NESO obligation to meet carbon budgets. The same comment applies to many of the bottom-up data items listed in the consultation.

Data items that are lacking include workforce availability and supply chain data. The net zero transition will demand significant increases in workforce to design and build the infrastructure as well as materials and equipment from supply chains. At the same time water and sewerage companies will probably also be seeking more resource to build infrastructure putting more pressure on an already tight market. If these workforce and supply chain constraints are not acknowledged and managed the RESP Plan will not reflect what can actually be done in practice.

8. Do you have any suggestions for criteria to assess the credibility of the inputs to the RESP?

The inputs must be credible evidence based values, this requires rigorous checking that forecasts taken from one model and used as an input into the RESP Plan are themselves credible. Without this the RESP Plan could be built on very shaky foundations. To give one example, an assumption that the UK Government will continue to indefinitely subsidise heat pump installations at current levels may lead to a high forecast for heat pump installations; however, this assumption is probably not robust in the medium term.

9. Do you agree with the framework for local actor support? Please provide your reasoning.

Paragraph 3.56 envisages the RESP providing a lot of support to local authorities; however, the paragraph rightly states that it would not be appropriate for the RESP to develop local plans. Whether local authorities have the resource to effectively engage with RESP remains to be seen.

Paragraph 3.58 states “There may be cases where it [RESP] provides additional steers on local planning potential, such as identifying opportunities where heat pumps could be installed and opportunities for energy efficiency in buildings”. This seems to be really getting into local detail and we find it difficult to reconcile with the statement that the RESP will not develop local plans.

The consultation states several times the need for the RESP Plan to be reflective of local priorities but, does not address the issues where local concerns clash with regional or national priorities over the siting of infrastructure. These are very real planning issues and need to be addressed by the relevant governments if they want infrastructure rolled out quickly.

10. Do you agree with the purpose of the Strategic Board? Please provide your reasoning.

The title Strategic Board suggest that it has power to make strategic decision on the RESP Plan; however, paragraph 4.6 states that NESO will be the final decision maker on the content of the RESP Plans. The strategic board will therefore be a discussion forum that can influence, but not make, the final decision. It is not clear what happens if the strategic board is split, for example over where to site infrastructure that everyone needs, but no one wants. NESO will have to make a decision on what is in the RESP Plan, but the actual delivery of that infrastructure will rely on local planning decisions unless it is a national decision.

We suggest that Advisory Board is a more appropriate title.

11. Do you agree that the Strategic Board should include representation from relevant democratic actors, network companies and wider cross-sector actors in each region?

Yes, the board should have representation from the above actors.

Paragraph 4.24 states “We think it is important that network company representatives are part of the board, to ensure the Strategic Board is a convening point for collaborating on the plan and that their technical expertise is part of the process. Additionally, the network companies will be required to align with the direction of the RESP and must, therefore, be able to influence it and be part of its governance.”

We agree that network representatives should be part of the board, and this applies to all boards including those where the network only covers a small part of the RESP area. Networks may make collaborative arrangements between themselves if a network only covers a small part of the RESP area.

The second sentence in paragraph 4.24 concerns us and again raises the key issue of the roles of the RESP Plan in informing network’s business plans. This has been a recurring issue throughout this consultation document and must be addressed. Elsewhere, Ofgem have stated that licensees will be responsible for licence obligations and in gas for meeting what is commonly known as the “1 in 20 obligation” a licence obligation to have a network that can meet peak demands on the network that may be expected on one day every 20 years. We have repeatedly asked for a definitive statement on whether networks or RESP will have the final say on what they should plan to and Ofgem and DESNZ have failed to provide an answer. The statement in 4.24 is a further example of the lack of clarity in this area.

The statement that network companies will be required to align with the direction of RESP could be taken to mean either that networks must take account of RESP forecasts but can deviate from them if they believe that they are wrong (in either direction); this would mean that Ofgem will not, when setting price controls, immediately discount investments that do not align with RESP forecasts. Alternatively, the statement could mean that networks have to do what RESP forecasts state even if they think that they require investment that is inefficient, in that it won't be needed, or where they think that investment is needed but RESP do not think so which may mean that investment is inefficient because it has to be done quickly at higher cost, or other measures taken to meet demand.

We ask again for Ofgem to make a clear decision, that has agreement across Ofgem, as to whether RESP forecasts or network forecasts determine network planning and investment in future business plans.

12. How should actors (democratic, network, cross-sector) be best represented on the board? Please provide your reasoning, referring to each in turn.

We expect that the members of the Strategic Board would be more senior representatives of organisations to support the outputs and the regional working groups would generally be a wider audience that meet more regularly and have in depth conversations and feed suggestions or requests into the board.

13. Do agree with the adaptations proposed for Option 1? Please provide your reasoning.

We are content with the adaptations proposed for Option 1, which reduces WWU's RESP interactions from three significant interaction to two significant interactions (South West and Wales) with three minor interactions (South East, West Midlands and England's Economic Heartland).

14. Do you agree with our assessment that Option 1 is a better solution than Option 2? Please provide your reasoning.

Yes, we agree that Option 1 provides a clearer solution for RESP areas, as above we are content that it reduces our RESP interactions, allowing us to give a more coordinated network view and plan on the areas we predominantly serve. The alignment of RESP areas to devolved Governments is sensible.

15. Do you agree a single region for Scotland is optimal? If you think a two- region solution is better, do you agree the split should occur at the SSEN and SPEN DNO boundary? If not, please provide your reasoning and alternative option(s)

No response.

Yours sincerely,



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