

CONSULTATION RESPONSE

Future of local energy institutions and governance: Regen's response

Ofgem DNO Governance Team



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About Regen



Regen is an independent centre of energy expertise with a mission to accelerate the transition to a zero-carbon energy system. We have nearly 20 years' experience in transforming the energy system for net zero and delivering expert advice and market insight on the systemic challenges of decarbonising power, heat, and transport.

Regen is also a membership organisation and manages the Electricity Storage Network (ESN) – the voice of the UK storage industry. We have over 150 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups, academic institutions, and research organisations across the energy sector.

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Summary

Regen agree there is a need for a regional energy system planning process to ensure the GB energy system enables national, regional and local energy security and net zero targets. As stated in the consultation

"Without reform, the electricity system, markets and grid become an obstacle, not an enabler, to net zero. It is imperative and urgent that generation and network capacity are closely planned and coordinated to deliver the investment needed."

Regen has extensive experience of working with local networks, devolved governments and local authorities on local and regional energy system planning. We have also carried out new research with local authorities on their key priorities for regional energy system planning.

Significant progress has been made in recent years both within network planning and local energy planning by local authorities and it will be key that reform builds on this and delivers:

- A virtuous circle between 'top down' strategic planning and 'bottom up' understanding of local plans and ambitions for a place.
- Coordinating the multi-vector aspects of system planning and especially the electrification of heat and transport.
- Avoiding duplication or cannibalisation of the limited capabilities and resources in assessing local decarbonisation pathways and network planning - placing responsibilities where there is the skills to deliver them
- Enabling rapid decision making on strategic investments.

Given these factors we have set out three key conclusions and recommendations:

1) Joint working between the Future System Operator, DNOs, GDNOs and local authorities is essential to develop a regional energy system plan that is grounded both in national targets and the requirements and ambitions of local places and places. The Regional System Planner (RSP) role should be delivered as a partnership between these organisation with clear responsibilities and points of integration established.

Within the RSP partnership the roles of the different organisations should be:

The **Future System Operator** should play a strategic role translating the national net zero plans it will develop into a regional decarbonisation pathway and a cross-vector/whole system

role bringing together network plans for gas and electricity. It should have a clear and transparent process for taking input from 'bottom up' evidence gathering and the sub-regional analysis led by networks and local authorities, feeding this back into regional planning assumptions and parameters.

Networks should ensure that regional energy system planning is grounded in bottom up on the requirements of a place. This means continuing to develop and improve Distribution Future Energy Scenarios (DFES) working with local authorities and other stakeholders to collate local authority plans, track project pipelines and to understand how decarbonisation pathways will play out at a very local/granular level to enable network planning. They should then provide this information back to the FSO, clearly identifying where bottom up evidence should influence the regional plan.

Local authorities should provide a democratic oversight for inevitably political questions on decarbonisation pathways or level of investment in certain areas in the form of an oversight board that signs off regional plans. They should also develop local decarbonisation plans in a consistent form to improve the basis of engagement with network planning.

Energy infrastructure is increasingly critical to the ambitions of local places in key areas including transport, economic development, energy generation projects, net zero, housing etc. If local authorities do not feel they can shape critical infrastructure for their places we will be in an untenable position.

2) A step by step process that builds on recent progress is required to manage risks that introducing a new approach, which will take considerable time, will create uncertainty and delay that we cannot afford

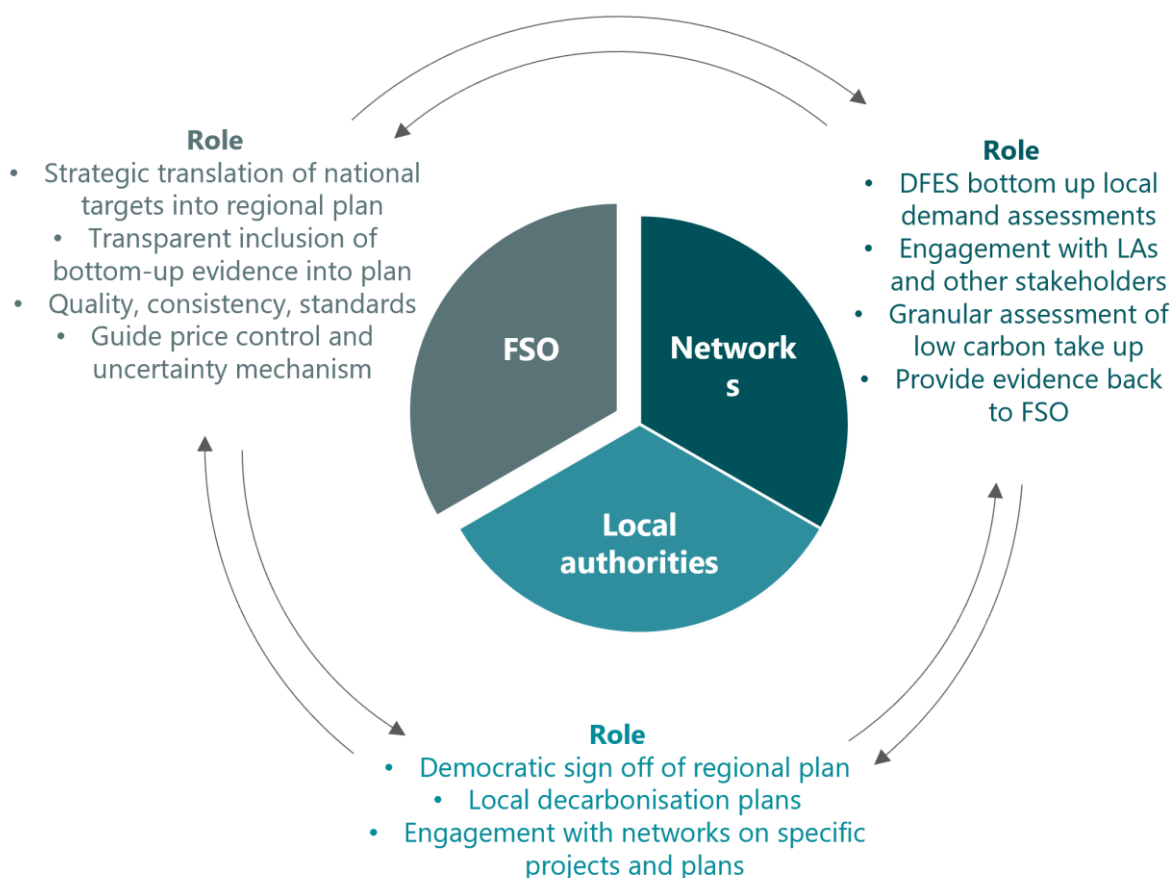
Establishing regional energy system planning will be a substantial change to the existing processes for energy infrastructure planning. There is a risk that the development of a new approach and institutions could take years to establish and derail current processes which we cannot afford.

It is important existing processes between energy networks and local authorities based on the use of FES and DFES continue to improve, develop and deliver investment now. Regen strongly supports recent innovation projects to ensure that DFES datasets are provided to local authority planning teams and to streamline the process by which local planning data is brought back into the DFES where it can then be used to support network planning.

3) Reform should ensure a clear process for guiding strategic investment decisions

The creation of a regional energy system plan to guide network investment should make the setting of periodic price controls and network business plans simpler. However, in the future it is expected that system planning and budget will become much more dynamic and complex. This is already happening in RII02 with various uncertainty mechanisms. The RSP could play a key arbitration/facilitation role helping to ensure that investment flexibility mechanisms are used effectively, unlocking significant investment decisions faster. The RSP could also facilitate investment risk sharing between local authorities and energy networks such as used in Central Bedfordshire – so local areas can invest directly in the network to meet their local net zero ambitions sooner.

Regional energy system planning function



3. Proposed governance reform: energy system planning

Q1. Do you agree with our proposal to introduce Regional System Planners as described, who would be accountable for regional energy system planning activities? If not, why not?

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

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

We agree there is a need for a regional energy system planning process to ensure the energy system enables national, regional and local net zero and energy security targets, and to manage the multi-vector (whole system) aspects of regional planning. As stated in the consultation:

"Without reform, the electricity system, markets and grid become an obstacle, not an enabler, to net zero. It is imperative and urgent that generation and network capacity are closely planned and coordinated to deliver the investment needed."

Regen has extensive experience of working with local networks, devolved governments and local authorities on local and regional energy system planning. We have also carried out new research with local authorities on their key priorities for regional energy system planning which we have attached as an appendix to this response.

Significant progress has been made in recent years both within network planning and local energy planning by local authorities. We think the key factors in successful reform of a regional energy system planning will be

- Creating a virtuous circle between 'top down' strategic planning as to how national net zero targets and plans will be delivered at a local level and 'bottom up' understanding of local ambitions for a place and local plans and investor appetite to bring forward and deliver the projects required.
- Managing and coordinating the multi-vector aspects of system planning and especially the electrification of heat and transport and subsequent repurposing and decommissioning of gas networks.

- Recognising the limited capabilities and resources in assessing local decarbonisation pathways and network planning and placing responsibilities where there is the legitimacy and skills to deliver them
- Enabling rapid decision making on strategic investments to respond to local net zero requirements.

Given these success factors we have three key conclusions and recommendations for the detailed design choices and responsibilities.

1) Joint working between the Future System Operator, DNOs, GDNOs and local authorities is needed to develop a regional energy system plan that is grounded in the requirements and ambitions of local places and places. The Regional System Planner role should be delivered as a partnership between these organisations with clear responsibilities.

Form should follow function in the development regional energy system planning. The consultation proposes the FSO takes charge of regional planning, and proposes it will:

“Coordinate, facilitate and ensure effective participation between local actors (which ensures a place-based understanding is central to how the regional energy system is planned).”

The consultation recognises regional planning will require the development of new capabilities for the FSO if it is the body that takes on the RSP role. That is something of an understatement. The ESO deals with a relatively small number stakeholders with expertise in the energy system. Managing relationships with hundreds of “local actors” including many with clear political mandates and a complex mixture of different types of decarbonisation plans, would be a huge cultural shift.

DNOs with many years of experience and significant resource in the regions are still evolving interaction with local authorities and there is a way to go. It is hard to see how the RSPs could manage this level of local interaction from a standing start.

A more practical approach is a collaborative partnership between FSO, energy networks along with a democratic ‘board’ to reflect local authority views, building on existing capabilities and expertise. Energy infrastructure is increasingly critical to the ambitions of local places in key areas including transport, economic development, energy generation projects, net zero, housing etc. If local authorities do not feel they can shape critical infrastructure for their places we will be in an untenable position.

A partnership model with clear responsibilities and points of integration is preferred not least because the biggest challenge faced by all planning functions is the shortage of skilled

resources. A new RSP function must work with and in collaboration with existing planning teams and avoid either the duplication or cannibalisation of planning resources.

A similar organisation has been developed for sub-national strategic transport infrastructure bodies. The bodies have an executive leadership with a decision-making democratic board (<https://transportforthenorth.com/about-transport-for-the-north/sub-national-transport-body/>)

Within the RSP partnership different organisations should play the following roles:

The **Future System Operator** should play a strategic role:

- Translating Future Energy Scenarios, and in future the National Net Zero Plan, into a regional decarbonisation pathway – using top-down modelling
- Taking input from ‘bottom up’ sub-regional plans and evidence gathering (Distribution Future Energy Scenarios and local decarbonisation plans) and transparently feeding this back into regional planning assumptions and parameters.
- Quality, consistency, and standards for regional planning – setting the key parameters, assumptions and oversight of their usage.
- Ensuring cross-vector alignment with gas networks – which will become a critical function when the hydrogen for heat strategy is determined.
- At a time of price control setting working with DNO/GDNs to determine the central view for the region
- Supporting flexibility in investment decisions during price control period through arbitration of ‘reopeners’, uncertainty mechanisms and assessment of specific significant investment decisions.

Networks should ensure that regional energy system planning is grounded in bottom up work on the requirements of a place, working with local authorities and other stakeholders to:

- Use the FSO strategic framework to continue to collate local authority plans, track project pipelines and investor interest levels etc - DFES.
- Continue to innovate on engagement with local authorities, energy users, developers and communities.
- Using this engagement and modelling to understand how decarbonisation pathways will play out at a very local/granular level to enable network planning.
- Innovate in using this information in network planning to ensure net zero can be achieved efficiently.
- Provide this bottom up information back to the FSO in a virtuous circle to inform the regional energy system plan.

Local authorities should

- provide a democratic oversight for inevitably political questions on decarbonisation pathways or level of investment in certain areas.
- This could be in the form of an oversight board that signs off regional plans as recommended in our research with local authorities.
- Develop local decarbonisation plans in a consistent form to improve the basis of engagement with network planning.

2) A step by step process that builds on recent progress is required to manage risks that introducing a new approach, which will take considerable time, will create uncertainty and delay that we cannot afford

There is already a developing working relationship between the ESO FES teams, DNO network planners and DFES teams and, via networks, with local authorities.

Establishing regional energy system planning will be a substantial change to the existing processes for energy infrastructure planning. There is a risk that the development of a new approach and institutions could take many years to establish and risks derailing current processes and progress.

Therefore, it is important that the existing processes between energy networks and local authorities based on current network planning process continue to improve, develop and deliver investment now.

3) Reform should ensure a clear process for guiding strategic investment decisions

A regional energy system plan to provide the single version of the truth to guide network investment should make the price control of setting network business plans simpler (resolving a key challenge in the 2023-2028 ED1 business plans.)

However the reality is likely to be messier and the plan will need to be iterative, flexible and subject to change and challenge. In the current price control Ofgem has created uncertainty mechanisms and reopeners to provide flexibility. However, there is a lack of clarity on how decision making to unlock investment will work.

The RSP could play a key arbitration role in these investment flexibility mechanisms, unlocking significant investment decisions faster.

The RSP could also facilitate investment risk sharing between local authorities and energy networks such as used in Central Bedfordshire – so local areas can invest directly in the network to meet their local net zero ambitions sooner.

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

There is no easy answer to the setting up of regional boundaries for RSPs and to some extent every options will have strengths and weaknesses. The approach may also differ in Scotland and Wales.

Our research with a selection of local authorities found that there was agreement that the regions should align with political boundaries for three main reasons:

- The political boundaries reflect where decisions and investments are made
- No local authority should have to work with more than one regional planner. This is of particular importance to local authorities with more than one DNO
- Using network boundaries would prioritise one form of energy over another.

Suggestions for boundaries included:

- Net Zero Hubs in England, which are already supporting local authorities to develop LAEPs
- Combined authorities
- Local Enterprise Partnerships
- LAEP boundaries
- Old regional boundaries although these have become less relevant
- Devolved administrations.

Another approach would be to model these on strategic transport bodies. The Transport for the North has a decision making board which includes 20 constituent authorities which have one elected member with responsibility for Transport. If the total number of board members was 15-20 (assuming only metropolitan, county and unitary authorities) this would suggest between 8-10 RSPs.



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