UK100 response to Ofgem Call for Input:
Future of local energy institutions and governance

Overview

Over the past 12 months UK100 has been engaging with all six DNOs and a cross section of UK100 member local and combined authorities to explore their respective interests and roles in ED2.

This work has helped us understand how both parties are developing their views of the local in the energy transition, and as a part of that, how they are increasingly working with each other as strategic partners.

We have seen a growing interest in alignment of local plans and planning for energy, as well as commitments from the DNOs to build their capability to engage with local authorities. This work has also included engagement in a range of deliberations on Local Area Energy Planning (LAEP), including contributions to the framework guidance being developed by the Energy Systems Catapult.

In light of these engagements we can describe the emerging UK100 view as follows:

Tailoring the evolution of local energy systems is fundamental to achieving an effective, efficient and low cost decarbonisation in good time, but only if it:

- *Brings together the many local actors and all that they can contribute (including resources outside of the current energy system);*
- *Helps deliver the right solutions for local circumstances by taking into account existing energy assets and those yet to be realised;*
- *Helps facilitate a coherent shared approach to delivery;*

- *Involves local government leadership to ensure that local energy systems support the ambitions that communities have for their future.*

Bringing these actors together and ensuring their effective contributions over time should include:

- i. *The development of LAEPs for each and every locality;*
- ii. *Alignment of future energy system - community engagement activity with such a planning cycle;*
- iii. *An ongoing strategic relationship with local authorities to give oversight to the development of local energy infrastructures.*

Given that the market framework for flexibility, and real time operations, are primarily energy system activities, these functions are likely to continue to sit within that regulated environment, and therefore with the DSO and/or DNO. In order to ensure that these regulations, and the DSOs, take into account i) to iii) above **DSO Boards should include appropriate representation of local authorities for the licence areas concerned.**

Our engagement with local authorities active in this arena highlights the importance of an independent body or 'crucible' for the fair and effective weighing up of options and trade-offs, not least because these will vary with the nature and history of a place and with the ambitions places and communities have for their future. Such ambitions are not limited to Net Zero goals, there are wider relevant considerations that need to be taken into

account, e.g. retaining wealth locally, addressing fuel poverty and growing renewables manufacture.

The need for such independence is also borne from frustrations in the existing 'energy investment' regime, encapsulated in the oxymoron that is *'investment ahead of need'*. We would suggest all investment is ahead of need – while the issue of DNOs and other energy investments being made, or not made, appears to be as much about managing or reducing potential expenditures or worse.

In designing future governance it is also important to consider questions of scale, and power in the sense of leverage or control. Relative power is important, noting as one disturbing example the findings of the Aberfan disaster inquiry which noted inter alia that the local authority was insufficiently powerful to ensure the National Coal Board acted on local concerns regarding the state of the slag heaps. In this context there is clearly a meaningful imbalance of power between most local authorities and any one DNO – something more balanced may be emerging in the relationships between Combined Authorities, with their Mayoral offices, and DNOs. Our examination of draft DNO plans did suggest the greatest degree of alignment between ENW, and the plans of the Greater Manchester Combined Authority (GMCA).

This suggests that the right scale is something below that of a DNO and above that of individual local authorities - **something akin to a licence area.**

Outside of London there is no Combined Authority that realistically represents a majority of local government interests in a licence area, so in turn **local government bodies within a licence area will need to be convened and work through an appropriate representative mechanism for their presence in the *'independent crucible'.***

As such **UK100's key recommendations** are:

- DSO Boards should include appropriate independent and local authority representation for the licence areas concerned to guide the work of the emerging DSOs
- The right scale of engagement should be something akin to a licence area to address the imbalance of power between individual local authorities and their DNO
- An 'independent crucible' is required for the fair and effective weighing up of options and trade-offs to ensure that place-based developments can be effectively implemented
- Local government bodies within a licence area will need to be convened and work through an appropriate representative mechanism for their presence in the '*independent crucible*'
- Joint work with local authorities to examine and test new framework arrangements
- Local authorities not only lead on the LAEP but in their aggregate form also lead on coordinated engagement across a licence area
- Ofgem should consider how trust building between the different actors would take place over time, and what role it has in helping facilitate these new governance arrangements on the ground (as a trusted third party)
- Many local authorities do not have a positive sense of customer satisfaction with the current arrangements. It would be worthy of a proper Ofgem commissioned study to draw out lessons from this for this emerging governance environment
- Ensuring that this new governance is in place by 2025/6 to enable coordinated engagement and energy system planning for the RIIO3 price control; so as to reduce the costs associated with parallel un-coordinated action
- If gas networks in certain areas reduce to a significant extent which decreases their viability, we would propose that the development of what we might call a 'Gas Authority' is explored, mirroring the role of the Coal Authority which is responsible for historic, residual coal mining assets

Our response to the Call for Input is thus is a reflection of this emerging view, as follows:

Call for Input questions

1. Are the three energy system functions we outline (energy system planning, market facilitation of flexible resources and real time operation of local energy networks) the ones we should be focusing on to address the energy system changes we outline?

We would highlight two functions to ensure they are explored in the debate of future sub-national governance – **coordinated engagement** and **delivery** of the 'plan'.

While we recognise LAEPs are a work in progress, we could expect any future system planning to build on LAEPs where they are timely, local energy strategies where they are in place (such as with the City & Growth Deals); as well as future (RIIO3) stakeholder engagement from GNOs and DNOs. Yet what may have been separate and distinct processes for RIIO2 should be considered as part of a more holistic approach in future. It would be wholly unproductive and a waste of consumer's money for continued parallel stakeholder engagement from GNOs and DNOs in the same area, even before we see a wide scale deployment of more holistic LAEP.

Ofgem must consider how to ensure coherent engagement as a part of RIIO3.

Noting the emerging guidance for LAEPs, we propose local authorities not only lead on the LAEP but in their aggregate form also lead on coordinated engagement across a licence area.

We would note that as these processes develop, DNOs and GNOS will become stakeholders to be engaged as much as local government is.

Secondly, we would highlight the function of delivery of the plans that emerge from the planning function. While historically this may mostly have fallen to an existing regulated network, the degree to which that continues to be the case will be changing, and therefore the nature of the role will need to be revisited, and any historic assumption about who does what delivery is to be tested.

This has led us to observe that as some networks change more significantly than others, either by geography or type, there may need to be further governance or ownership considerations, for example, if a gas network in an area reduces to a significant extent could that change its viability? **And if so, is there a case for exploring what we might call a *'Gas Authority',* mirroring the role of the Coal Authority which is responsible for historic, residual coal mining assets?**

2. Do you agree with the criteria we have set out for assessing the effectiveness of institutional and governance arrangements?

Broadly yes, while recognising that what each of them means may have different connotations in the different worlds of local government and the regulated energy system. The test question is less about whether an entity or institution has these qualities now; it is as much about will they, or how can they be seen to have them when these arrangements become a reality; i.e. if institution X is given oversight of function Y, how could they and what would they need to fulfil the role effectively. As one example this could be explored with the ways in which local authorities in a licence area would come together to be represented at that scale of geography.

A key task in the development of all elements of these new arrangements will be trust building between the different actors, and actors in 'new' roles. **Ofgem should consider how that would take place over time, and what role it has in helping facilitate these new governance arrangements on the ground (as a trusted third party).**

UK100 would be happy to organise a cross sector meeting with local governments to examine how this transition can be best supported.

3. Do you agree with our assessment of how far the current institutional arrangements are, or are not, well suited to deliver the three key energy system functions?

Broadly yes. We have many examples of what doesn't work in the current system, from the ubiquitous excuse of '*we don't invest ahead of need*', changing charges and costs for connections, the erosion of headroom which negates a planned deployment of an energy asset, a lack of engagement in emerging local plans, and a reticence to offer proactive support – too much '*you cannot do that*', not enough '*if that's what you want to achieve this how we can help facilitate that*'.

To note (3.34) many local authorities do not have a positive sense of customer satisfaction with the current arrangements. **It would be worthy of a proper Ofgem commissioned study to draw out lessons for this emerging governance environment.** We are conscious that the variety of approaches from the DNOs has echoes of the Training & Enterprise Councils debacle, where the TECs managed to create an array of proprietary processes for essentially the same mechanisms – at greater cost and less convenience to those they worked with, and for.

Recognising things are changing, as a growing number of strategic relationships appear to be emerging, this call for input is timely, while the associated work needs to proceed at a greater pace to ensure coordination and coherence are in place before RIIO3.

On specifics we note para 3.8, and that capabilities in local government do need attention – something that may be best addressed in aggregate/across a licence area. We agree (3.12) there is significant scope for improvement in coordinated planning, and that that starts with coordinated and holistic engagement, not least because parts of local government hold the function of Planning in the wider sense, and local authorities are generally closer to the communities they serve.

While change can trigger costs (3.33) and disruption, what is more likely to delay effective and lower cost achievement of Net Zero is the status quo, where energy planning is done in isolation and without sufficient due regard to the needs, ambitions and resources of communities and their local leaders. As just one example, the new heat network in Stoke-on-Trent which is capturing significant sources of waste industrial heat for wider local benefit was and perhaps only could have been led by the local authority, with its ability to see both the un-utilised energy assets, and create a route to bringing them together for local and lower carbon benefits.

4. Overall, what do you consider the biggest blocker to the realisation of effective energy system planning and operation at sub-national level?

The current lack of a coherent and holistic governance framework for Net Zero, and within that energy system transition – you can read more on the wider arguments here – and in process terms the lack of coordinated engagement and subsequent planning.

One element, or potential cause of this, is a lack of recognition that the energy system as is, and the networks and other organisations within it, are themselves a part of a wider system; and that this wider system includes latent energy assets, and has purposes and ambitions that require the energy system (in the now broader sense) to work to provide them – be that Net Zero, resilience in the face of climate change, clean air, jobs of the future, local wealth retention to name a few.

It also appears that the current governance and regulatory regime for energy has yet to fully reflect the changes driven by the ubiquity of renewable energy, a driver of decentralisation, nor the growth of bi-directional energy assets, such as EVs, Homes As Power Stations (HAPS), which will change consumer expectations of the services they receive.

Issues with the application process and backlog of approvals is also potentially causing issues which are incompatible with the pace and scale of change required. Local authorities have to

prepare full applications for energy projects with long processing times and no guarantee of success. As local authority capacity is constrained, this represents a significant blocker to action. Grid capacity locally (both for generation and supply) may also be an inhibiting factor here, insofar as this slow pace of application processing may be acting as an informal rationing of remaining capacity.

5. Do you agree with the opportunities of change we outline and the potential benefits they may create?

We agree there is a case for change and that there is a powerful opportunity to realise significant benefits from the energy system transition – after all the ubiquity of renewable energy must change the nature of the system, and its governance (form) should follow the changing nature and locus for these functions. We suspect that the benefits will be greater than currently envisaged, as this changing governance releases more potential.

Our broader theory of change is based on the principle that more actors, with greater agency, will give increased action on Net Zero.

While inherently that implies more 'failure', the (any) system will be better placed to manage smaller failures – it is better for things to go awry in the context of a LAEP than an ED2 business plan. With the right support and knowledge exchange we could be better placed to learn what does work, where, and why, more quickly. As a side note to this there needs to be a greater emphasis on cross-sector learning about the energy system transition.

6. Are there additional opportunities for change and benefits that we have not set out?

We suspect there will be clearer opportunities to sequence place by place activity and investment, such that the concept of '*investing ahead of need'* will drop out of use – as more places, local authorities and DNOs/DSOs will have a more robust collective sense of what is needed when and be able to plan that delivery accordingly. This should also support a greater variety of actions to optimise the energy system as latent assets, and opportunities for integration become visible and can be actioned.

Backcasting from where we want to be in 2030 to now would highlight some of the challenges and opportunities that need to be unpacked further. For example, if we asked what is the average number of similar connection projects needed in the next 10 years to stay on trajectory, as an example we might show that UKPN has only 50% of the needed bureaucratic/ engineering capacity. This in turn demonstrates where some additional opportunities for change might be relating to skills development and systems change.

7. We set out a number of risks associated with change. Do you agree with these risks and the potential costs they create? Are there additional risks of change and costs that have not been set out?

We agree with risks identified, and would reiterate that the existing lack of coordination, high current bills and frustration of local ambition are already apparent issues and risk wider engagement in delivering Net Zero, such that inaction is a quantifiable risk. Given the urgency of Net Zero, and the ambitions of many actors, in local government and beyond, there is also a risk associated with a clear timeline for these changes. **We would propose alignment with RIIO3 such that this governance is in place by 2025/6 to support coordinated engagement and energy system planning for the RIIO3 price control; so as to reduce the costs associated with parallel un-coordinated action.**

8. For each model, we have set out the key assumptions, which need to be true for the model to offer the right solution. Which of these assumptions do you agree with?

We have explored the assumptions of our members in the initial introduction to this response, i.e. that -

- There needs to be an independent '*crucible*' (not all functions need to be carried out by/within one body)
- This supports the creation of a distinct entity
- The appropriate scale is licence area
- Ownership should include a 'place' for local government of the licence area
- Where primary legislation is required that should be included in the proposed Energy Security Bill

9. Out of the framework models we have developed which, if any, offer the most advantages compared to the status quo? If you believe there is another, better model please propose it.

We appreciate that all the options include local government, as well as energy system actors, i.e. the DNO, GNO and FSO. The importance of the *independent crucible* rules out option one.

Our initial view is there is merit in options two or three, with the Independent Distribution System Operator (IDSO - 2) or Regional System Planner & Operator (RSPO - 3) operating as the *independent crucible*. It is less clear that the double separation of option four adds further value.

We recognise that the scale/area to be covered by the IDSO or RSPO is for debate – our emerging view would suggest the licence area as a workable scale for either entity.

We would suggest the coordinated engagement, and accountability for plan delivery could sit with either the IDSO or the RSPO.

We would propose a Board level presence in either the IDSO or RSPO for local government in the Licence area.

We would also propose joint work with local authorities to examine and test these arrangements, both because that will build trust and ownership in the solution that emerges (while helping participants understand why other options have dropped away): AND because local government is itself going through a form of reorganisation in some parts of the country.

This piecemeal re-configuration of local government is seeing some two tier areas (Council and District Councils) become Unitary, for example for Somerset County and the district councils of Mendip, Sedgemoor, Somerset West and Taunton & South Somerset become a single council from April 2023, while the recent Levelling Up Bill proposes the creation of a number of new Combined Authorities by 2025/6, e.g. for Cornwall, a process that is expected to create new mayoralties.

10. What do you consider to be the biggest implementation challenges we should focus on mitigating?

A lack of urgency, particularly on the part of existing regulated organisations.

11. Taking into account the varying degrees of separation of DSO roles from DNOs under framework model 1, do you consider there are additional measures we should consider implementing, in particular in the short term (e.g. changes in accountability etc)?

The appointment of independent and local representatives to the boards or oversight bodies created to guide the work of the emerging DSOs.

12. Are there other key changes taking place in the energy sector which we have not identified and should take account of?

There will be wider issues to take into account with the growing recognition of the impacts of renewable ubiquity, meaning every community and place can play a role in energy decarbonisation; the growing understanding of bi-directional devices (EVs, HAPS) which further drive decentralisation; and a greater appreciation of the multitude of latent energy assets in each and every place, assets that support local tailoring and integration of their local energy system, be that with regard to greater EVs rollout, HAPS penetration, or the use of resources such as coal mine water, waste industrial heat, among others.

UK100 would welcome an update on Ofgem's role in the regulation of heat networks and how that would sit in these emerging models.

13.What do you consider to be the most important interactions, which should drive our project timelines?

All those that support deployment of the new governance for RIIO3 – including the active involvement of local government, local government bodies such as UK100, the LGA and the Mayoral M10 group.