

6 June 2022

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Dear Sir/Madam,

Call for Input: Future of local energy institutions and governance

Thank you for the opportunity to comment on the Call for Input. The Greater South East Net Zero Hub (referred to hereafter as “the Hub”) welcome Ofgem’s recognition in the Call for Input of the potential role of local government in future energy system planning and the functioning of a network to achieve Net Zero. Further, this Call for Input has demonstrated to us that there is a need for more direct engagement between Ofgem and local government, with this Call for Input being the first of significance as far as we can identify since we were established by BEIS in 2018.

As a general point, the local authorities with which the Hub has engaged have expressed the view that they recognise the multiple benefits of the energy transition whether that is around the primary drivers set out in the Call for Input, the creation of more resilient communities, clean economic growth and attracting investment into their local areas or creating more and higher value employment opportunities. Local authorities have said to us that they wish to play a role in realising these benefits collaboratively with others.

It also important to note that that any role for local authorities in the energy system needs to be informed following proactive and meaningful engagement with the sector. The Local Authorities with which we have engaged expressed concern that many local authorities may not have seen your Call for Input or if they have seen it, lack the capacity to respond in the short timescale given. They request that you work with them proactively to inform and develop the right approach.

Developing our response

In preparing our response, the Hub ran a local stakeholder workshop on the 23 May 2022, primarily targeting our local authority contacts. The workshop was attended by thirteen local authorities, one wholly LA-owned organisation and one community sector representative with the comments of the participants forming the primary evidence in our response. Although the workshop does not constitute a statistically representative sample of the 136 local authorities in the Hub, we consider that the views and opinions that have been expressed are consistent with that we have observed in the process of supporting local authorities since we were established in 2018.

Given some of the points that we wish to highlight to you, we have not been able to follow the format of your questions set out in the Call for Input.



The context of local authorities and the energy system

Local authority representatives at the workshop expressed concern about the extent to which Ofgem fully understand the reality of the circumstances of local government, particularly councils in two-tier structures, and their ability to respond with a single view to the proposals set out in the Call for Input.

As Ofgem identifies in the Call for Input and of significance to discussions around roles and responsibility in a future energy system, the structure of local government is diverse across the Hub area; beyond the Greater London Area, the Hub area is a patchwork of governmental structures and functions, where mayoral, combined, and unitary authorities undertake all key functions contrasted by two-tier local government with split functions.

This manifests itself in diverse levels of ambition to achieve Net Zero, engagement with energy system planning and the resource that can be called upon for this agenda. We observe some local authorities with no dedicated resource and as a result low levels of capability and competence to be able to drive forward Net Zero or energy system planning in the way suggested in the Call for Input. This was raised by several local authorities at the workshop, with one expressing concern that some local authorities are unlikely to understand the current regime in enough detail to be able to do justice to providing any meaningful advice on proposal for change.

Different internal functions within local authorities each may have a role to play in shaping the approach(es) that they are, or should be, following. However, it has been commented to us on several occasions that these diverse needs have yet to be brought together to be able to provide a common organisational position on energy system planning.

Local authority resourcing for a changing role

Some local authorities, in contrast, have high levels of understanding and ability to participate in energy system planning; for example, several local authorities in the Hub area are leading Local Area Action Planning and in the vanguard of embedding whole-systems thinking into their design of Net Zero delivery planning.

Given their competing responsibilities, some local authorities have expressed to us that in the absence of a statutory duty they are in a weak position to direct resources to any role beyond that which they currently deliver which interacts with energy planning, that being as the Local Planning Authority in Districts, Boroughs and Unitary authorities.

This led to a common question from workshop participants that irrespective of any future statutory duty being established, what additional resources could be made available, and from what funding sources, to ensure that local authorities are able to discharge any new responsibilities arising from the redesign of the institutional and governance structure discussed in the Call for Input?

What is expected of local authorities in the Call for Input

This issue of resources is predicated on local authorities understanding what would be expected of them in any of the future institutional and governance arrangements that arise. The common view of workshop participants was that there was little detail in the Call for Input about their potential role for them to be able to comment. Without this detail,

local authorities are unable to weigh up the pros and cons of any proposals. We would therefore invite Ofgem to engage more directly with the local authorities in the Hub area to explore in more detail the options for local authorities to allow a more informed consideration of the consequences for them and their areas. The Hub is able to help use our relationships with the local authorities to facilitate this.

Local authorities are in very different places in terms of their understanding of what needs to change. Some engage infrequently with the current energy system actors and have variable appreciation of the interactions and complexities of system planning, flexibility markets and day-to-day operational management of the electricity and gas networks. For some, this Call for Input is their first direct engagement with Ofgem which led to workshop participants asking the question why, if Ofgem considers that local authorities should have a key role in the future of the energy system, has this Call for Input not been fed through into their organisations directly to council Chief Executives and to the Local Government Association?

There was recognition by several local authorities that they need to improve their forecasting requirements for example with respect to new growth to de-risk forward funding whether delivered by themselves or by others. Part of this risk is network capacity although the impact on growth is highly variable. There was expressed a general, though variable, level of appetite for local authorities to understand and be able to influence some of the solutions to address barriers to growth arising from the state of the energy networks.

Local versus regional energy system planning

Several workshop participants supported the view that someone had to take ownership of the outcomes identified for an effective energy system at local/regional level, and that the effectiveness of local energy networks should be maximised for national benefit which clearly would require national coordination of regional activity. The emergence of Local Area Energy Planning as a tool for both energy transition and area-wide decarbonisation currently looks to place the onus on local authorities to lead area-based energy planning. For the reasons set out here, this cannot be assumed in the short term at least across all geographies in the way that it is currently being proposed and resourced.

Workshop participants were of the view that future local authority involvement in the system design function as set out in the Call for Input could reside in one or more functions, and depending on local government structure, in different organisations. For it to be considered as a strategic activity, system design would be better placed at least at a sub-regional/regional level like transport strategy. However, the responsibility for strategic spatial planning sits with Local Planning Authorities functioning at Unitary/Borough-District level. This dilemma similarly applies to Local Area Energy Planning.

This raises questions about the general level of competence and engagement in the energy system of local authority planners who have diverse themes to consider as part of their role. The policy development function has a key role in developing Local Plan policy while the Development Control function will deal with the evaluation of planning applications against current and emerging policy. Some LPAs may also engage with National Infrastructure Commission scale development which is outside the scope of the



Call for Input. Some planning officers will therefore have a deep knowledge of energy system issues in their locality; however, we suggest that they will not have a wide enough view or knowledge of energy system design, or the capacity to be able to take on additional and yet unspecified responsibilities implied in the Call for Input.

The impact of system institutional arrangements on operational delivery

It is worth noting that the impact of changing institutional and governance arrangements will also have an impact on the Development Control function, as well as the Economic development activities, of Borough and District Councils since they deal with operational planning matters for example with respect to how new (electricity and gas) network connections for developments are achieved and the effect of connection cost on viability.

The Hub has evidence from local authorities across the South East that the electricity network connections process has delayed and in some cases led to local energy projects being cancelled. We would, therefore, wish to see clearer engagement and communication routes to system operators and their regulators for planning officers and developers alike to address potential connection issues early in the planning process, and where viability issues are anticipated, have mechanisms in place to find ways to achieve swift and equitable resolution.

The inclusion of heat in system design and operations

The matter of the system design function is complicated further if heat is brought into energy system regulation, as implied in the Call for Input. System integration of heat as a vector needs to be more clearly defined, particularly with Government intentions for a local authority regulatory role for heat network zoning and where local authorities have or are developing policies or delivery plans for heat network infrastructure. There was no strong view expressed in the workshop regarding whether heat should be part of energy system planning.

Opportunities for Change and the potential benefits

We note the primary drivers for energy system change are “*to drive net zero at least cost...*” (p.3 of the Call for Input) and “*to drive efficient network investment decisions and reduce costs for consumers*” (p.5). We would wish to see stronger recognition of the impact of inefficient system planning and network functionality and the resultant delay in network investment on local growth; in particular, the need for local authorities to meet strategic targets around new housing, the impact on development viability and affordability, the knock-on impact on economic growth in particular in areas of high network constraint, and the urgent issue of energy cost for householders and Small and Medium-sized organisations.

Communication and information

For the functions and processes to deliver an effective future energy system, system actors (network planners and operators, local authorities, developers whether that is for new load or generation, and other actors) would need to have access to, and familiarity with, information and data to be able to contribute to effective forward planning of the whole energy system that serves their area. Currently, that level of information and data is not available to those who are shaping and interacting with the energy system. This



document recognises but does not set out in detail how digitalisation and information flows will be achieved.

As examples of how this information flow should be improved, one local authority expressed frustration that despite sharing key forward planning data on housing growth during their DNO's business planning process, this had not been reflected in the final plan, hence missing a key need for network investment. Several local authorities emphasised the need for two-way communications and where this had not occurred; one local authority needed to understand where new network capacity would be created to implement local development plans but received no response despite repeated requests for a response. Another local authority raised concerns around conflict between local area (zero carbon) growth plans and how these could be in competition for network capacity with other areas, hence the need for appropriate scaling of regional system planning. This has not been resolved either under the current regime or in the Call for Input.

Relationship between the proposals and Network investment planning

Only one of the four Framework Model Options shown in the call for Input (Model 4) shows a two-way relationship of coordination between local authorities and other electricity system institutions with the relationship in the other three models being one of local authorities informing network planning (i.e. one-way flow). This contrasts with the proposed relationship between local authorities and the gas distribution network operators in models 1-3 of coordination in network planning. The Hub would wish to understand this difference in relationship which seems at odds with the emphasis that both HM Government and Ofgem place on electrification to achieve Net Zero.

We hope that our comments are helpful.

Yours sincerely,

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