

2<sup>nd</sup> August 2023

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Dear Sir/Madam,

**Consultation: Strategy and Policy Statement for Energy Policy in Great Britain**

Thank you for the opportunity to comment on the consultation. The Greater South East Net Zero Hub (referred to hereafter as “the Hub”) welcomes the general approach that the Government is setting out in its Statement consultation. Further, this Consultation represents a real, positive opportunity to embed place into energy system transition strategy and policy.

Set out below are some of the viewpoints and questions that we have gathered in response to the questions posed in the Consultation.

**1. Does the strategy and policy statement identify the most important strategic priorities and policy outcomes for government in formulating policy for the energy sector in Great Britain? If not, please provide details of the priorities that you think should be included.**

The Hub welcomes the Government the comprehensive scope of its strategic objectives to achieve the energy transition in Great Britain.

We are pleased to see the statement formally recognise the need for forward infrastructure investment “*delivered at scale and pace, ahead of need, to meet the demands of a decarbonised energy system as electrification grows*”. We do not wish to see, however, investment in electrification as the sole focus in a future energy system that must reflect the diversity of energy vectors that will be needed predicated on decarbonisation, affordability and resilience at both national and local place level. The system must operate effectively at different scales, across sectors and recognising regional differences for energy system transition, and by association, decarbonisation pathways. The role of hydrogen, for example, in the decarbonisation of some sectors must be proven but may be the transition pathway of choice, including aviation and heavy industry, for example.

We note as a key strategic priority that emphasis is placed on “*renewable and low carbon deployment, innovation and uptake of clean technologies*” over “*providing opportunities to increase energy efficiency*”. We remain convinced that on the demand side, the hierarchy for policy and action should be energy reduction and efficiency before zero carbon power or heat technology deployment. We would wish to see this reflected more transparently in the statement.

Despite or because of the impact of global events on cost of living, we consider that this statement must re-articulate the downsides of not decarbonisation far more clearly and coherently across all Government policy areas not just in energy security policy.

We consider that the strategic priority for competitive and effective markets and regulation in forward infrastructure investment lacks policy and regulatory coherence with other markets in which energy users, particularly fossil-fuel production and big carbon emitting industries, participate. Infrastructure investment decisions by such sectors are unlikely to be made in isolation with the investment cost of deploying decarbonising technologies will be weighed against the long-term operational and taxation environment. How markets like the UK ETS, for example, operate and send market signals does not appear to be recognised in the Policy Statement.

We note the strategic outcome of “*significantly increased uptake of low carbon heating by 2035, with the ambition that all new installations will be net zero compatible*”. We consider that enablement by this date does not go far enough and that all new heating should be zero carbon before this date to meet decarbonisation trajectories, either through direct fuel switching or a decarbonised grid before this date to meet local as well as national Net Zero commitments. This commitment has already been made by the Government for new homes and would expect this to be an area where Government policy ambition must be stronger.

We question why the Statement only highlights capture, usage and storage (CCUS) as suitable for a regulated rate of return when other technologies with higher marginal abatement costs could be treated in a same way to build investor confidence.

The need for energy network flexibility is critical and consider that the current approach to discrete distribution and transmission level flexibility markets should be considered in a more coherent, whole system way. Technological approaches to avoid network infrastructure upgrade and accelerate their deployment should be encouraged in a well-coordinated market place based on both the investment return and ability to deploy whilst recognising that local communities should benefit. System and market rules should encourage, for example linked point of generation-point of consumption storage to provide flexibility and manage capacity on existing power infrastructure.

We note the Government’s Position that the costs of the transition to net zero are distributed fairly amongst all consumers. We consider this an unjust and regressive approach to cost apportionment when the principle of polluter pays applies in other parts of environmental policy and regulation. A whole system cost apportionment should be considered that does not unfairly load the cost of decarbonisation on end-users and makes the fossil fuel supply-side more accountable for their impact.

**2. Does the strategy and policy statement effectively set out the role of Ofgem in supporting government to deliver its priorities? If not, please identify where these expectations could be made clearer.**

We question whether Ofgem will be allocated the resources to gear up to its enhanced roles and responsibilities at the pace required by the Statement. We recognise that the Statement is not the vehicle for outlining the Government’s detailed proposals to upgrade Ofgem. However, we have yet to see a costed plan.

The Statement sets out the position that Ofgem will extend its scope to include regulating heat networks. We wish to see more emphasis placed on this new function given that the



Climate Change Committee and the Government in its Heat and Buildings Strategy see heat networks as a key decarbonisation solution in the certain parts of the UK. We welcome better regulation of existing networks to ensure that consumers are afforded both more protection, that regulation on heat price and continuity of supply is effectively policed and that heat network operators are held to account for poor performance.

For Ofgem to be able to deliver on its responsibilities fully and effectively under the Statement it will need to have a more granular understanding of the impact of its regulatory decisions. This means that it will have to engage with a wider range of stakeholders than it is currently used. The recent consultation on Regional System governance has demonstrated the gap that exists between Ofgem and local actors including local public authorities; how they function, engage and are resourced (or otherwise) to actively participate in the energy system beyond their traditional role of passive consumers.

**3. Given the Future System Operator does not exist yet but will need to have regard to the strategy and policy statement once it does, do you consider that we have effectively reflected the Future System Operator's role in this document? If not, please identify where these expectations could be made clearer.**

We welcome clearer explanation of the role of the FSO. However, we are less confident that the ESO/FSO has the capability to engage effectively with the increasing range of stakeholders in the energy transition, as previously mentioned. We also observe a lack of understanding and appreciation of what moving from ESO to FSO means for places and stakeholders involved in area-based decarbonisation.

We refer to our response to the Ofgem consultation – “Future of local energy institutions and governance” – submitted in May 2023 where some of our comments regarding the regional system operator role may have relevance (copy attached).

We hope that our comments are helpful.

Yours sincerely,

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Energy Projects Manager  
Enc.

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**Copy of response sent to Ofgem on the 9<sup>th</sup> May 2023**

info@gsetzerohub.org.uk  
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9th May 2023

Dear Sir/Madam,

**Consultation: Future of local energy institutions and governance**

Thank you for the opportunity to comment on the consultation. The Greater South East Net Zero Hub (referred to hereafter as “the Hub”) welcomes Ofgem’s recognition in the Consultation of the potential role of local government in future energy system governance and the functioning of a network to achieve Net Zero. Further, this Consultation represents a real, positive opportunity to embed place into energy system planning.

We previously responded to Ofgem’s Call for Input in May 2022 during which we gathered views and evidence from interested local authorities from across the South East. As a general point, the local authorities with which the Hub has engaged, expressed the view at the Call for Input that they recognise the multiple benefits of the energy transition, whether that is around the primary drivers set out in the Consultation, as well as the creation of more resilient communities, clean economic growth and attracting investment into their local areas or creating more and higher value employment opportunities. Many 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 any role for local authorities in the energy system needs to be informed following proactive and meaningful engagement. However, the local authorities that have spoken to us have expressed concern that many local authorities lack the capacity or capability to meaningfully engage or understand the issues and consequences of system operation or change. Any considerations to change system governance should, therefore, be designed and implemented in a way that local authorities can understand and translate into their own thinking and planning processes whilst not placing an unreasonable burden on their finite resources. The question of who is to pay both for a new system governance and the active participation of local authorities is one that has been posed to us during our discourse with stakeholders in the Greater South East.

Set out below are some of the viewpoints and questions that we have gathered in response to the questions posed in the Consultation.

## Proposed reforms - 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**

We generally agree with the Regional System Planner (RSP) model approach and wish to see that it works towards whole energy system integration. Realising “a framework of interacting organisations within each region, which all feed into regional energy system planning” will need different actors to be fully cognisant of the context and role that they play and have a clear understanding of the system now and for the future based on a set of agreed principles.

#### *Common agreed assumptions:*

The Consultation states that the RSP will be responsible for developing and owning the regional plan based on a set of critical planning assumptions. We question, for example, whether all actors are familiar with and in agreement about future energy scenarios on which many system planning decisions will be based. There may be differences of viewpoint, for example around the pace of decarbonisation at local level compared to the Future Energy Scenarios, or the types and rates of technology deployment. We have also witnessed local authorities who are yet to understand the consequences of different scenarios on their area's decarbonisation pathway and are looking for guidance. We consider that the RSP can play a vital role in informing local pathways. This raises a series of questions, however:

- Will the RSP have to arbitrate and decide based on a common view for that part of the system?
- How will the RSP manage those conflicts – will their decisions be based around the benefit of the regional system, the national system or some other criteria?
- What if stakeholders disagree with the assumptions?
- What if assumptions need to change during the plan cycle?
- How will this RSP Model Approach be managed?
- How will differences in key assumptions between regions be resolved?

#### *Investment:*

Each RSP will develop and own their Plan and this will drive network investment. Furthermore, investment occurs throughout the energy system, not just on the network.

- How will differences in system requirements and investment be managed between regions (as yet defined) or between areas within regions?
- How will others with investment plans, including their investment cycles and assumptions, be accommodated or aligned with network investment to achieve optimal outcomes at the most affordable cost?



## Q1. continued

### *Coordination and coherence:*

The Consultation states that '*the existing actors plan for their own assets and within their own competencies. We are proposing that the RSPs focus on their coordination and coherence.*'

- What would effective coordination, facilitation and participation between local actors look like?
- From whose perspective will this be judged?
- What if local actors' sub-plans (e.g. LAEPs) are at odds with the regional energy system plan?
- How is this managed?
- If the actors in a region object to the regional energy system plan who has final say?

### *Data and Information:*

The Consultation discusses data and information commenting "*there are critical information links between functions*".

- How will data and information be managed by the RSP, and to whose benefit?
- How will the cost of aligning data and information systems and flows between those system be met?
- Will the expectation be that actors will need to align to a standardised data management system?

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

We agree generally that a RSP function should be independent for the reason of accountability, that the new role should be answerable under regulation and for reasons of national coordination sit within a national body. However,

- If the TSO and RSP functions are to sit within one FSO body, how will the RSP and Transmission System Planning functions interact given that local areas face connection and capacity problems that are caused by constraint on the Transmission Network?
- What if there is conflict about investment planning and delivery between the two system planning functions?

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

We anticipate that the Electricity and Gas Distribution Network Operators will wish to see the RSP adopt the current boundaries of their licensed areas for the regional system plan. This may be the most expedient approach, although for various reasons this has been incompatible with public administrative boundaries and other strategic planning areas, for example regional transport planning. Some public authorities straddle more than one Electricity or Gas Distribution Network Operator licensed area which creates duplication of effort and confusion.

We would wish to see any new boundaries meet the tests of functional coherence and accountability to local areas. We also suggest that boundary changes could help in those areas which are currently hampered by misaligned administrative boundaries.

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

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**Proposed reforms: market facilitation of flexible resources**

**Q5. Do you agree with our proposal for a single, neutral expert entity to take on a central market facilitation role? If not, why not?**

The single cross-vector markets authority proposal would ensure consistency between local markets and also be able to see and intervene when necessary to avoid scavenging of value between markets and/or to the detriment of whole system values (e.g. affordability to the consumer, decarbonisation, system resilience).

The markets should be designed and operated to encourage innovation, allowing testing of ideas that currently are not allowed by regulation or code in a more dynamic and timely fashion with lower entry cost and bureaucracy than currently allowed.

The design of flexibility markets should support diversity of participants and remove cumbersome procurement processes.

We would also wish to know how this will interact with capacity and national balancing markets.

- Would existing organisations (e.g., Elexon) become part of the new facilitation role?



**Q6. Do you agree with the allocation of roles and responsibilities set out in Table 2? If not, why not?**

We would wish to see that market rules-setting and change mechanisms kept a separate function from market operation to ensure that there is no conflict of interest.

Table 2 (Proposed roles and responsibilities) makes no reference to innovation.

**Q7. Are there other activities that are not listed in Table 2 that should be allocated to the market facilitator or other actors?**

Table 2 makes no reference to a regulatory function.

- Does that remain with Ofgem?
- Has Ofgem demonstrated sufficient robustness, foresight and dynamism regarding regulation of the markets?

Further, there is no mention in Table 2 of a scrutiny function which represents the interests of consumers/generators and other actors affected by market performance.

- Again, will Ofgem take on that role as consumer champion, again raising the question about accountability and trust?

**Q8. What are your views on our options for allocating the market facilitator role?**

Emphasis in the consultation document on demand management as one of the key components of flexibility should not put undue pressure on the many small players to act beyond their capabilities.

Intermediaries will have a part to play and will need to be regulated effectively. We would wish to see a social value test included in any licence to operate.

**Q9. Are there other options for allocating the market facilitator role you think we should consider? If so, what advantages do they offer relative the options presented?**

The function will need to demonstrate independence from those that would benefit from its decisions.

**Q10. Do you agree that DNOs should retain responsibility for real time operations? If not, why not?**

We generally agree although we need to see DNOs which are far more responsive to local need and change rather than being driven by system need. The System should support the consumer not the other way round.





Greater  
South East  
**Net Zero Hub**

We hope that our comments are helpful.

Yours sincerely,

A handwritten signature in black ink that reads "Peter Gudde". The signature is fluid and cursive, with a long horizontal stroke at the end.

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