

# **Citizens Advice response to the Ofgem Future of local energy institutions and governance consultation**



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# Key messages

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We support the proposals for a new Regional System Planner (RSP) role and a new single and neutral market facilitator role. We believe that there will be benefits for consumers in clarifying energy system planning responsibilities and in enabling a deeper flexibility market more rapidly.

## **Regional System Planner**

We have the following comments on its development and implementation.

The RSP body will need to be given a clear direction as to its priorities. For instance, whether alignment should be to meet net zero goals as rapidly as possible, or to deliver net zero goals at least cost. The direction should align with other bodies such as Ofgem's.

There is a need for clear governance and accountability arrangements to ensure that key stakeholders such as devolved and local governments have a means to be heard and their views taken on board. The democratic mandate of such bodies needs to be appreciated in energy system planning.

There is a risk of duplication of activity in energy system planning between the RSP body and other organisations such as local and devolved governments, and network companies. Duplication will create additional costs for consumers and potential conflicts over system planning and outcomes. This risk needs to be addressed when designing the RSP's responsibilities and governance arrangements.

## **Market facilitator role**

There appears to be limited analysis of the transitional arrangements from the current work of the Energy Networks Association (ENA) Open Networks project to the new market facilitator body. We believe that there is a need to reform the Open Networks project to enable a smooth and efficient transition to the new body to reduce the risk of a hiatus in progress to developing the flexibility market. Reform elements will need to ensure that stakeholders can input to

change processes and effectively hold the transitional body (Open Networks) to account for delivery of key tasks (e.g. standardisation of market design products, platforms, contracts, payment and dispatch arrangements and the deepening and widening of the flexibility market).

Governance and change processes for the new market facilitator body need to be clarified and open to further consultation. It will be important for all market participants and other key stakeholders such as consumer representation bodies to be able to influence development of the market and have a means to hold the market facilitator body to account.

Mitigants should be explored to address the risks of potential conflicts from having the Future System Operator (FSO) as the body undertaking the market facilitator role. We have suggested such mitigants within the responses to the questions below.

It is proposed that the Distribution Network Operator (DNO) role and the Distribution System Operation (DSO) operational activities will remain within a DNO's remit rather than separating them. There are clear risks of conflict in these roles and it will be important to ensure that the mitigant protections put in place in the RIIO-ED2 price control are effective. Ofgem should monitor the UK Power Networks (UKPN) imminent separation of its DSO functions to assess costs and benefits of such a split and whether separation is valuable for the whole sector.

# Questions

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## **Section 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?**

We welcome the proposal to introduce Regional System Planners (RSPs). At present, there is no one body responsible for, or able to undertake, holistic whole system planning and an RSP body would be valuable to undertake this work. In addition, the RSP would provide expertise to other actors that input to the energy system planning process given the inconsistent knowledge and competency currently in bodies such as Local Authorities. An independent RSP would also mitigate concerns that energy network companies are producing scenarios and resultant planning for their networks when they have a potential conflict of interest.

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

We note that the RSP is intended to “be a single source of truth for a region’s requirements”<sup>1</sup>. As such, it must command respect for its independence, competency, and ability to collate and incorporate all relevant stakeholder views. There must also be accountability and a means for important stakeholders such as devolved governments, Local Authorities, network companies and other key stakeholders to address their concerns if they do not believe that they are being incorporated appropriately in a regional energy system plan. We agree that the

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<sup>1</sup> Ofgem, [Future of local energy institutions and governance](#), p26

RSP body should be independent and a regulated body given its importance to the future of net zero and the costs that would impact consumers based on its planning decisions.

We support the idea for a single RSP body for Great Britain (GB) with multiple branches as this structure will benefit from economies of scale and concentrate expertise within one organisation.

We agree that the Future System Operator (FSO) appears to be the suitable entity to undertake the RSP role given its independence, regulated state, and other market and scenario development roles.

However, **we do note the following concerns:**

- The RSP body will need to be given a clear direction as to its priorities for the energy system. For instance, whether it is to meet net zero goals as rapidly as possible, or to deliver net zero goals at least cost. We believe that the direction given to the FSO/RSP body will need to be aligned with Ofgem's direction.
- There should be a means for key stakeholders, such as devolved or local government, network companies, community groups, consumer groups, etc. to call out shortcomings in the process or outcomes of the regional system planning. In particular, the democratic mandate that devolved and local government bodies hold must be recognised and have weight. Network companies responsible for reliability, resilience, and deliverability of energy in GB must also have a means to call out concerns with the system planning. We have proposed the establishment of RSP Stakeholder Groups to assist in this process (see our answer to Q4 on this topic), however, we believe that further thought needs to be given to how to ensure appropriate accountability. More formal governance arrangements may need to be developed, perhaps modelled on the negotiated settlement model, where key stakeholders can hold the body to account for its costs, delivery, and to make changes. We recommend that the governance arrangements make it explicitly clear as to which body or bodies has the ultimate authority to decide the regional energy system plan.
- The consultation notes that there is believed to be a minimal risk of duplication with other bodies or roles provided that there are clear

distinctions made between these other bodies and the RSP. We believe that there will need to be more work conducted to avoid duplication of research, development, and stakeholder engagement between the RSP's role, the role of devolved and local governments (e.g. in designing Local Area Energy Plans (LAEPs), net zero hubs, and the stakeholder engagement role of network companies). It is not in consumers' interests to have expensive stakeholder consultation undertaken by all these players and streamlining of stakeholder engagement and research will need to be undertaken to arrive at the goal of a single agreed truth of what is required.

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

We agree with the high focus on the distribution level for electricity in the consultation, and believe it would be appropriate to develop the RSP branch boundaries based upon the Distribution Network Operator licence areas. We suggest that the RSP branches could be developed for these 7 regions:

- 5 England RSP regions
  - UKPN region formed from the 3 licence areas in London, South and East England
  - NPG region formed from the 2 licence areas covering Yorkshire, northern Lincolnshire, and the North East of England
  - A region formed from the SPEN and ENWL licence areas for England in the North West
  - SSEN region formed from the Southern licence area in south England
  - NGED region formed from the licence areas covering South West England and the Midlands
- 1 Scotland RSP region formed from the SSEN Scotland area and SPEN Scotland area
- 1 Wales RSP region formed from the licence areas for SPEN and NGED that cover Wales



We believe that having a separate region for each of Scotland and Wales will be efficient and better respond to the different timelines and legislation for net zero that the devolved governments have developed. Stakeholders within the devolved nations may also have differing priorities from each other and from England. We believe that five regions in England would be appropriate given the relative size of the English population and density of housing, business, and industry. The English RSPs could be based on the existing DNO boundaries in England (as outlined above) where network planning would be more readily facilitated and stakeholder engagement is already in place to develop energy planning for electricity distribution networks. This engagement could be built upon to ensure whole system thinking is incorporated in the regional plan.

**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 that the FSO appears to be the most appropriate body to take on the RSP role (see our answers to Q1 and Q2 above for reasons). At present, there is a patchwork of knowledge and expertise to undertake the development of energy scenarios and network planning. There is also a lack of expertise in whole system planning (compared to the expertise for specific sectors such as electricity, gas, etc.). The FSO will need to upskill its personnel and processes to be able to undertake the RSP role and be able to fulfil its obligations. Expertise in stakeholder engagement, scenario construction, and whole system planning will need to be developed. We note that the timeline for the delivery of the RSP activity by the new body is expected to be by the start of the next ED price control (2028). Assessment will need to be made to ensure that this timeline is realistic given the changes to institutional arrangements and upskilling required.

We believe that there is a role for RSP Stakeholder Groups to be able to feed into the work of the relevant RSP branch, monitor the development of the Region's energy system plan, and scrutinise its implementation. These RSP Stakeholder Groups would be a useful contribution to ensuring stakeholders' views are considered, concerns aired and addressed, and the RSP branch to be held to account for its outputs. RSP Stakeholder Groups will need to be representative

and include devolved and local governments, large business users, micro- and small business users, flexibility providers, community energy groups, and consumer groups. Governance arrangements for such RSP Stakeholder Groups should be developed following further consultation.

## **Section 4. Proposed governance reform: 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?**

We agree that a single, neutral entity to undertake the market facilitation role would be beneficial. At present, market facilitation is not best facilitated through the ENA Open Networks project body. While the Open Networks project participants have worked diligently to develop the market, and standardise products, systems, and contracts, there is a lack of progress that is impeding the rapid delivery of the flexibility market needed for the achievement of net zero. In particular, the project governance arrangements are not sufficiently aligned for non-network parties to be able to hold the project to account or to ensure faster progress through a change request or modification process. The network companies which manage the Open Networks project and drive its pace and activities do not yet appear to have sufficient convergence on systems and processes. There is a Steering Group and a Challenge Group for the Open Networks project, but neither body appears to have the mandate or governance authority to push through overarching decisions or effectively drive change.

There is no specific question relating to how the existing work of the ENA Open Networks project will evolve (or cease) to facilitate the new market facilitation role, however, we believe this topic is worthy of further exploration. We are concerned that there may be a hiatus of progress before the new body takes on its role. We recommend that Ofgem considers the transitional arrangements

and amends the existing Open Networks project to enhance its operation and governance arrangements to better fit with the ultimate market facilitation body. This point on transitional arrangements is also a concern relating to the Open Networks project's role in the market platform(s) and should be addressed and be aligned with the proposals within the Call for Input on the Future of Distributed Flexibility<sup>2</sup> where we have made similar recommendations.

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

We agree with the roles and responsibilities as detailed in Table 2. These roles and responsibilities may need to be amended as the platform for the flexibility market is developed and decided<sup>3</sup>.

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

The single and neutral body will need to have robust governance arrangements and the ability for market participants (whether networks, aggregators, business flexibility providers, consumer groups, etc.) to influence change to the market. The overall purpose of the flexibility market should be for consumers' benefit including achieving net zero goals. We recommend that the governance and change processes are considered early in the development of the market facilitation body. There should be opportunity for market participants and other stakeholders to input to the chosen governance and change process via consultation. Stakeholder engagement will be a key enabler of an efficient and effective flexibility market, and the market facilitator will need to ensure that there is a comprehensive stakeholder engagement plan in place to capture all relevant views.

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<sup>2</sup> [Ofgem Future of Distributed Flexibility Call for Input](#)

<sup>3</sup> Options for platforms are described in the concurrent [Ofgem Future of Distributed Flexibility Call for Input](#).

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

The market facilitator role should be regulated, independent from network companies, and have the necessary expertise to further develop the market. We note that the FSO is proposed as a potential body to undertake the market facilitation role. There are advantages of this body as the chosen option given its regulated status, its accountability, and the expertise that would accrue to it over time. There is a potential difficulty in that the FSO would be a buyer of flexibility in the market itself and may be in a conflict position. Mitigants could include ring-fencing of the market facilitation body, and robust governance arrangements for stakeholders and market participants to be able hold the body to account, and drive changes that are necessary for better operation of the market. FSO incentive design could also act as a mitigant by laying down incentivised requirements to deliver the market facilitation role in a neutral manner and using stakeholder input to determine the extent of delivery of requirements. See also our response to Q7 on this point on governance and the change process.

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

No response provided.

## **Section 5. Proposed governance reform: real time operations**

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

We agree that DNOs should retain responsibility for real time operations (defined in the consultation as the real time operation of the power system rather than the operating the assets connected to it). There are potential benefits of separation of DSO and DNO roles which we can appreciate (e.g. alleviating potential conflicts in choice of investment option between infrastructure and flexible resources). However, there would be costs to the consumer in establishing separate bodies, and potential difficulties in allocating which body has the ultimate responsibility for reliability, for instance. UKPN is currently progressing its separation of DNO and DSO functions and will be launching its independent DSO soon. We recommend that Ofgem monitors the UKPN DSO/DNO bodies to understand the costs and benefits of separation and to see whether further roll-out across the sector should be considered.

As mitigants to the potential conflict between conjoined DNO/DSO bodies, it will be necessary for the protections proposed within the RIIO-ED2 price control to be effective. These mitigants will include increased transparency around constraints on the system and decisions taken between traditional infrastructure and flexibility services. In particular, DNOs must use the CEM tool and other best practice processes to ensure that there is the most appropriate choice taken between flexibility and infrastructure investment. Ofgem must assure that those procedures are being followed.

## Section 6. Next steps

### **Q11. What is your view on our proposed approach to the undertaking of an impact assessment as outlined in Appendix 1?**

We welcome an impact assessment on the preferred solution against the counterfactual (of the implementation of existing policies, including those in RIIO-ED2 but with no additional independent regional system planning activities and no independent market facilitator). The interaction between the consultation proposals and those of other reforms proposed (e.g. Review of Electricity Market Arrangements (REMA)) is important and we support the wider proposed approach to consider how the proposals for the RSPs and market facilitation role would create benefits elsewhere for the energy system.

A key element of the impact assessment should be to assess the potential duplication of roles of the RSP and other bodies (devolved and local governments, net zero hubs, network companies, etc.) and how this risk could be mitigated to avoid consumer cost and potential conflicts of outcome. The 'interacting organisations' framework as noted at A1.4 in the Appendix may be the appropriate template, however, we are unable to see the detail of how such a framework would operate and would welcome further explanation and analysis.

The impact assessment should also address any issues relating to responsibilities for the energy system. For instance, DNOs are responsible for reliability and meeting connections' requests in a timely manner. There are incentive and penalty arrangements within RIIO-ED2 for these elements. If energy system forecasts fall to the RSP body, and DNOs must invest in line with such scenario planning, there may be difficulties if DNOs do not meet their targets as a result of the plans. There will need to be a means for such responsibilities to be allocated and flexibility built within any price control to respond to changes in scenarios to allow for further investment (e.g. via uncertainty mechanisms to release further funding).

**Q12. What is your view on the most appropriate measure of benefits against the counterfactual?**

Additional benefits against the counterfactual may include avoidance of conflicts of interest in energy system planning, reduction of costs due to avoidance of duplicate stakeholder engagement processes, and speedier (and cheaper) achievement of net zero in the energy system.

**Q13. How should we attribute these benefits between the governance changes in the proposed option, and other changes required to achieve the benefits? We particularly welcome analysis from bodies that have undertaken an assessment of benefits, specifically how those benefits might be attributed to different policy reforms that are required to achieve those benefits.**

No response provided.

**Q14. What additional costs might arise from our governance proposals? We welcome views both on the activities that may arise and cause additional costs to be incurred, as well as the best way to estimate the size of the costs associated with those activities.**

No response provided.

**Q15. What additional costs may arise from sharing functions with several interacting organisations? We welcome views on set up cost, lost synergies, and implementation barriers.**

We have noted a concern that there may be duplication of activities for energy system planning between the RSP role, local and devolved governments,

network companies, and others. It will be necessary to understand the current costs of stakeholder engagement and research for energy system planning and to see how the process could be streamlined to avoid duplication of costs.



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