Sustainability *first*

Contact: Zoe.mcleod@sustainabilityfirst.org.uk

8th October 2024

To : Fiona Campbell
resp@ofgem.gov.uk

Dear Fiona

Re: Regional Energy Strategic Plan policy framework consultation

Sustainability First is an independent charity and think tank focused on promoting practical solutions to deliver fair and sustainable energy and water sectors. We have published and engaged extensively over many years on policy, regulatory and consumer issues. Our Associates have extensive experience in regional engagement and delivery including in the water and energy sectors.

We welcome the opportunity to respond to this consultation. Ofgem and NESO are to be applauded for pushing this regional complement to Strategic Spatial Energy Plan.

The regulator will be aware that Sustainability First are strong advocates of a place-based approach to decarbonising the energy sector. We see significant potential for this regional framework to help better coordinate activity between different actors at a local level. Not only to build democratic legitimacy, but importantly to minimise risks and maximise benefits to consumers and communities from the energy transition. This includes enabling better use of resources from local authority, national government and energy company led activity to deliver 'place-based missions' e.g. deliver growth, reduce fuel poverty, with associated cost efficiencies.

That said, we do not underestimate the challenge of delivering this. In a worst case scenario, these structures become: dominated by vested industry interests, rather than containing effective local democratic representation; duplicate existing structures; and become talking shops that drain resource rather than deliver timely useful recommendations. To avoid this we strongly encourage Ofgem to:

- **Appoint strong independent chairs as soon as possible** – These must be individuals capable of navigating what will inevitably be a complex landscape with some powerful vested interests. Chairs will need to develop a practical clear workplan and carefully balance the challenge of delivering to ED2 timetables with ensuring appropriate time for informed local engagement. Appointments should be made by an open competitive recruitment process to build trust and legitimacy.

- **Plan for some early wins**. The structures proposed are complex and will take time to properly be embedded. Being truly place-based, bottom-up and having the right local

representation will inevitably (but rightly) lead to a more extended time consuming process**.** Ofgem/NESO should work with Chairs to plan early wins. For example there may be relatively easy wins around data sharing and heat zoning. Local authorities, GDNs, TOs and DNOs sharing data on vulnerability and affordability would immediately create a richer picture which a range of parties would benefit from. Robust, clear plans for new electricity network capacity / or for closing down gas networks must be 'landed' as soon as possible with the former a particular key enabler to progress decision making.

- **Linked to above, prioritise delivering some things well** rather than the full scope of the RESP framework. In this way the groups can immediately start to input into ED3 investment decisions. Longer term a clear road map with delivery milestones will be needed.

- **Ensure industry interests don't dominate RESP board and working groups – there should be a civil society/community majority on the Board**. Appoint independent RESP board members who sit on the board representing different constituencies e.g. environment, consumers, small business (membership tailored to that area). Members should be required to act in an independent capacity in the interests of the communities they serve. Ofgem may also want to consider a member from the Independent Scrutiny Groups sitting on the Boards and in working groups. Thus capitalising on the expertise of these members and ensuring consistency, not duplication as well as information sharing between the two bodies.

- **Ofgem should be an observer on the RESP Board** –We encourage Ofgem to reconsider its decision not to sit on the RESP Board. This is important to prevent duplication and streamline decision-making. The Board is an opportunity for Ofgem to increase its awareness of significant regional considerations and grow much needed regional knowledge that can help support the evaluation of the business plans. This also plays directly into the levelling-up and growth agendas and the regulator's Growth Duty.

- **Clarification of respective Ofgem, NESO, DNO, GDNs, TOs roles along with the independent scrutiny groups is needed.** There is significant scope for duplication which may hinder NESO delivering its goals. E.g. agreeing DNO load-related expenditure - is that Ofgem or is it NESO - if 'strategic' or 'anticipatory' investment ? In ED2 DNOs had different strategic positions - Northern Power Grid (arguably max-out asset build in the name of 'future proofing') versus UKPN (seemingly max-out DSO software / operational spend in the name of supporting flexibility (and create new value as 'pre-eminent' DSO). DNO inputs to the RESP will depend on their commercial models – and therefore the decision-making lines between Ofgem and the NESO may well not be clear-cut. For example, the NESO will be leading on all the assumptions in business plans around avoided network build from flexibility. Also, any 2026 government decision on hydrogen for heat, will put an immediate new

urgency on future GDN GD4 business plans but is it the NESO who is expected to develop assumptions on hydrogen heating, heat-networks etc? In addition, who ultimately decides on the appropriate levels of future network investment and over what time-scale – i.e. the contribution-level of customers in a particular price-control period ? Is it Ofgem (ultimately through periodic network business plan determinations?. Or, is it very largely the NESO via its decisions on load-related / strategic investment ? Are the right accountabilities in place ?

- **Importantly, this process needs proper resourcing to succeed with effective governance and communications.** This point cannot be overemphasised. Without proper resourcing civil society groups and potentially even local authorities will be unable to consistently participate, thus undermining the legitimacy and effectiveness of the whole process. This has been demonstrated time and time again with stakeholder engagement processes. Providing effective secretariat to support this framework will also be key as will properly resourcing NESO regional offices.

We have provided our more detailed answers to a selection of questions below**.** Sustainability First has extensive experience in setting up and participating in regional engagement structures and would be happy to discuss lessons learned with Ofgem.

Yours sincerely

Zoe McLeod

Associate Director
Sustainability First

CC: David.murray@sustainabilityfirst.org.uk
Martin.crouch@sustainabilityfirst.org.uk
Maxine.frerk@sustainabilityfirst.org.uk
Judith.ward@sustainabilityfirst.org.uk

Responses to questions:

1. **What are your views on the principles (in paragraph 2.8) to guide NESO's approach to developing the RESP methodology? Please provide your reasoning.**

We broadly support the principles to guide NESO's approach to developing RESP methodology, that it should be place based; whole system; vision-led; and proactive.

In addition, we would suggest the principle *'inclusive'* – ensuring that the needs as well as the voices of the wide range of different stakeholders and consumers, including those who are in vulnerable situations, are considered and where applicable included in decisions. This is especially important as there is a large body of research that shows a strong link between

perceived fairness and equity of the transition to net zero and public acceptance, support and willingness to pay for decarbonising the grid.

In addition, engagement is critical. Government for Office Public Dialogue for Net Zero Society: Scenarios and Pathways Report for example highlights: *"Participants… expressed the strong desire to be consulted if policy makers were looking for ways to expedite these changes [to deliver net zero]. They also noted that for policies to work, people had to trust the institutions designing and implementing them. Policy makers will likely find it easier to chart a course to net zero by working with and listening to citizens.[1]"* Backlash to Cadent's hydrogen village and opposition to transmission companies new infrastructure is a stark reminder of this. Changes and decisions must be made with communities, not done to them.

Q2. Do you agree that the RESP should include a long-term regional vision, alongside a series of short-term and long-term directive net zero pathways? Please provide your reasoning.

We have some concerns regarding the idea of a single short-term pathway (for 5-10 years). What we are already seeing in the context of GD3 is that while electricity networks need to plan for the most optimistic scenarios to ensure they are not a barrier to net zero, the gas networks need to plan for a pessimistic scenario to ensure that they remain safe in all circumstances. While one might hope that in the short term there would be less divergence even over GD3 the number of customers shown as moving off gas in the Future Energy Scenario is at a much higher level than feels plausible with current policies - and if it materialised would lead to billions of pounds of costs for disconnection (which ultimately we expect Ofgem to acknowledge is not viable or at least will introduce a volume driver for). Ofgem's experience in GD3 might help inform whether a single forecast is the right approach - though clearly an agreed direction has to be right.

We support the RESP including a long-term regional vision. There are quite different visions among different stakeholders and agreeing a common mission would be very valuable. It will also help to identify assumptions (which may or may not be accurate) behind different parties decision making which may be slowing progress.

Ofgem should be careful however that these visions are set within broader societal and regional goals and not overly siloed. Focussing solely on the quickest most efficient way to deliver net zero without considering the impact on wider outcomes i.e. fairness and equity, resilience in all senses including growth and community impacts, and the impact on environment and nature, inevitably will cause problems.

[1] Net Zero Society: Scenarios and Pathways Report HTML - GOV.UK (www.gov.uk)

Q7. Do you agree with the framework of standard data inputs for the RESP? Please provide your reasoning.

Broadly yes, in particular the value of heat network zoning data. In addition we suggest:

- Smart meter data and insight on the distribution and projected distribution of smart meters to understand if and where there are black spots within different regions, i.e. where it's challenging for smart meters to be installed, and or to work effectively. Smart meters are a key enabler for consumers accessing flexible energy markets.
- Demand side data - Robust demand-side data needs to inform NESO / RESP plans – or we will all be 'flying blind into the future'. To fulfil their national whole-system planning duties the NESO must obtain access to customer smart meter energy data (energy consumption, max demand, voltage, half-hourly gas data). Currently, networks and retailers have access to smart meter data to support their own operations – but this data is currently unavailable to the NESO or wider parties. The issue of availability of granular demand-side data to underpin improved energy planning was explored in depth through the Sustainability First's PIAG Project on access to smart meter data for a public interest purpose.
- Off gas - GDNs to provide high quality data on those off of the gas network. Local authorities express concerns that the quality of data shared by GDNs on households off of the gas network is poor – can be inaccurate, lacks granularity or is incomplete. i.e. they receive records which shows a pipe approaches a property but it is unclear if it is actually connected or not. This needs addressing. Those off the gas network are more likely to be in fuel poverty and should be a priority for affordable low cost low carbon energy solutions.
- Consumer vulnerability and affordability - All parties to provide information on financial deprivation and vulnerability. There's significant amounts of research and insight undertaken which is not shared between sectors currently. There will be a link financial and non-financial vulnerability and electricity and heat demand, and also the deliverability and accessibility of different energy solutions. Combining data between DNOs, GDNs and local authorities would create a much richer picture and be especially valuable on deliverability and assessing the best solutions for different communities. Overlaying asset insights with geo-spatial and geographic vulnerability data can also help identify priority areas for reinforcement and infrastructure investment.
- Distribution network planning -At risk of stating the obvious, it is important that DNOs share information on current and likely future network capacity projections for each region. We've heard anecdotally from some local authorities that they struggle to get honest and transparent information from DNOs regarding those areas that will be the last to be reinforced, or will only have limited capacity for new low carbon technologies. Local authorities report they want and need the clarity so they can plan interim solutions, especially for fuel poor households. This is key as in practice, DNOs will be largely driving who is last on the gas network.

We agree with Ofgem that there will be further considerations relevant to specific regions and new data sources of relevance over time. We therefore urge Ofgem to encourage RESP boards to maximise the value from any data and insight in their areas.

Q9. Do you agree with the framework for local actor support? Please provide your reasoning.

We support the engagement principles transparency, accountability, and representative. In addition we encourage the inclusion of 'Proactive' and 'Timely' as principles too.

The principles proposed are all well recognised good practice engagement standards. The descriptions of each though need to be developed to avoid confusion and to be clear on expectations.

For example re representative, it's important that engagement is representative of different types of organisations and consumers by age, socio demographic groups, gender, geographies, and values. The approach must be inclusive as well as representative i.e. engagement designed in a way that all can participate who want to, venues are accessible to people with disabilities etc. Similarly inclusive for some may mean simply putting information on a website.

'Coordination' is especially welcomed as a principle. Coordinating engagement helps to reduce resource pressures on different stakeholders who could otherwise be asked to engage on the same issue by different organisations. This can lead to 'stakeholder fatigue'. Common consistent messaging and coordinated engagement campaigns will also be valuable and are recognised prerequisites for public acceptance and to support the behaviour change needed to deliver net zero.

We encourage the inclusion of **'**Timely', because the biggest failing we have witnessed in regional and community engagement practices is that organisations fail to engage early enough with communities and key stakeholders - often engaging on an end proposal rather than co-developing an approach. This can lead to a decline in trust (with a sense that it's a done deal – 'they are going to do it anyway') and significant backlash when people don't understand the trade-offs that decision makers have had to make along the way. The alternative is to involve people early in the process – to co-develop solutions. They then can also become advocates or explainers for the approach in their communities.

We also strongly encourage 'Proactive' as an engagement principle, as far too often, organisations are passive in their engagement, just putting information on a few websites or sending out a blanket email which is assumed to have been read and understood. This becomes a risk, when people only realise late on, once decisions are near complete how it impacts their constituencies and then react. Instead, what is needed is to strategically map impacted and interested stakeholders and proactively reach out to them early in the process via different channels including phone. In particular to explain why a decision is relevant to them and how they can participate. Also to understand any barriers to engagement as many will not have the time or resource to participate in working groups but their voice still needs

to be heard and inform decisions. In addition to find out how they want to be communicated with.

Q10. Do you agree with the purpose of the Strategic Board? Please provide your reasoning.

Yes. We broadly support the purpose to provide oversight of RESP development; facilitate transparency and increase visibility of different parties regional priorities and produce a recommendation / steer on key decisions being made.

However, the real potential of these boards is their ability to support a 'coordinated approach' whereby decisions on the energy future can dovetail with cross sector, local authority and other stakeholder's plans to maximise benefit to communities and deliver cost savings. This includes coordinating resources from local authority, national government and energy company led activity to a deliver a 'place based mission style' approach with energy at its core.

Also to help develop a consensus (or near consensus) on the proposed approach for each region that acknowledges the compromises needed (trade-offs) takes into consideration local priorities, consumer and community need and differences in areas i.e. connectivity, housing stock. We'd welcome these two outcomes being given a stronger focus in the Board's focus.

A consensus view on recommendations may not always be possible. For example we can envisage a situation where GDNs continue to press aggressively for domestic hydrogen and don't engage fully in the spirit of the process. Any recommendation should therefore identify where there are differences of opinion and why. Having a strong independent Chair to navigate disagreements will be critical for the process to work.

Q11. Do you agree that the Strategic Board should include representation from relevant democratic actors, network companies and wider cross-sector actors in each region?
Q12. How should actors (democratic, network, cross-sector) be best represented on the board? Please provide your reasoning, referring to each in turn.

As Ofgem alludes, there is a difficult balance to be achieved between having a workable board size and sufficiently representative and diverse views at a strategic level needed for legitimacy and effectiveness.

<u>Local democratic representatives</u>

Ofgem proposes that the Board should be composed of 'local democratic' representatives of 'higher authorities'. We query if the regulator is envisaging higher authorities officials being representatives, or elected representatives i.e. politicians.

Our preference would be for authorities representatives (i.e. officers) being on the Board. We support their inclusion to help to ensure that the voice of different areas is represented and that representation is politically neutral/crosses party divides. If politicians are

appointed, there's a risk that any decision becomes a political football and the Board is used for grand standing especially near elections. Net zero energy system will inevitably become increasingly polarising and controversial.

Expert appointments

Whoever sits on the group needs to be of sufficient seniority to have a strategic view of their area, its priorities and activities, to understand the interdependencies. Finding the right people will take time, and Ofgem/NESO should consider having some oversight over appointments to ensure they are genuinely fit for purpose. This is very important and we would be happy to assist in this process. The combination of skills, knowledge and experience needs careful consideration. Similarly NESO should ensure its regional offices are sufficiently well resourced with appointments of appropriate seniority.

Membership to build legitimacy and trust

In truth, local authorities and energy companies are among two of the least trusted organisations (though the former more trusted than the latter) so are unlikely alone to address concerns about the 'democratic deficit'.

We welcome therefore Ofgem's intention to have cross sector actors involved. As a minimum we think this should include domestic and business energy customer advocates. This is especially important given they will ultimately pay for changes along with tax payers; and an environmental voice alongside authorities and networks.

Citizens Advice/Consumer Scotland, could potentially perform one of these roles as the statutory consumer watchdog though they would need to appoint someone with local knowledge and a strategic view of the energy system. Alternatively an independent consumer champion could be appointed through an open or even elected process (or there could be a combination of the latter - our preferred and perhaps a more practical approach).

We suggest an environmental voice, because as network companies' research frequently shows, protecting wildlife and nature often ranks of high importance in consumer priorities while below affordability and ensuring reliability of supply. Environmental related opposition is also frequently a barrier to infrastructure being built in local areas. Having this lens on the board will be particularly important for legitimacy and anticipating barriers.

Representatives versus expert perspectives

Ofgem has sought views on how cross-sector views are represented. There are hundreds of stakeholders who are potentially interested and impacted by decisions the Board will make and influence. It is not feasible for all these groups to be 'in the tent' around the table. One approach is to select one or two organisations e.g. Friends of the Earth and National Trust for environmental issues, but this can lead to calls of favouritism, and concerns from those 'outside of the tent' that the approach is unfair. In the case of any businesses represented there may be a perceived or actual commercial advantage.

An alternative approach – which we prefer given our experience on various boards and challenge groups, is rather than having representatives of existing organisations on the

board to recruit experts that have a variety of expertise and experience. They can bring different lenses and expertise to the discussion e.g. be consumer experts, environmental experts, large energy users and can be located and know the region.

As well as supporting independence, another benefit is that these people can be appointed via open competition which supports transparency, legitimacy and trust. This also helps to ensure diverse views and perspectives are achieved rather than recruiting from those already engaged in the sector.

Under this model, people may work for organisations such as National Trust but they have to sit on the board in an independent capacity and are selected for all their experience. Members, with the exceptions of the networks and local authorities would then operate in an independent capacity (in the interests of their region), agreeing not to represent their own interests, or the interests of the organisations they work for, but rather the collective interests of the citizens and energy consumers of that region.

The make-up of each board – the precise combination of lenses may vary by region i.e. rural lens may be more important in some areas. Chairs (possibly in coordination with combined authorities and Ofgem) will need to think strategically about the best combination of voices for their area. In appointments, care must be taken to ward against group think, from having too many members with the same 'lens'. As this could create blind spots which is a risk for delivery and acceptability.

Governance

Careful consideration should be given to the governance arrangements and we are happy to discuss this further with Ofgem. There's a risk that some companies, use this Board as a vehicle for lobbying e.g. gas companies for hydrogen solutions, and don't really sign up to the collective goals. The appointment of an independent chair will be especially important to keep members 'on track' and for legitimacy and to ensure independence. There may be a need to be a code of conduct to keep political and lobbying behaviours in check and ensure behaviours in the collective interest.

ISGs and TOs

Each DNO, GDN and TO has an independent scrutiny group which has been required by Ofgem. Membership is a mixture of expert members and stakeholder groups – many, though not all, are from the region in which that company operates. These groups provide independent challenge on company plans, and performance. Ofgem may want to consider how it can ensure effective communication between the RESP boards and working groups and the ISGs and vice versa. There is a lot of expertise in the ISGs which would be of value to the process. It will be important for as a minimum effective coordination and liaison between these two processes.

At present we understand TOs are planning on playing an advisory role on these groups. Ofgem may want to keep this under review given the growing role they will play in delivering regional engagement and community benefits linked to net zero transition.

Ofgem

We see real value in Ofgem having a seat at the table of the RESP boards, if only as a observer. This will help increase the regulator's awareness of significant regional considerations and avoid duplication. It's a fantastic opportunity for Ofgem to grow much needed regional knowledge that can help support the evaluation of the business plans This also plays directly into the levelling-up and growth agendas and the regulator's Growth Duty.

Funding

The process outlined, based on a working group model looks very resource intensive for all involved, including GDNs such as SGN who appear to have to sit on multiple boards given their geographic boundaries.

Experience from the water sector suggests Ofgem may struggle to get appropriately *diverse high quality* consistent representation without funding, which would also impact effectiveness and legitimacy.

There has to be a funding mechanism to ensure appropriate expertise and representativeness. Some combined authorities may have some resource but we are unclear if that is sufficient.

Civil society groups won't be sat eagerly waiting with resource and time to be involved in this. What will inevitably happen (as has happened with most Ofgem working groups that aren't specifically about consumer or environmental issues) and as has happened with the customer challenge groups in water, is those with the funds and vested commercial interests dominate discussions along with retired individuals with time to engage.

Q13. Do agree with the adaptations proposed for Option 1? Please provide your reasoning. Q14. Do you agree with our assessment that Option 1 is a better solution than Option 2? Please provide your reasoning.
Q15. Do you agree a single region for Scotland is optimal? If you think a two region solution is better, do you agree the split should occur at the SSEN and SPEN DNO boundary? If not, please provide your reasoning and alternative option(s).

Others are better placed to respond to these questions. We query though if it's worth overlaying regional water areas[2] and exploring any communications boundaries. Regional water resources planning operates across five areas in England and Wales. The Data Communications Company that supports smart meter rollout is divided into three regions, each managed by different Data Service Providers (DSPs) and Communications Service Providers (CSPs).

Ends

[2] A summary of England's revised draft regional and water resources management plans - GOV.UK (www.gov.uk)