



Energy Future System Operator

Response form

The consultation is available at: <https://www.gov.uk/government/consultations/proposals-for-a-future-system-operator-role>

The closing date for responses is 28th September 2021

Please return completed forms to:

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Department for Business, Energy and Industrial Strategy
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AND

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Ofgem will publish non-confidential responses (or parts of response) on its website. If you want your response in whole or in part to be considered confidential, please tell us in your response and say why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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About You

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	Respondent type
<input checked="" type="checkbox"/>	Business representative organisation/trade body
<input type="checkbox"/>	Central government
<input type="checkbox"/>	Charity or social enterprise
<input type="checkbox"/>	Individual
<input type="checkbox"/>	Large business (over 250 staff)
<input type="checkbox"/>	Legal representative
<input type="checkbox"/>	Local government
<input type="checkbox"/>	Medium business (50 to 250 staff)
<input type="checkbox"/>	Micro business (up to 9 staff)
<input type="checkbox"/>	Small business (10 to 49 staff)
<input type="checkbox"/>	Trade union or staff association
<input type="checkbox"/>	Other (please describe)

Questions

Chapter 2

Questions in this section relate to

- The case for change

Question 1

Do you agree that net zero will create the need for new technical roles in the electricity and gas systems, and require a new approach to for energy system governance?

A **Yes** **No**

B

If not please explain why:

Strategic whole energy system planning and coordination across energy vectors and different parts of the energy system is becoming increasingly important. The energy system is becoming increasingly interlinked and will play a large role in our pathway to meet our net zero targets. New technologies and new ways consumers and businesses will use and generate electricity and gas means issues will evolve and need to be addressed in new ways.

Question 2

Do you agree that the establishment of a Future System Operator is needed to fulfil the kinds of technical roles needed to drive net zero?

A **Yes** **No**

B

If not please explain why:

A more forward thinking organisation with overarching expertise of the entire energy system, across vectors, can independently address these issues and advise government on how the future system will need to develop. Energy UK agrees that a completely independent FSO has the potential to address and step up to new technical roles for the system.

Further, to alleviate the issue of conflict of interest (whether perceived or otherwise) between electricity Transmission Owner (TO) and System Operator (SO). Energy UK supports an independent FSO as long as the time and costs of implementation aren't excessive.

Creation of the ESO to its current structure took a long time and the related code modifications delayed other modifications in the process. It is therefore important to have a measured and carefully managed transition allowing the ESO to become the FSO with minimal disruption, enabling the required functions to emerge. This would ensure that the time and resource taken to create an FSO does not unduly interrupt other important work streams required to progress the net zero agenda.

A pragmatic approach should be taken where the ESO is able to perform some of the functions outlined in section 3.2 of the consultation (e.g. coordination with distribution and transmission networks) ahead of the formal transition to the FSO. In order to set it up for success, it is important that the FSO has the required authority, resources, skills, capability and funding in place ahead of taking on new, or enhanced, roles.

Question 3

Do you agree that a Future System Operator should have roles in both the electricity and gas systems?

A Yes No

B

If not please explain why:

The FSO should have a responsibility for high level strategic system planning of both the gas and electricity networks (including transmission and distribution) and potentially, as things evolve, CCUS and hydrogen in the future. The Gas SO and TO should remain separate from the FSO.

There are obvious synergies between the gas and electricity networks that no current organisation has sole responsibility for identifying and coordinating. For example, considering the scope and routing of a hydrogen backbone to link clusters and take account of siting of electrolyzers which may be linked to new dedicated wind resources. Further, consideration of where electrification of heat or hydrogen conversion fits with both networks

for whole system optimisation, including reinforcement and repurposing. The FSO is the obvious choice for having responsibility for this role.

Further detail is required on the detailed gas related planning activities that the FSO would need to undertake to deliver the strategic co-ordination role. Detailed network planning is a resource intensive activity. If this were to be carried out by the FSO, then it is likely it will also need to be carried out by the network owner to ensure ongoing operability of the network and supply resilience for both hydrogen and natural gas networks. Whilst some duplication of activity seems likely, this needs to be managed efficiently and we would welcome further detail for industry to review at a later stage, including consideration of skills and systems.

Energy UK also considers there is potential for a review of interactions and communications between gas and electricity TO and SO, with the possibility of quick wins in relation to more open communications in operational timescales subject to review of operational incentives.

We acknowledge that there is a potential for a future single gas and electricity SO across electricity and gas transmission and distribution, but recognise that significant regulatory structural and commercial changes would be needed to achieve this and should not be considered at this point.

Question 4

Do you agree that a Future System Operator should be entirely separate from National Grid plc?

A

Yes

No

B

If not please explain why:

Ultimately, Energy UK recognise that the ownership or model of the FSO is a decision for the UK Government. We agree with the consultation that an FSO would be better situated as a completely independent organisation outside the National Grid Group.

The enhanced functions that the proposed FSO will be required to adopt will put the organisation under immense scrutiny. It is therefore important to clearly identify the required functions of the FSO, its status in relation to Ofgem and for there to be no ambiguity regarding its role, responsibilities and accountabilities and in regard to conflicts of interest.

Establishing a FSO may take some time and the transition will need to be carefully managed, depending on the model chosen by Government.

Important work such as whole system coordination is needed urgently; the ESO should be undertaking this now to deliver net zero. If the ESO is given new or enhanced responsibilities (whether under the current ownership model or proposed FSO structure) appropriate capabilities and resources must be in place in advance.

Question 5

What issues are there with existing institutional arrangements in the UK energy system in relation to system-wide decision-making and planning?

Please provide your answer below:

The current structures have served well to date. However, for the UK to meet its legally binding net zero target by 2050, while also meeting its 2030, and 2035 carbon budget targets, then GB¹ requires a new energy system governance structure that is far better coordinated, provides clarity of roles and responsibilities, and ensures key oversight against delivery. This new system of decision making must ensure cross-economy decisions are taken with net zero as a key factor.

There needs to be much more coordination across government and institutions, including regulators, devolved administrations and local authorities. This includes greater visibility and understanding of the roles and responsibilities of different levels of government. The energy sector has led decarbonisation efforts to date, through investment in low carbon power supply, but wider decarbonisation requires greater coordination between public and private organisations. Reducing carbon emissions in heat, transport and industry will impact our homes, places of business, and public spaces, and as such needs much more collaborative and coordinated delivery to reduce cost and disruption to consumers.

Carbon emission reductions targets which are now enshrined in law, including the net zero target, need to be reflected in government departments' and regulators' objectives and statutory duties to ensure they can and must deliver policy and regulation that supports net zero while avoiding short term political influences.

Ofgem should be able to pay greater attention to net zero as part of its objectives and this should be supported in the forthcoming Strategic Policy Statement (SPS) to be issued by BEIS. However, the SPS should only be considered as a stepping stone on the expedited path to statutory duty updates supporting the net zero target. In this regard we support the

¹ Mindful that the consultation solution concerns an FSO for the GB market rather than the whole of the UK; as it does not relate to Northern Ireland (which, for example, would, if that was the case, bring an I-SEM slant to the solution)

recent recommendation from the House of Commons Scottish Affairs Select Committee² concerning this, namely:

“We recommend that the UK Government amend Ofgem’s statutory duties to consider net zero targets in all its decision making, alongside the duty to protect the interests of existing and future consumers³.”

Whilst Ofgem should remain technology neutral, much more consideration needs to be given to how its decisions and projects can facilitate net zero. For example, by facilitating competitive markets and targeted network investment that enable and encourage private investment ahead of need, saving costs for the future consumer.

Anticipatory investment is required so generators can connect to the system without the need to pay for a large chunk of the network reinforcement. This would avoid bottlenecks and will accelerate an economic transition to net zero. This is similar to the build of the EV charging infrastructure ahead of consumer uptake.

Question 6

What examples/case studies are you aware of where net zero delivery in one part of the energy system did not adequately account for cross-system impacts or costs?

Please provide your answer below:

There are minimal examples to give as net zero duties are not yet integrated into GBs institutional governance. There are, however, good examples of cross department working to more economically deliver projects with net zero in mind.

The Offshore Transmission Network Review (OTNR) looks into the way that the offshore transmission network is designed and delivered, consistent with the ambition to deliver net zero emissions by 2050. This is a project lead and coordinated by multiple partners and demonstrates the need for a coordinating body that looks at whole system issues. With an FSO, similar projects will be able to be launched more simply and be progressed more expediently.

Question 7

Where should government focus in our efforts to improve systems thinking and coordination across the energy system?

² <https://committees.parliament.uk/publications/7319/documents/76606/default/>

³ From paragraph 24 of the Select Committee’s report.

Please provide your answer below:

To date, work being done in coordination with Whitehall and industry has been positive. For example, work with OZEV and on the OTNR has been well managed with good engagement from all necessary parties. This type of approach should continue and is needed to break down silos, share knowledge, identify issues early and develop solutions that work across sectors and regions. However, with the potential changes necessary needed to reach the Government's net zero targets, GB requires a new energy system governance structure that is more coordinated, provides clarity of roles and responsibilities, and ensures key oversight against delivery. This new system of decision making must ensure cross-economy decisions are taken with net zero as a key factor.

If the UK is to achieve its target of becoming net zero by 2050, then in the context of GB the pace and scale of Ofgem's regulatory decision-making will need to change significantly. There are a number of ways we believe this could be undertaken. One being through providing a strong Strategy and Policy Statement (SPS) and the other through a statutory duty change to Ofgem.

The governance systems need to be less onerous for industry parties. For example, administration behind Capacity Market applications is overly complex and could undermine smaller parties and prevent them from participating

One area that remains of concern is Ofgem's reluctance to deliver full and considered impact assessments related to some of its decision making. For example, decisions are being made around the future of the retail market and the future role for monopoly network companies without a full understanding of the potential impacts. The lack of detailed analysis, incomplete stakeholder engagement and unexplained reasoning in these decisions has undermined investor confidence in the GB market, impacting investment in new technologies and business models that could save costs for consumers to 2050. Decisions made with short or absent consultation and impact assessment processes, and Ofgem's subsequent engagement with concerned stakeholders, have impacted industry confidence in the ability of Ofgem to regulate for net zero under current governance frameworks. This includes in developing regulatory frameworks for the evolving retail market, and decisions on the future of system operation at distribution level. Ensuring full consideration of the long term impacts of decisions on customer experience, decarbonisation, or competition is critical to encouraging investment required to deliver innovative services for customers and lowest cost system operation as we further decarbonise power, heating, and transport.

Chapter 3

Questions in this section relate to

- What existing, enhanced and new roles and functions we consider a Future System Operator is well placed to take on to drive the transition to net zero.

Question 8

Do you agree that the FSO should undertake all the existing roles and functions of NGESO?

A

Yes No

B

If not please explain why:

Energy UK agrees that the core roles (i.e. day-to-day balancing of the system, ancillary services) provided by the ESO should be undertaken by the FSO. Members are mindful of the need for more clarity on the responsibilities of Code Managers and accordingly members do not believe Code Management, should necessarily sit with the FSO, and instead could be allocated elsewhere e.g. given to a new, separate body. This is the subject of a concurrent joint BEIS/Ofgem consultation to which Energy UK has responded separately. Members are concerned about the potential conflict of interest between code management and operating the system. This might enable the FSO to concentrate on a strategic view of the energy system and leave, for example, code management to dedicated Code Managers. The FSO undertaking Code Management could detract from its core service and give the new body too much power with minimal say from wider stakeholders.

Energy UK notes that other non-core services provided by the ESO, e.g. Capacity Market provision, can remain with the FSO but will require significant improvements to the process.

We note there is a quick win in improving information sharing between gas and electricity control rooms. This would facilitate whole system thinking and begin to build the expertise required of the FSO.

Question 9

Do you agree there is a case for the FSO to undertake the gas strategic functions outlined in Option 1?

A

Yes No

B

If not please explain why:

The FSO should undertake the strategic gas function.

There are obvious synergies between the gas and electricity networks that no current organisation has sole responsibility for identifying and coordinating. For example, considering the scope and routing of a hydrogen backbone to link clusters and take account of siting of electrolyzers which may be linked to new dedicated wind resources. Further, consideration of where electrification of heat or hydrogen conversion fits with both networks for whole system optimisation, including reinforcement and repurposing. The FSO is the obvious choice for having responsibility for this role.

Further detail is required on the detailed strategic gas related planning activities that the FSO would need to undertake to deliver the strategic co-ordination role. The FSO should focus on strategic planning for gas (i.e., over 10 years) and should not undertake operational planning. Detailed network planning is a resource intensive activity, if this were to be carried out by the FSO, then it is likely it will also need to be carried out by the network owner to ensure ongoing operability of the network and supply resilience for both hydrogen and natural gas networks. Whilst some duplication of activity seems likely, this needs to be managed efficiently and we would welcome further detail for industry to review at a later stage, including consideration of skills and systems.

Energy UK also considers there is potential for a review of interactions and communications between gas and electricity TO and SO, with the possibility of quick wins in relation to more open communications in operational timescales subject to review of operational incentives.

There is concern that the FSO, having been derived from the ESO, will concentrate on systems and solutions related to electricity. A new culture - and parity of skills, knowledge, and experience across vectors - is needed to ensure independent whole systems thinking with a balanced, non-biased view between fuels.

We acknowledge that there is a potential for a future single gas and electricity SO across electricity and gas transmission and distribution, but recognise that significant regulatory structural and commercial changes would be needed to achieve this and should not be considered at this point.

Question 10

Do you agree that there is not currently a case for the FSO to undertake all GSO roles and functions, including real time gas system operation, as outlined in Option 2?

A

Yes

No

B

If not please explain why:

Energy UK believes that the case for the creation of an FSO with responsibilities for gas system operation has not been made.

Members reason it should not be assumed that separating the gas SO from the gas TO, replicating the electricity model, is the right thing to do. The operation of the gas and electricity networks is very different as they have different physical characteristics. Electricity operation is largely by market instruction whereas gas system operation requires operation of assets to manage physical flows. Therefore it is important to keep the gas TO and SO functions together. We further recognise this importance from a security of supply, safety and efficiency perspective. There should be an independent review of potential costs and benefits, before this is considered any further.

Members agree that electricity and gas systems will likely become increasingly integrated with the introduction of new technologies and the potential for hydrogen to become an important part of the energy mix.

It would be useful to explore sharing of operational information to investigate the potential for mutual learning and synergies across system operation prior to progressing to a more integrated model. Further, interactions around balancing, forecasting and cases of emergency should be investigated.

Chapter 3- New and enhance FSO roles

Questions in this section relate to

- 3.2 in the FSO Consultation

Question 11

Do you have views on the proposal for an advisory role? What organisations do you consider would benefit from the provision of advice by the FSO?

Please provide your answer below

There is need for national and local government to receive independent strategic advice on potential whole energy system options and solutions consistent with government policy to deliver net zero pathways.

Advice on reaching net zero will need to be based on engagement with many parties across all sectors: electricity, natural gas, hydrogen, CCUS, heat, transport, etc. The FSO will clearly have a key role, but the advice must come alongside that from other sectors

It should be ensured there are no gaps or duplications between other institutions providing advice (e.g. CCC). The FSO should focus on energy and the advice provided should be

complimented with wider governance reform and institutional changes across government departments for wider net zero changes.

The advice provided by the FSO should encompass both transmission and distribution of the gas and electricity networks and be expected to engage with all network owners and operators to provide comprehensive advice. We note the ESO could adopt this role i.e. through the provision of the FES that is not based on electricity transmission but looks into expected whole system demand.

There is a potential for a body to provide overarching advice in respect to delivering net zero by 2050 across all sectors, but the FSO will not be able to perform this role in the short to medium term. The advice will need to include electricity, natural gas, hydrogen, CCUS, heat, transport, agriculture etc. and the FSO will not have this expertise.

Industry should be consulted in the future should there be a view that this advisory role be extended beyond the whole gas and electricity system.

We highlight that market participants will have valuable expertise and insights on how to structure and operate efficient markets, these views need to be properly acknowledged and considered.

Who should bear the costs of providing that advice?

Costs that provide a service that affect every citizen equally must be paid for equitably.

This would depend on the ownership model chosen.

There are some concerns that, without limits, the provision of advice could take up a significant amount of FSO time and divert resources away from other more important tasks. One way of limiting this would be for the FSO to be able to charge the relevant body for providing advice. Alternatively, the FSO could publish information to stakeholders outlining the costs of providing advice to each organisation eligible to request it.

Question 12

Do you have any views on the other areas where we are considering new and enhanced roles and functions for the FSO (outlined in section 3.2)?

Please elaborate:

- **Dispute resolution**

This should remain with Ofgem.

Ofgem should retain the responsibility of dispute resolution. The FSOs core responsibilities should be around electricity balancing and strategic whole system issues.

- **System planning and network development**

We agree that the FSO should take on new and enhanced functions in co-ordination and strategic system planning and network development, with a focus on the energy system as a whole. This should include distribution and transmission networks as well as offshore electricity networks. The FSO analysis and advice should help set out the needs case of investment to Ofgem who will then take the decision. Clear definitions of the roles between the FSO and asset owners will be important here to ensure that responsibilities and risk are appropriately allocated between an FSO and network owners. It will likely be beneficial for the FSO to liaise with the National Infrastructure Commission.

In the longer term, we agree that the FSO could develop to take on a role where it would plan, design and tender for new network development. This should be consulted on in the future.

- **Driving competition in energy networks**

Ofgem should be the body that runs electricity network competitions with the FSO providing an advisory role. We note that the consultation on Competition in Onshore Electricity Networks⁴ is live and responses to that consultation should be taken into account when considering this aspect of the FSO's new responsibilities.

- **Energy Market Design**

Ancillary service markets should remain a responsibility of the FSO.

We agree that other areas of energy market design remain the responsibility of BEIS/Ofgem although we note that the FSO has a role to play in making swift improvements. For example, reducing the administrative burden for parties competing for contracts would be a quick win and improve participation.

In undertaking this responsibility, the FSO should coordinate between regional and national markets.

We also note that transparency needs to be improved. For example, the Open Networks Project is transparent and Capacity Market modifications (which are required to be published online) have not been published since 2018.

- **Coordination with Distribution Networks**

With all levels on the system being increasingly interlinked, there is a benefit to wider system planning and coordination. There are also administrative benefits such as standardised procurement of products across transmission and distribution. Further, there could be one

⁴ <https://www.gov.uk/government/consultations/competition-in-onshore-electricity-networks>

platform for ancillary products across voltage levels which could be done ahead of formally establishing an FSO through the Open Networks Project.

separating. Clearly the FSO as a central body should have a key say in how the different distributed levels should operate the system, but there are a number of potential models which need to be explored in more detail before any decision can be made.

In order to coordinate whole system planning, the FSO should have a greater leadership role in Open Networks.

- **Heat and transport decarbonisation**

Currently, the ESO does not necessarily have the expertise to fully deal with these subjects and we would wish to see the FSO being equipped with the right skills, capacity and capabilities if it is to engage alongside others in these areas. We agree that they should have an input in regards to grid connections and energy flows. Coordination with DNOs and GDNs will be vital.

In providing whole system planning and advice, consideration should be given to where electrification of heat or hydrogen conversion fits with both networks for whole system optimisation, including reinforcement and repurposing. The FSO is the obvious choice for having a level of responsibility for this role, although the proposals in the consultation lack the detail.

- **Data**

The FSO will need to undertake certain data functions in performing its wider roles managing complex challenges in balancing and planning a low carbon system. The use and provision of transparent and accessible data will be instrumental to the FSO being able to perform its roles.

We agree that EDiT should further consider the roles that the FSO may play in data and digital governance in the energy system. We would welcome responding to this consultation.

- **Future system operability, engineering standards and energy code development**

Some members are of the view that the FSO might not be an appropriate organisation to have Code Administration/Management responsibilities due to a possible conflict of interest. The FSO should advise on code developments. The FSO should concentrate on strategic view of the energy system and leave code management to dedicated impartial Code Managers. The FSO undertaking Code Management will detract from its core service and may result in there being no checks and balances between the FSO deciding how the future system will look, and how industry codes can be altered to facilitate this.

We agree with the consultation that the FSO should provide advice to the code manager function and provide insight on how codes and standards could affect future system operability.

- **Hydrogen and CCUS**

The interactions between CCUS, gas and electricity networks will become more interlinked in the future. The FSO should take responsibility for the strategic whole system planning of the combined network, whilst recognising detailed design sits with the asset owner, networks taking account of the whole system operability, resilience and security of supply.

Chapter 4

Questions in this section relate to

Organisation Design

- The high-level characteristics and detailed attributes which we consider are needed to achieve this, and seeks views on two different organisational models and the extent to which they meet these characteristics and attributes.

Question 13

What are your views on our proposed characteristics and attributes of a future system operator and how the models presented would deliver against them?

Please provide your answer below

We agree with the proposed characteristics and attributes. It is vital that the technical and operational expertise of the FSO are first class and the organisation is resilient. Not ensuring this will result in inefficiencies in its operations and in reaching net zero thereby negatively impacting industry and the end consumer.

It is vital that the FSO is independently minded and able to act without undue influence from short term party politics. With price control funding and incentive regimes, it may be difficult to foster these characteristics.

Are there other characteristics or attribute that we have not yet considered?

[Click here to enter text.](#)

In addition to the characteristics and attributes outlined in the consultation, we believe that transparency should be included, in terms of the data sources it uses and how it arrives at

its recommendations. Once an independent FSO is established, transparency will be key to ensure scrutiny and the reputation of the organisation. Further, the FSO should have a net zero objective, while ensuring a technology neutral stance.

To ensure organisational stability, a method of staff retention during, and post-transition should be encouraged. ESO staff have a wealth of valuable knowledge that has a key part to play in establishing an FSO.

Question 14

Are we considering the right organisation models for the FSO? And why?

Please provide your answer below

We agree the current models in the consultation should be considerations.

This model will be determined by the responsibilities and accountabilities the ESO could adopt as a transitional arrangement ahead of becoming fully separated from National Grid

There are characteristics of public vs private models which require further consideration as outlined below.

Private model considerations:

- There may be possible conflicts of interest that will need to be managed.
- Much of the work for separation has already been undertaken for ESO – existing ESO just needs to be floated from rest of National Grid.
- Ability / timescale to attract suitable buyer may be an issue – including without energy sector involvement
- Capacity of Ofgem to regulate decisions at required pace (especially given they are stretched at present).
- Need to effectively incentivise the drive towards lowest total cost – both real time balancing and strategic planning.
- Need to ensure financial resilience.

Public sector model considerations:

- Incentivisation is less clear in this model. It is difficult to see how/if this would be used to drive organisational performance.
- A new body will need to be set up and existing SO staff will have to be recruited or transferred into the new organisation. However, conversely there will not be a need to find a suitable buyer first.
- The model helps to create clarity of accountability and responsibility between bodies and may be more suited to facilitating a holistic, strategic focus on the policy goals and requirements for the UK's net zero transition.

- There are risks associated with the need to attract and retain technical expertise and talent which would need to be mitigated (for example through exploring models for flexibility in public sector pay frameworks).
- Cost to compensate the existing owner

Under either approach we can anticipate that primary legislation will be required to achieve in practice.

Question 15

Are we considering the right elements for the FSO's regulatory and accountability frameworks? And why?

Please provide your answer below

We agree that the regulatory and accountability frameworks outlined in the consultation should be considered further. At present, the ESO is accountable to Ofgem and the UK Government and a similar structure could be adopted by the FSO. We agree that an SPS is needed to enable the FSO to be able to fully act on the UK Government's policy direction.

We would welcome more clarity from BEIS around how an FSO, that is independent of the regulator, would or could be accountable to Ofgem.

We note that the ESO has a significant administrative burden in reporting to Ofgem. This should be reviewed and streamlined ahead of the formation of the FSO to prevent bureaucracy being baked into the FSO processes.

The route of appeal to the CMA has not been mentioned in the consultation. This is an important aspect of the industry regulatory process and should be maintained. All decisions and recommendations made by the FSO should be appealable to the CMA.

Question 16

Do you have views on the level of shareholding or control involving other 'energy interests' and the FSO at which a conflict of interest would become a concern?

Please provide your answer below

The FSO, as well as high level FSO employees, must remain free of any real or perceived conflicts of interest. Under the Trade and Co-operation Agreement (TCA), parties have an obligation to implement arrangements to remove conflicts arising as a result of the same person exercising control over a TSO and a producer or supplier.

Shareholding and controlling stakes in other energy companies is not a unique issue to the FSO and other structures within the industry can be looked at. For example, GEMA members must declare their level of shareholding.

Question 17

Are we considering the right implications of our proposals for Elexon and Xoserve?

Please provide your answer below

Yes.

Elexon currently operates independently and we see them being able to operate completely free of NGENSO control once the FSO is created. Ultimately it does not matter who is the owner of Elexon provided it remains an 'arms-length' company and the current governance arrangements are maintained.

We do not currently see there being any implications with Xoserve but consideration needs to be given with the proposed sale of National Grid Gas.

There may be implications for Elexon and Xoserve as a result of this workstream and the Energy Codes Reform workstream.

Chapter 5

Questions in this section relate to

Implementation

- A preferred high-level approach for implementation of the FSO with the aim of seeking views on how the FSO can best implemented in practice

Question 18

What is your view on the preferred implementation approach?

Please explain why

The preferred approach retains the solid knowledge base of the ESO as well as being less disruptive. The scale of the FSO is evidently much bigger than the current ESO and a phased introduction is therefore sensible to allow for a smooth transition. This will however mean that the additional roles needed to be on-boarded by the FSO will be delayed. When introducing the new roles, prioritisation should be given to roles seen as quick wins and those most needed to allow the industry to adapt to the future system.

We consider a pragmatic approach whereby the ESO starts adopting responsibilities required of the FSO ahead of the legal unpicking that will allow a formal independent FSO to be established. The sales and administrative process of forming an FSO could take a significant amount of time and resource where valuable work required by the FSO will not be done. This work into net zero and future system operability needs to be started as soon as possible. This pragmatic approach will also allow for valuable expertise to be gained earlier in the process.

Additionally further thought needs to be given to how we integrate wider work streams, such as the OTNR and Open Networks, where the FSO should have more responsibility.

The FSO needs the required authority, skills, capabilities, capacity ahead of new and enhanced roles commencing. Consideration should be given to how this additional expertise will be acquired. This should be factored into the implementation plan as it could take some time bringing these new employees on board and up to speed.

In creating the FSO, the remit of all other parties (i.e. Ofgem, BEIS, HMT, etc.) should be taken into consideration to ensure no gaps or duplication.

Question 19

Based on the areas where we are considering new and enhanced roles and functions for the FSO, which of these should be prioritised for development?

Please explain why

Primary legislation can take a long time to progress and therefore the process to change it should be begun. Further, there will be quick wins that can be taken advantage of to easily bring forward some changes. An exercise to identify these should be undertaken.

The phased approach whereby the ESO adopts responsibilities of the FSO ahead of the FSOs formal creation should take place in earnest. An impact assessment should indicate which responsibilities should be adopted first but we anticipate that functions to be prioritised will focus on consumer benefit as a result of whole system thinking and facilitating the net zero transition. The new responsibilities adopted by the ESO should have minimal (or measures should be taken to reduce) conflict of interest implications.

This transition may take some time and it is therefore important that there is some level of flexibility in the ESO/FSO being able to pick up work depending on the challenges faced by the system. It is important the appropriate skills, resources, capabilities and funding are in place ahead of giving the FSO new, or enhanced, roles and responsibilities.

Question 20

What do you believe are the risks to implementation?

Please provide your answer below

A significant time was needed to create the current ESO. Energy UK has concerns that the number of additional responsibilities the ESO will need to adopt and the removal of the ESO from National Grid Group ownership could take a lot of time and resource. A delay in implementing this whole system thinking will delay cost savings for the consumer and hinder our approach to net zero.

How can these be mitigated?

The need for the FSO is evident and as such, some roles the FSO will adopt should start being adopted by the ESO now. To prevent delays there will need to be an orderly, well thought out transition to the FSO. Retention of key staff will also be a priority as well as the attraction of new skill sets required to undertake the new roles and responsibilities.

To avoid inefficiencies, duplication of roles between the FSO and other National Grid functions should be avoided as much as possible.

Ofgem, BEIS and the FSO will all have an important role to play in reaching the UKs legally binding net-zero objectives. It is vital that all roles and responsibilities are outlined by BEIS and accompanied by a strong Strategic Policy Statement.

Question 21

Do you have any comments on potential implications of implementation for you, your organisation, or other stakeholders?

Please provide your answer below

The industry will need to commit time and resource to this work stream including any future modifications, workshops, consultations.

The changes will have direct impacts on energy companies with the potential for alteration of existing contracts between the ESO and FSO. These contracts may remain unchanged but both parties will need to conduct due diligence.

With such a fundamental change to the sector, there is need for a clear and transparent process so changes are signposted and can be anticipated by industry participants, as well as other sectors that may be affected.

Chapter 6

Questions in this section relate to

Impact assessment

- FSO Impact assessment which is presented alongside this consultation to assess the likely costs, benefits and distributional impacts of the policy options considered

Question 22

What is your view on the position there are likely to be cost savings across the energy system from an increased “whole system” view, as described in paragraphs 50-55 of the IA?

A

Please provide your answer below

Energy UK agrees that the creation of an FSO that is able to undertake roles that relate to whole system planning will result in cost savings for the end consumer.

B

If so, is the potential magnitude of savings illustrated fairly in the IA?

[Click here to enter text.](#)

C

If not, why not?

[Click here to enter text.](#)

Question 23

What is your view on the conclusion that policy intervention is likely to increase the benefits of onshore electricity network competition, as described in paragraphs 53-59 of

the IA? If you agree, is the potential magnitude of savings illustrated fairly in the IA? If not, why not?

A

Please provide your answer below

Energy UK agrees that the competitive appointment of onshore transmission owners may result in a greater competition and therefore cost savings for the end consumer. The creation of an independent FSO would remove any concern regarding real or perceived conflict of interest.

We note that there are two consultations relating to onshore electricity network competition out at present^{5,6} that should be read alongside answers to this consultation question.

B

If not, why not?

We note that competitive tenders could take longer to plan and build than the current process thereby resulting in delayed investment. This would hinder the connection of new generation and technologies that could assist the FSO in better operating the future energy system.

Additionally, it has not been considered that this approach will also result in an increased administrative burden for the FSO and Ofgem. It will need to deal with a growing number of network companies which may prove difficult.

Question 24

Do you think that the impact assessment has identified and considered the key costs and benefits of policy intervention?

A

Yes

No

⁵ <https://www.ofgem.gov.uk/publications/consultation-our-views-early-competition-onshore-electricity-transmission-networks>

⁶ <https://www.gov.uk/government/consultations/competition-in-onshore-electricity-networks>

B

If not, can you provide details on other impacts that have not been considered?

While the IA has considered a number of important considerations, it has not considered the impact on net zero and carbon abatement. We anticipate there will be a net benefit as a result of the changes but there are a number of options and transitional arrangements that will alter the benefit and therefore the IA should take this into consideration.

Question 25

Do you think that the distribution of impacts is fairly represented, with impacted groups correctly identified? Outlined in table 5 of the IA.

A

Yes

No

B

If not, why not?

[Click here to enter text.](#)

Question 26

We invite respondents' views on whether the proposals for energy system governance reform may have a different impact on people who have a protected characteristic (age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (gender) or sexual orientation), in different ways from people who don't have that characteristic.

Please provide any evidence that may be useful to assist with our analysis of policy impacts.

Energy UK does not see any impact or have any evidence to provide at this time.

Do you have any other comments that might aid the consultation process as a whole?

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

[Click here to enter text.](#)

Thank you for your views on this consultation.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply

At BEIS we carry out our research on many different topics and consultations, and your views are valuable to us. Would you be happy for us to contact you again from time to time either for research or about other consultations?

Yes

No