

T: 0300 244 4000
E: scottish.ministers@gov.scot

Rebecca Barnett
Director of Networks
Future Network Regulation Team
OFGEM

Email: FutureNetworkRegulation@ofgem.gov.uk

19 May 2023

Dear Rebecca,

Consultation on frameworks for future systems and network regulation: enabling an energy system for the future.

I am writing on behalf of Scottish Government to set out our views on the consultation on frameworks for future systems and network regulation: enabling an energy system for the future.

The Scottish Government is focused on delivering a Just Transition to Net Zero by 2045. Our draft Energy Strategy prioritises economic, social and environmental wellbeing and will keep Scotland on track to achieve Net Zero by 2045, as well as contribute to the wider GB pathway to Net Zero by 2050. The consultation on the draft Energy Strategy and Just Transition Plan (ESJTP) closed on 9 May and we have commissioned independent analysis of the responses. We are committed to carefully considering all responses prior to publishing the final strategy.

Delivering our shared ambitions will require significant investment in our energy infrastructure.

In this context, I agree with the vision for regulation that is set out in this consultation. We must continue to protect consumers and ensure that vital infrastructure is built as rapidly and efficiently as possible.

The Scottish Government has for many years, called on Ofgem to move to a more agile approach to regulation, ensuring that capacity in our energy system is available when it is required. While we are pleased to see that Ofgem is considering this issue we are concerned that there is insufficient clarity as to the models being proposed and why.

In particular we would encourage Ofgem to consider the following:

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

- **Committing to an achievable timetable for reform:** Regulatory change will take time. Even plans to introduce smaller changes through industry codes can often be subject to intense debate leading to delayed implementation. If Ofgem intends to apply a completely new approach for network regulation ahead of RIIO 3, there is a real risk that network companies could become entrenched in their positions, unwilling to approach reform constructively due to the risk that this will carry for the business in the short term. The uncertainty created may also reduce any incentive for TOs and GDNs to take forward early engagement with stakeholders – an activity that has led to much higher quality business plans in the RIIO T2 period.
- **Providing an overarching strategy for regulatory change:** Ofgem acknowledges from the start of this consultation that there are several changes in motion that all have some degree of overlap. For example, decisions taken through the Review of Electricity Market Arrangements (REMA) could have a significant impact on the extent to which we rely on electricity infrastructure in our net zero transition. Likewise the approach to Regional System Planners will have a significant bearing on the role and responsibilities of DNO's in future price control settlements. Scottish Government's letter in response to the consultation is attached in Annex A.

At the same time we are aware that National Grid is undertaking a significant package of reform to address the challenge of connections. Many of these reforms are tackling the same problems and there is a real risk that taking everything forward at once (while this appeals to the sense of urgency) could simply result in competing priorities with the unintended consequence of delay and increased risk.

- **Supporting the long-term development of the Future System Operator.** The decision to create an independent system operator through the FSO is a welcome one. It is essential that in planning the net zero energy system we are able to coordinate effectively across the whole energy system (electricity, gas and hydrogen) ensuring that the outputs support delivery of both national, local and community objectives.

While necessary, this change will not be without complications. The role of the FSO in theory will be different from what it can initially deliver in practice and this will be further complicated by expanding the scope of an organisation that has traditionally focussed on electricity.

To that end, it is important to acknowledge that the FSO does not yet exist, and there is some concern with the broad range of issues that it will be expected to pick up from day one.

Overall we are concerned that consultation provides no evidence-based analysis showing why the current regulatory framework will not be suited for future development.

While we recognise there is need to evolve regulation, this needs to be done in an achievable and measured way. We therefore encourage Ofgem to develop a wider evidence-based approach to support such reforms, encompassing all energy systems and regulatory areas together. We believe that to ensure consumers are protected Ofgem must take a longer-term view by analysing evidence and introducing frameworks and processes which are future proofed, fit for purpose, provide value to consumers, instil certainty and confidence from investors.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

INVESTORS IN PEOPLE
 We invest in people Silver



I would welcome the opportunity to discuss our concerns with you at your earliest convenience.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gillian Martin', with a stylized, flowing script.

Gillian Martin

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

INVESTORS IN PEOPLE™
We invest in people Silver

