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Sent by email to: [FSO@ofgem.gov.uk](mailto:FSO@ofgem.gov.uk)

Dear FSO Transition team

### **ENWL response to consultation on 'Funding the transition to a Future System Operator'**

We welcome the opportunity to respond to the recent consultation on regulatory treatment of funding for the FSO transition costs. ENWL are the Distribution Network Operator for the service area that serves 2.4 million customers in urban Manchester, Lancashire and rural Cumbria to the Scottish Border through our grid supply points and expect to have a number of key touch-points with the FSO, as such we share our views relevant to this recent consultation and looking more widely at the overall establishment of the FSO.

#### **Timing of establishment of FSO**

We agree with the Ofgem position that it is in consumers interest for the FSO to be introduced at the earliest sensible opportunity however equally recognise the complexity involved in establishing the FSO. The uncertainty over when the FSO will be established and when 'day one' and 'day two' will be adds to the complexity of the project, and reduces the ability of stakeholders such as ourselves to provide specific feedback on proposals.

We look to Ofgem and Government to provide regular updates to industry on the progress of the under-pinning legislation and how this will impact 'day one'. We note the consultation states the aspiration of the FSO being operational in 2024 however the precise meaning of this needs further definition. We are unclear whether the wording of 'the FSO to become operational in 2024' is the same as 'day one'. Clarity on this point is essential.

#### **Future System Operator roles must be clear and well defined**

Care should be taken to ensure that the FSO roles and functions are carefully created and positioned in respect of other reforms being consulted upon in parallel<sup>1</sup> as there are live policy questions on the FSO establishment and roles that are yet to be decided upon. Many of the proposed reforms point to expanded or new roles for the FSO, over and above what was anticipated in the decision of the establishment of the FSO. It is important that radical regulatory changes beyond those needed and justified are avoided. Any force fitting principle-based changes from the electricity transmission sector to electricity distribution must be avoided.

<sup>1</sup> For example; code reform, future of local energy institutions and governance



Utilising existing capabilities and maintaining the principle that responsibility should sit with those who have the core capability is important to ensure a timely transition to FSO with a focus on activities where benefits to the sector as a whole and consumers are to be realised.

An expansion of existing, or introduction of new roles for the FSO require the appropriate upskilling, resourcing and bedding in of new people and skills to an organisation, who will already be going through a period of unprecedented change. The organisational reform in itself brings an inherent risk and needs to be very carefully managed to avoid consumer detriment at a time where stability is much needed. Care needs to be taken to ensure the FSO is not 'set up to fail' with an overload of new and expanded roles and unrealistic expectations. As such we welcome the clarity on what day one and day two are to entail, and the substantial programme management being established to ensure delivery.

#### **Current consultation on Strategic Policy Statement**

DESNZ have an open consultation on the draft Strategic Policy Statement (SPS) for Energy Policy in GB which is expected to apply to the FSO as it will to Ofgem. We note that the SPS reflects the expectations for an FSO as published to date however should the FSO substantially change in development we consider that this would trigger the need for the SPS to be reviewed and changed as required.

#### **Funding Proposals**

The complexity of establishing an FSO comes with significant cost as is demonstrated by the ranges shared in the consultation.

We agree with the principle set by Ofgem that companies should be able to recover the efficient costs associated with this creation of the FSO as these costs would not otherwise have been incurred.

The funding proposals presented by Ofgem appear appropriate and we have no comment on the costs themselves at this point, recognising there are still a number of uncertainties.

#### **Transparency is key**

Transparency throughout the journey to an FSO being established is key, both for ourselves as a key industry participant, but also for wider stakeholders and consumers. As such, we welcome the reporting framework being proposed, and would add that this should be accessible to all and progress against key milestones should be clear. We do question whether there is a clear need for monthly reporting adding unnecessary regulatory burden to the ESO at this point and therefore additional cost to customers and whether a lesser frequency could be more appropriate.

We note the proposed use of DIWE (demonstrably inefficient and wasteful expenditure). Any use of this mechanism should be accompanied by very clear and transparent rules and assessment criteria.

The consultation shows the costs of ESO one off costs, NG one off costs and NGT one off costs, all in a mix of different price bases, and we can see nowhere in the consultation where these are presented consistently. We would encourage that future publications show all costs in a consistent format.

There are a number of further consultations and decision points which are signalled in this consultation with key elements out of scope, such as commercial activities/acquisition costs and long-term funding proposals. We encourage Ofgem and DESNZ to lay out a clear roadmap on all related future consultations and decision points to support transparency.

Should you wish to discuss any parts of our response, please do not hesitate to contact me.

Yours sincerely

**Paul Auckland**  
**Head of Economic Regulation**