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

Dear Fiona,

## **Future of local energy institutions and governance**

Thank you for the opportunity to respond to the above Call for Input. This is a non-confidential response on behalf of the Centrica Group.

### **Energy system planning and market facilitation of flexible resources:**

In principle, we support the proposals relating to energy system planning and market facilitation of flexible resources. Introducing regional system planners (RSPs) can lead to better coordinated network planning and, by extension, an increase in the pace at which the network capacity needed to facilitate the legally binding Net Zero targets being achieved is delivered.

Introducing the market facilitator role should reduce 'friction' for market participants that choose to operate in multiple markets and streamline market operation. The proposals represent a reallocation of activities from the Open Networks programme (led by the Energy Networks Association) and in those areas in which the programme has made some progress. This means the Ofgem and the Government will still need to provide direction in the areas in which the programme is yet to make satisfactory progress, such as how conflicts of interest between distribution system operators (DSOs) and distribution network operators (DNOs) should be appropriately managed. It is also necessary for Ofgem to consider whether the operators of Market enabling infrastructure and platforms should be licensed/regulated given the integral role in the operation of flexibility markets.

### **Real time operations:**

It may be appropriate for DNOs to retain responsibility for real time operations but only if additional mitigations relating to conflicts of interest are implemented. The RSPs being involved in system planning could reduce concerns about conflicts of interest in the deployment of flexibility over traditional asset solutions. However, the proposals do not mitigate concerns about conflicts of interest relating to the deployment of flexibility procured from commercial service providers compared to 'network flexibility' (e.g. active network management). Among other things, the proposals need to address the transparency of the 'merit' order for 'network flexibility' and

flexibility procured from commercial service providers and monitoring of the real-time application of primacy rules.

**Implementation:**

The proposals require significant development before they can be implemented. As an example, for the RSPs, careful consideration needs to be given to how outputs can be defined, how performance can be measured and how performance improvements can be encouraged. Clear responsibilities and accountabilities between the 'interacting organisations' need to be defined. Obligations on other 'interacting organisations' to use and comply with the outputs of the RSPs and the market facilitator (e.g. standardised flexibility product design) will also need to be defined.

We encourage Ofgem to confirm its decision quickly so that the new arrangements can be implemented as soon as possible. It is also necessary for Ofgem to consider how existing initiatives (e.g. development of flexibility platforms) can continue to be progressed at pace while the enduring arrangements are being developed.

We provide answers to some of the consultation questions in the attached appendix. We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Gregory Edwards  
Network Regulation Manager  
**Centrica Regulatory Affairs & Policy**

## Appendix: Responses to questions

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### **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 agree with the proposal to introduce Regional System Planners (RSPs). Introducing RSPs can lead to better coordinated network planning and, by extension, an increase in the pace at which the network capacity needed to facilitate the legally binding Net Zero targets being achieved is delivered.

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

In principle, we agree with the high-level design choice considerations described in the consultation, such as the entity undertaking regional system planning being regulated. The design choice considerations have not yet been sufficiently detailed to allow us to assess whether they are likely to lead to better coordinated system planning. For example, the way(s) in which the RSPs can be made and held accountable for delivery and how their decisions can be challenged have not yet been proposed.

We recognise that the detailed design considerations for the RSPs overlap with those for the FSO e.g. how outputs can be defined, how performance can be measured and how performance improvements can be encouraged. It is therefore necessary that the design of the arrangements for the FSO explicitly address the regulation of the RSPs.

### **Q4. Do you agree that the FSO has the characteristics to deliver the RSPs role? If not, what alternative entities would be suitable?**

The FSO is a suitable entity to deliver the RSPs role. However, the ESO (which will be subsumed into the FSO) does not yet possess all the characteristics discussed in the consultation. For example, the ESO has not been required to undertake extensive system planning at the distribution level or across vectors. Also, the ESO has not been required to use inputs from interacting organisations such as local authorities to develop whole system plans. The capabilities can be developed with the support of the incumbent network operators.

### **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 expert entity should take on a central market facilitation role. Standardising market arrangements should reduce 'friction' for market participants that choose to operate in multiple markets.

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

The proposed allocation of roles and responsibilities is a reasonable starting point. We consider the proposals to be a reallocation of activities from the Open Networks programme (led by the Energy Networks Association) to the market facilitator in areas in which the programme has already made some progress.

The proposals do not adequately address the areas in which the Open Networks programme has required guidance from Ofgem and the Government in order to make progress, such as how conflicts of interest can be sufficiently mitigated. Guidance from Ofgem and the Government is still required.

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

The activities listed in Table 2 do not include dispute resolution or market monitoring to ensure flexibility markets are operating effectively. We recommend that these activities are undertaken by the market facilitator.

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

The FSO is a potentially suitable entity to undertake the market facilitator role. The ESO (which will be subsumed into the FSO) has experience of undertaking the roles that are proposed to be allocated to the market facilitator such as product development.

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

In our response to the Call for Input, we explained why DNOs retaining responsibility for real time operations could not sufficiently mitigate concerns about conflicts of interest. We accept that RSPs being involved in system planning could reduce concerns about conflicts of interest in the deployment of flexibility over traditional asset solutions. However, the proposals do not mitigate concerns about conflicts of interest relating to the deployment of flexibility procured from commercial service providers compared to 'network flexibility' (e.g. active network management). Among other things, the proposals do not address:

- transparency of the 'merit' order for 'network flexibility' and flexibility procured from commercial service providers;
- monitoring of the real-time application of primacy rules; and
- auditing compliance with the primacy rules.

These issues need to be addressed if DNOs are to retain responsibility for real time operations. Also, we recommend that DNOs should not be permitted to own market enabling infrastructure and platforms.