

By e-mail to: flexibility@ofgem.gov.uk

Ofgem Consultation: Future of Local Energy Institutions and Governance

Ofgem
10 South Colonnade
Canary Wharf
London
E14

10th May 2023

Dear Ofgem

Ofgem Consultation: Future of Local Energy Institutions and Governance – Capgemini Invent response

Capgemini Invent welcomes the opportunity to share our views on Ofgem's consultation regarding the 'Future of Local Energy Institutions and Governance'.

Capgemini Invent is the consulting, innovation, and digital business of Capgemini. We are Europe's largest supplier of systems and technology services to the Energy and Utilities Sector. HFS Research have placed us second globally in their list of business and technology service providers to utilities. Every year we publish the World Energy Markets Observatory (WEMO)¹, the 24th Edition of this was published in October 2022. The report consists of 600 pages of detailed analysis and insights on the world energy trends.

Our response to the consultation draws heavily from insights and energy market expertise gained in our work across UK market functions in both gas and electricity. Our experience covers a wide range of services relevant to the consultation, including support to numerous energy network and central market clients in business and technology transformations, leading regulatory submissions across both gas and electricity, and contributing to operating model and governance changes at the organisational and industry level. We also provide wider services that cover net zero consumer strategy, development of new market services, smart metering implementation, consolidation, harmonisation and digitalisation of retail market codes and wholesale markets.

Furthermore, in 2022 we established the Energy Markets 2030+ working group, which involved collaborating with senior cross-industry representatives over a 10-month period to define the future energy system. This has produced a compelling vision for the future that is based on a broad consensus of how the energy system should work.

In responding to the questions outlined in the consultation, we have provided key observations and recommendations:

- Capgemini Invent is convinced that the planning, and management of local energy systems will play a significant role in contributing towards energy transition. The future energy landscape will vary substantially between regions, with variations being driven by the economic, social, political, technical and geographical layout of each area.
- The energy transition will fundamentally change how we approach planning and development of future systems and how consumers engage with them. As such, the current framework should be reviewed and adapted to ensure it is appropriately set-up to enable the energy transition and contribute towards future operations.
- We support Ofgem's vision to introduce Regional System Planners (RSP), Market Facilitators and Real-Time Operators as distinct energy system functions, to provide a robust framework and drive the necessary change for energy systems at the local level, aligning them to the overall energy transition strategy at the national level.
- However, it is imperative that these functions are given clear accountabilities and equipped with the necessary level of authority to action change. Failure to do so will just result in the introduction of another set of functions that do not have the ability to deliver any meaningful results. The potential cost and effort required to implement these functions into an already complex ecosystem would also exacerbate the situation if no significant results were realised due to an overall lack of authority.

It is essential that the review considers the whole energy system and is not assessed in isolation to other reviews undertaken (e.g., REMA etc.). The energy system is fundamentally linked, and therefore the full flow of energy, money, data and agreements must be taken into consideration. This will help ensure that outputs meet the intended purpose and do not incur transitional 'debt' and result in unnecessary future reworking.

¹ [Capgemini \(2022\), World Energy Markets Observatory Report 2022](#)

We are concerned that the proposal does not fully encapsulate the whole system approach and believe it requires further refinement to capture cross dependencies from related sectors, such as transport and industry, to create a robust and effective framework. The proposal must take into account all uses of energy and not be restricted to the design of the electricity network only.

Emphasis also needs to be put towards ensuring that each of the three new functions (RSP, Market Facilitator and Real-Time Operator) are equipped with the necessary capabilities to carry out their roles effectively. We are acutely aware of the difficulties actors in the energy sector already face to secure resources with the right capabilities and these changes will be no different. To mitigate this challenge, we would encourage sharing and cooperation between RSPs, to develop a cohesive system which empowers them, where appropriate, to contribute to the overall process.

Turning to each of the three roles in turn, we have summarised our views as follows:

Regional System Planner – further consideration is required on how the RSP role will work.

We have identified some high-level strengths and weaknesses associated with the two primary options:

- **Future System Operator (FSO)** – if the FSO were to fulfil RSP roles, this would provide the lowest risk when considering national/regional interoperability issues and may allow for leveraging of existing capabilities which are currently being utilised for the transmission network. Furthermore, removing the RSP role from political cycles should allow for more consistent, long-term planning. However, there is a significant risk that a central body would not be able to design a system that meets a diverse set of local requirements.
- **Elected Local Officials** – if elected local officials were to fulfil RSP roles, this would maintain local control of the energy system plan, ensuring regional ownership and accountability. This would likely serve as the option allowing for the highest consumer impact, as consumer interfaces with local governing bodies are well established. However, electoral 'churn' may restrict long-term planning options and decision-making lines may become complex, as regions are further fragmented through governing areas.

Ultimately, many actors such as FSO, Elected Local Officials, Distribution Network Operators (DNO), will need to collaborate to deliver an effective regional system plan. To make this possible, a clear definition of the decision-making authority between the various roles will be a critical element in creating a successful local energy governance model. Failure to accurately define accountability and authority will result in implementation paralysis and an inability to enact meaningful change.

The link between local planning and how this feeds into the overall national strategy also needs to be assessed to ensure all areas are moving in the same direction. Consistency across the different regions will be pivotal and we need to avoid the potential for silos being formed as part of this proposed framework.

Balancing these factors, we prefer a local-coordinated approach where the RSP should set the principles for regional plans but allow local actors (DNOs, Local Authorities etc.) to create detailed local plans within regions. The RSP would consolidate these plans, assure them with a whole system lens and cascade feedback through its RSP arms to ensure the bottom-up view links to the top-down view.

Market Facilitator – we are in broad agreement with the proposal to introduce a single market facilitator:

This will ensure there is consistency across the sector, making the market more attractive to participants, reducing barriers to entry, both of which should reduce consumer costs.

However, we do not agree with the breakdown of roles and responsibilities between the Market Facilitator, 'market enabling infrastructure & platforms' and DNOs that you have laid out.

In summary, we believe the Market Facilitator should be responsible for overall market design and oversight, and pre-qualification of providers and DNOs should be responsible for service procurement, with pre-qualification and service procurement being enabled by 'market enabling infrastructure & platforms'.

Real-time Operations – we are also in agreement with the proposal for DNOs to continue to be responsible for real-time operations, but this cannot be seen as continuing with the status quo.

The DNOs must be able to deliver on their plans towards the digitalisation of their operations, adopting Smart Grid approaches.

They need to adopt open data sharing principles across the sector to promote industry innovation and provide value to the consumers.

They should follow National Grid ESOs lead in establishing innovative demand and supply side services to manage a net zero power system, such as demand-side response, vehicle-to-grid services and 'virtual power plant' systems to use distributed & consumer energy resources as dispatchable resources.

As you progress this review of 'Local Energy Institutions and Governance', we encourage you to consider the follow design principles:

- Local energy system governance must be designed for the future energy market
- Do not pander to existing players and vested interests when defining the future model
- Ensure there is an active market before anything is built to avoid unnecessary effort and expenditure (i.e., white elephants)
- Ensure that the whole energy system is understood and considered
- Take consumers along the journey as they are at the heart of the future energy model, and it is imprudent to assume change will be realised solely through implementation of a new framework

We have outlined these considerations in more detail in 'Appendix 1' and welcome you to review our thoughts and opinions on this topic. I hope you find these insights and suggestions helpful and if you would like to discuss any areas of our response, please do not hesitate to contact Katka Nguyenova², Michael Taylor³, Tom Carr⁴ and/or Ranbir Singh⁵.

Yours sincerely,

Peter King
Vice President, Global Head of Energy and Utilities
Peter.King@capgemini.com

List of enclosures:

Appendix 1 – Executive Summary

Appendix 2 – Response to Consultation: Future of Local Energy Institutions and Governance

² Katka.Nguyenova@capgemini.com

³ Michael.Taylor@capgemini.com

⁴ Tom.Carr@capgemini.com

⁵ Ranbir.B.Singh@capgemini.com

Appendix 1 – Executive Summary

Local system planning and management will form a critical part in maintaining a safe, reliable, and secure infrastructure as we transition into the future energy system. Upgrading and developing energy networks is the pace setter for energy transition. However, the unfortunate lack of progress at both a regional and national level is quickly being recognised by the wider industry as a significant risk to the shared net zero goals. As such, we welcome Ofgem raising the review into the 'Future of Local Energy Institutions and Governance' and the stated goals for increasing the pace of regional network development.

In addition to responding to the questions outlined in the open letter, we have provided observations and recommendations within this executive summary which is broken into the following key considerations:

- Whole System Approach
- Decision-Making Authority
- Consumer Engagement
- Planning Penetration
- Capabilities
- Market Demand
- Digital Infrastructure & Interoperability

Whole System Approach

We were extremely encouraged with the emphasis that the consultation put towards local system planning and management being fully integrated as part of the whole system. However, we believe there is still a risk that defining local arrangements independently from the macro-system can result in complications around the roles, accountability, and interoperability.

This will particularly apply to the Market Facilitation functions, as there will need to be cohesive interlinking with the whole system to ensure arrangements are complementary. Failure to do so and progressing regional system design frameworks independently, may result in downstream conflict with macro-system arrangements.

Given the overlap of the regional to national system, we agree with Ofgem that the FSO is able to fulfil the Market Facilitation function to provide clear accountability and a central architect function due to its market design capabilities, which are currently used on the transmission network.

However, we believe that further thought is needed on how the RSP role will work and how whole system factors are taken into consideration. We have outlined a couple of key points for consideration below:

- Allocating the RSP to a central body would avoid splitting roles across multiple parties and reduce the complexity of decision-making in a multi-stakeholder environment which will already be challenging. However, optimising regional system planning from a central perspective would be a mammoth task and would still be reliant on interactions with existing local governance organisations
- Assigning the RSP role to be an extension of elected officials/groups would allow for better integration with the end consumer and will ensure that wider regional requirements from other sectors, such as transportation, are taken into consideration. However, there would be an intrinsic risk to plan stability due to the overreliance in bodies that are tied to election cycles, which may also inhibit the pace of change. Furthermore, should this model be adopted, there would still need to be a well understood interface with the FSO, to ensure macro system interoperability

Ultimately, a model needs to be adopted which results in the development of an energy system which best suits the needs of the local inhabitants, whilst adhering to national system standards and design principles that promote interoperability. We believe the review should separate the overall problem into key areas (e.g., demand side, supply side, investment, network capacity, network balancing, commercial markets etc.) and evaluate the benefits and shortcomings of each proposal against these areas.

Regardless of the set-up, the hand-off between the proposed roles will require further consideration to ensure they are clearly outlined and well understood across all the relevant parties. For example, the responsibility for performance management of flexibility services is currently unclear, and the extent of Distribution Network/System Operators (DNO/DSO) involvement in system planning and facilitation of the market is yet to be determined, including the application of local variations and the options available to them.

The potential for conflicts of interest should also be taken into consideration, notably when incentivising behaviour through regulated targets (e.g., DNOs incentivised to build more networks etc.). Furthermore, there needs to be a greater emphasis on how network participants are encouraged to work collaboratively, particularly between planning and operations.

This does strengthen the case for embedding oversight to a central party, such as the FSO, who can provide an objective and independent perspective.

However, the success of this arrangement will be heavily dependent on the FSOs ability/authority to challenge DNOs, DSOs and Gas Distribution Networks (GDN) on their plans from a whole system perspective (i.e., bottom-up and top-down). The close collaboration between planning and operations, regardless of which actor owns the mandate, will remain critical.

Decision-Making Authority

We recognise the importance of the role that local stakeholders such as local authorities, network asset owners and real-time operators, could play in the overall process. This could either be in providing input and support towards RSP activities, or taking on the role of the RSP itself, to ultimately ensure that regional systems are inclusive and meet the requirements of its inhabitants. However, there is a risk that this complex stakeholder landscape will result in an unclear decision-making and authorisation process and inevitably lead to plan implementation paralysis. Therefore, we believe this approach can only be successful if it is implemented in conjunction with an overhaul of the planning rules.

Failure to establish clear lines of authority and decision-making capabilities for the RSP could jeopardise its ability to operate in a flexible, agile manner and its ability to enact meaningful improvements to the quality and pace of local network development. The potential for political back-and-forth whilst engaging with local authorities could stifle the process and inhibit the design and implementation of any significant changes.

Therefore, we believe it is essential that further consideration is given to the decision-making process for regional system planning. If this is not clear and well understood, there is a risk that natural biases become the predominant driving force behind the plan direction.

As such, we suggest that the review aims to produce a set of revised planning rules, which follow principles that drive decisions which:

- Promote system resilience and do not compromise local, or national system stability
- Are made based on the lowest future consumer cost, not lowest implementation costs
- Are made by consensus and but not necessarily unanimous
- Enable decarbonisation and support the national net zero strategy
- Recognise wider regional planning considerations, such as residential, utilities and transportation
- Consider the long term national and regional system strategic direction
- Are based on optimum consumer outcomes

The whole system approach and defining clear lines of authority also apply to the Market Facilitation role. Whilst local markets will need to reflect and cater towards local system needs, the market mechanisms themselves should be designed consistently to simplify engagement for flexibility providers. Market fragmentation would introduce complexity that further increases barriers to entry, where market participants require many permutations of procurement rules for similar products.

Consumer Engagement

Change in consumer behaviour is imperative to the energy transition, yet there is a lack of clarity on who is accountable for driving this change. We believe an actor needs to be appointed to develop and drive a consumer strategy, and amongst other responsibilities, ensure that disbenefits are not created for vulnerable consumers. This could be an extension of the RSP or Market Facilitator role as consumer engagement will be critical to ensuring the expansion in capacity of distributed and consumer energy resources occurs, which impacts whether a regional system plan can be implemented and the effectiveness of distribution sector markets.

To ensure that the regional system is designed with consumer interests at its heart, engagement channels must be well defined. Change can often be difficult to introduce and hence it is necessary to develop a clear understanding of consumer needs across the different segments.

As mentioned, we believe that utilising existing engagement channels between consumers and regional governmental organisations (e.g., Scottish Government, London Authority, Manchester Mayor, Welsh Assembly etc.) would be the most effective method and be superior to engagement channels between consumers and network owners. This would be most easily harnessed should RSPs become an extension of local government bodies. However, this will need to be managed against interests of the whole system, to ensure 'not in my back garden' movements do not compromise system design and result in wider consumer cost burdens.

Planning Penetration

The consultation report did not include specific details on the expected planning penetration, or depth of planning scope within the regional system. Whilst we recognise that this is likely further detail than is yet to be considered, we believe that a clear understanding of the granularity that the RSPs are expected to operate at will be necessary in ensuring effective operation.

Whilst the interface and trade-off with transmission planning may be more clearly understood, it will also be critical to gauge the demand-side interface. The methods in which consumers utilise and interact with energy are fundamentally changing the requirements of the energy network. It will be for the RSP to work alongside Real-Time Operators to ascertain at which level the system monitoring infrastructure is required, such that it can design a suitable and flexible network.

Capabilities

To achieve the desired outcomes of the proposed roles, it is necessary to ensure that they have the correct capabilities to deliver operational effectiveness. In our experience of assisting clients in building new capabilities across all sectors, we know it can take significant time and focused effort. As such, this period of 'upskilling' needs to be reflected during the implementation stage.

The Market Facilitator role will require capabilities similar to those that the ESO has been performing at the national level. This strengthens the case that the FSO would be best positioned to deliver the Market Facilitator role moving forward, as it will minimise the impact for time required in building up the necessary capabilities.

Real-Time Operators need to have the capabilities to manage their networks in an efficient and reliable manner and this needs to be accompanied by a clear, transparent decision-making process that provides credibility and exudes confidence across the rest of the industry, regarding their overall strategy and approach. We agree that Real-Time Operators need to have the capabilities to be adaptable and versatile to manage the everchanging requirements of the energy system which comes with the installation of distributed energy resources,

It is imperative for Real-Time Operator to successfully adjust the operation of their network, ensuring safety and security of supply, at an affordable consumer cost and with the lowest carbon intensity. On this note, although we are certain that all effort will be made to limit the impact of cost on consumers, the energy transition will require significant up-front cost. Therefore, consideration must be given to the methods in which this is communicated to consumers (i.e., communication channels, responsibility of communications etc.) to manage expectations and ensure long-term buy-in to the transition.

Furthermore, the energy transition will result in shifting supply and demand-side behaviours, which will change the nature of the network. Real-Time Operators will need to effectively segment and forecast demand, taking account of price sensitivity and consumer behaviour. They will need to be able to model how new assets draw and provide electricity to the grid, such as electric vehicles (EV) and home batteries. They will also need to adapt accordingly, while maintaining high performance levels and increasing collaboration across the boundaries of their network, with other DNOs and the ESO.

We believe that DNOs are already established and well positioned to carry out the Real-Time Operator role and as such, there is no need to 'reinvent the wheel' which could become a very time consuming and expensive exercise with limited benefits. However, it should be recognised that the core capabilities of the DNOs will need improve to meet the additional operational requirements. This should be viewed as an opportunity for DNOs to transform their real time operational activities, to become digitalised, data-driven, adaptable and interoperable with other actors in the sector.

Furthermore, for RSPs to operate effectively, there will need to be a balance between understanding the national system requirements, as well as having the necessary local knowledge to ensure regional energy system design results in a secure and flexible network. This will likely require input from a range of stakeholders in addition to the network asset owners, across a wide set of disciplines and experts. This will be particularly important as effective regional system design will need to consider additional factors such as climatic and geospatial aspects, cross-vector operability, current and future consumer/industry needs, in addition to the current network design and regional/HV interconnectors.

It is likely that the capability pool of network regional system experts will be limited to those working at the incumbent distribution companies. As such, there is a risk that, should a central model be adopted for the RSP function, it could strip capabilities out of the distribution companies, resulting in dilution of capabilities and impacting their day-to-day activities.

When adopting a central party as the RSP, there is also a potential risk of creating a top-heavy model where integration of the RSP leads to additional responsibility in various parts of the process, resulting in a slow moving 'behemoth' to pursue national level impact. However, this could likely be to the detriment of adaptability at the local level where it is unable to operate effectively.

Therefore, we believe that further consideration needs to be made to how the RSP leverages existing capabilities within the DNOs/GDNs. This could be achieved through empowering network owners to drive the day-to-day activities and deliver/implement changes at the local level, providing they are aligned to the plan owned by the RSP. This will ensure that some responsibility remains with the DNOs which reduces the potential for capabilities being syphoned into the RSP and creating a top-heavy model.

An alternative approach could be for the locally managed RSPs to determine how best to deliver the outcomes it needs. For example, if the local DNO demonstrates the appropriate capabilities, then they will be utilised, otherwise services will be offered to new entrants.

Market Demand

We believe it is necessary to ensure that the market demand is present before moving too far ahead with the development and implementation of changes. Evaluating the market demand will provide clarity on the extent of change that is required and where it should be focused. This will also be an essential part of providing appropriate market signalling and acquiring the required investment needed.

Digital Infrastructure & Interoperability

The consultation report outlines that delivery of data standards for product, asset and market data will be the responsibility of the Market Facilitator. We do not believe that the definition of digital and data standards for local markets are fully defined and there is currently a lack of clarity on the digital requirements for coordinating the local markets.

Maintaining operability and standardisation across local and national systems will be a critical aspect of ensuring stability and effectiveness of the future energy system. Market participants will require a consistent user experience and qualification processes across all local markets. As such, it will be essential to define digital and data standards from the outset, potentially across both local and national systems depending on final requirements, to mitigate the risk of divergence and interoperability issues.

Summary

Overall, we believe that the approach for the future local energy institutions and governance framework proposed within the consultation document can deliver the stated outcomes, providing the risks raised in our response are taken into consideration.

Critically, providing additional clarification on how the new roles will interact, their remit, who will be responsible for the holistic oversight and how this will all be coordinated, are the key factors. In our opinion, it is likely that this role will need to be fulfilled by the FSO.

Appendix 2: Response to Consultation: Future of Local Energy Institutions and Governance

Proposed Governance Reform: Energy System Planning

- ***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 that there needs to be greater consideration in how regional systems are planned and how those plans are implemented. However, we do not believe that the proposed RSP will be successful in its current form and that further consideration is required to ensure regional improvements are delivered effectively.

In our opinion, further consideration is required on how the RSP will drive regional investment, as without being able to secure funding for regional projects (from local or national government, or private investment), there is the risk that the entire proposal collapses with respect to providing significant improvements. Therefore, the role needs to provide clarity to investors and market participants on what assets are required and where they are to be located. These decisions should result in long term investments as they accurately anticipate future requirements (i.e., strategic investment).

It is unlikely that this will be achieved through simply introducing the RSP role and will likely depend on how the sector is centrally regulated. This may involve situations where it is necessary to accept some of the risk associated with an investment, to provide funding based on good assumptions and to circumvent competition where needed, to ensure change can be delivered at pace.

This has already occurred recently with the Accelerated Strategic Transmission Investment (ASTI) framework approvals on the transmission network, and we believe this bold and creative approach should continue, so that the energy system can be designed and built at the pace needed for wider decarbonisation. We must move away from lagging investments that have been delivered historically and are still being delivered today.

We also believe that clear accountability and sufficient authority are two critical success factors required for this proposal to deliver the desired outcomes. A lack of decision-making power will ultimately result in the introduction of another entity, into an already complex ecosystem, which will be constrained from making any significant improvements.

Authority will need to be combined with accountability as without this, there is a risk of creating confusion and losing sight of who the key actors are throughout the process. Roles and responsibilities need to be well understood to provide clarity regarding ownership of deliverables and ensure operational efficiency.

Questions such as, who will have the final say in deciding whether a new power station is built, or how changes to infrastructure are to be prioritised, will need to be considered when determining the future vision. These will have to be made based on the impact it will have on either the energy system path to a net zero economy or the impact it has on our societies, such as the beneficiaries of the net zero economy.

It must also be recognised that if change is to be delivered at pace, the process cannot rely on a fully consensus approach. Attempting to appease all actors will result in a very slow and arduous process. Therefore, trade-offs will have to be made which will need to be backed-up by clear decision makers who are assigned for different scenarios. Information may also need to be provided to steer conversations towards certain participants who should be consulted when making these decisions

- ***What are your views on the detailed design choice considerations described?***

Whilst we are in sympathy with the detailed design choice considerations and deem them to provide a sensible foundation to build upon for a future framework, we believe there are additional aspects to take into consideration.

We have already expressed our belief that accountability is a major factor that needs to be considered and therefore, are pleased that this view is also shared by Ofgem. However, we are not convinced that the interactions with local governing institutions are well defined, which could diminish the potential of maximising regionalisation of the energy systems.

We recognise that there will need to be integration with the national system operator, to ensure that macro system design principles filter down to each region.

However, we have raised concerns that enforcing regional system design centrally may limit its ability to truly deliver optimised regional outcomes. The implementation of a future framework should not diminish the importance and involvement of local actors.

There are a number of positives associated with introducing an independent actor within a region which can look across multiple vectors to develop a whole system plan. Maintaining independence would mitigate the impact from vested interests of industry participants but also from party agendas and short-term objectives, such as elections. Furthermore, an independent actor would allow for an end-to-end view of the energy system when creating a whole system plan. However, this could come at a cost of delivering towards the true needs of the local population and ensuring the regional plan recognises cross sector needs and results in an optimal system.

We recognise the importance of maintaining consistency across all RSPs to ensure effective implementation and operational efficiency. Disparities between practices across the different regions could result in conflict and will ultimately undermine how the setup is viewed. Therefore, we are in support of having a regulatory/governance framework for this role, regardless of whether it is a monopoly position, or locally devolved. The approach of having a single entity across Great Britain that delivers change via multiple branches could be implemented, but this will again need to be regulated/governed to ensure there is no conflict or misalignment across the different branches (i.e., across different the RSPs).

We agree that sufficient expertise to model future supply and demand, as well as understanding the impact of such growth on the network, will be needed to identify system requirements. We believe that this is where the point raised about RSPs collaborating with local actors will provide significant value and ensure that the required expertise is leveraged and utilised accordingly.

Finally, mention is also made towards the RSP having advanced data processes, including owning data standards, ensuring access permissions and achieving consistent digitalisation. This is a key and complex area, and we are concerned it might lead to a convoluted set-up with multiple data standards, across various parties, with a lack of overall consistency.

We are more in favour of the energy data taskforce approach to having data principles and governance set for the sector as a whole, rather than the RSP setting standards for planning, Market Facilitator setting standards for markets data etc.

We are also concerned that if the FSO is to indeed become the RSP, it may lack the necessary maturity/capability in data governance and management to be able to set these data standards effectively. This would be an area where capability build would need to be prioritised.

- ***Do you have views on the appropriate regional boundaries for the RSPs?***

We believe that regional boundaries should be based on future energy sector needs, whether these are based on some form of existing regional boundaries or whether these are bespoke and specific for RSPs and this particular framework.

Our view is that the regional boundaries need to allow facilitation for system balancing and management across any sections of the distribution network that cause major constraints. This will ensure the DNOs can effectively optimise the operation of the network for safety, security, cost and carbon, rather than being constrained by the areas of the network in their control.

We believe the System Operator would be best placed to support this decision but would like to express our opinion that consideration should be put towards making these boundaries dynamic in nature to facilitate future changes in the energy systems landscape. Furthermore, they will need to take into account local governing organisation boundaries, to ensure clear channels of consumer engagement and regional system requirements are achieved.

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

We believe further consideration is required on who is best placed to deliver the RSP role. Whilst the FSO has many of the necessary skills, expertise and is generally well placed to provide oversight, it would be difficult to execute true regionalisation effectively from a central position. However, regardless of the approach taken, we do believe there will be a key role for the FSO to play when bringing national and regional planning together to allow for whole system network design/delivery.

One of our key concerns with utilising the FSO is in its ability to provide adequate resources, capacity and ability to perform the role effectively at the regional level. We consider that it is likely that the capability pool of regional system experts will be limited to those working at the incumbent distribution companies and across local government organisation.

If the FSO is to be adopted as the RSP, there is the risk that capabilities are stripped out of the distribution companies into the FSO, which creates a top-heavy model and could significantly disrupt the day-to-day operation for the DNOs/DSOs. The process itself for transferring the necessary skills and knowledge is also likely to be a lengthy/inefficient process and hence we do not see the benefit of pursuing this approach.

Proposed Governance Reform: Market Facilitation of Flexible Resources

- ***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 with the proposal for a single, neutral, expert entity to take on the central market facilitation role, as it will provide clarity around accountability and who is ultimately responsible for delivering change. We believe that there should be opportunities to seek efficiencies through standardisation across all DNO regions and that this will make the distribution sector more attractive for providers.

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

After reviewing the allocation of roles and responsibilities in Table 2, we are concerned about the number of handoffs that are proposed between the actors which would potentially need to be carried out in a short space of time. We propose that roles and responsibilities are allocated as follows:

Overall Market Design and Oversight: This would include the listed responsibilities for product development, market rules, market oversight, platform analytics. This assumes market oversight and/or platform analytics include assessment of the effectiveness of the market, identifying and addressing any inefficiencies, perversions, distortions or anti-competitive behaviours. We recommend that these responsibilities should be owned and delivered by the Market Facilitator.

Pre-qualification of Providers to Distribution Sector Markets: These should be conducted by the Market Facilitator and should include performance management of providers at market level.

Service Procurement: This activity includes:

- Identifying requirements
- Submitting requirements
- Hosting tenders
- Issuing tenders
- Matching trades
- Evaluating process
- Informing participants
- Publishing results
- Publishing market data
- Settlements
- Credit and clearing

We believe this should be owned by the DNOs and that having handoffs with the 'market enabling infrastructure/platforms' seems overly complex. We also struggle to see how it is possible to effectively split many of these roles, especially when considering likely scenarios.

- Under the proposed arrangements, if a DNO wants to procure additional reserve for the following day, they would need a separate entity to run the tender for them and provide them with the results.
- We believe that that they should be able to run the tender themselves using the rules set by the Market Facilitator, using a commercial auction product and then procuring the required services.

Disconnecting the requirement setting from procurement and dispatch risks inefficiency and a lack of intelligence across those highly interlinked activities. This segment needs to be 'hand in glove' with Real-Time Operators and will need to run smoothly over the course of hours or minutes, which further strengthens the case for bringing these roles under the DNOs.

Additionally, we are unsure about who/what the 'market enabling infrastructure and platforms' refers to and how they will be managed. This will need to be detailed as they are a big dependency and are responsible for most of the activities in the process to procure services.

Another consideration is that unless these entities are regulated, the proposal places a lot of responsibilities on unregulated actors which in itself is a risk. Our preference would be that either the DNOs or Market Facilitators are responsible for all roles and that the 'market enabling infrastructure and platforms' participants are contracted by either one or both of them to perform the roles.

Finally, clarity is needed on how local performance management would be conducted and who would ultimately be responsible. For example, if a flexibility provider is performing poorly in one region, who would be tasked with addressing this issue? These types of questions need to be considered to ensure all eventualities and scenarios are taken into account.

Therefore, in conclusion we believe that there are too many actors involved in the proposal, whilst simultaneously lacking the presence of a central architect for the overall management.

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

We assume that capturing market requirements sits under the 'product development and standardisation' activity. If this is indeed the case, we believe that this should be a separate activity as it will need to be split between the Market Facilitator (requirements based on overall market strategy and market design) and the DNOs (requirements based on their real time operational needs). This should be fed by the performance management at the market level and within the regions

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

The options for allocating the Market Facilitator role should consider potential conflicts of interest, need for consistency across markets and the need for efficient real time operations, requiring markets to be adaptable to local system needs. The options presented were FSO, the ENA or a completely new organisation. We agree with the assessment of these options and that the FSO provides the optimal balance between ability to deliver desired outcomes and any associated risks.

- ***Are there other options for allocating the market facilitator role you think we should consider? If so, what advantages do they offer relative the options presented?***

No, we do not believe other options are available for allocating the Market Facilitator role at this time and therefore, as outlined previously, we are in support of going with the FSO as it will allow for alignment of the market rules across national and regional markets, which should have efficiencies and make both markets more attractive. We believe that the ESO performs this role well for the transmission network so is well placed for the distribution network.

Proposed Governance Reform: Real Time Operations

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

We agree that real-time operations should remain with the DNOs as they are already established and well positioned to conduct this role and hence there is no need to 'reinvent the wheel'. However, this must still be seen as an opportunity for the DNOs to improve these operations, whilst also looking to optimise future networks for lowest cost and lowest carbon.

To optimise costs, DNOs must deliver on their plans to digitalise their operations, adopting Smart Grid approaches, using real-time monitoring on substations and feeders to manage their network based on more accurate, real-time data. They need to adopt open data sharing with other DNOs and the FSO to promote industry innovation and collaboration.

To move towards a net zero power system, DNOs should follow National Grid ESOs lead in establishing innovative demand and supply side services to operate a net zero power system, such as demand-side response, vehicle-to-grid services and 'virtual power plant' systems to use distributed & consumer energy resources as dispatchable resources. This should be pursued in parallel with continuing to connect more sources of low-carbon and net-zero power generation.

In general, DNOs must drive this collective modernisation of their approaches, working closely with the new roles to achieve whole sector benefits and must ensure we do not fall into the same issues experienced up to this point via the open networks project.

Collaboration with the RSPs and Market Facilitator will be key to ensure DNOs can still deliver their real-time operations roles effectively. As discussed earlier, the shift of responsibilities to the FSO could lead to a loss of capabilities and capacity from DNOs which could impact their ability to effectively carry out this role. Equally, as raised already, we are concerned that the multiple handoffs between actors proposed under changes to market facilitation will also impact the overall efficiency of real-time operations.

Next Steps

- ***What is your view on our proposed approach to the undertaking of an impact assessment as outlined in Appendix 1?***

We agree with the proposed approach of undertaking an impact assessment as it is necessary to understand what the effect will be regarding implementation and to ensure all eventualities are considered.

Setting the Counterfactual

We agree it is important to consider the counterfactual for the implementation of existing policies, including those required within RIIO-ED2, but no additional independent regional system planning activities and no independent Market Facilitator.

This should provide an insight of what benefits could be realised from the proposed framework but also outline any shortcomings or unforeseen issues that may occur. The exercise should also provide clarity and strengthen the case for why the proposed framework should be implemented. Impact assessments should be made against known energy transition activities, to measure success against. These could include EV adoption, migration away from domestic gas, or the establishing of regional industrial hubs.

Identifying the Benefits

As with any change, it is important to understand what the desired outcomes actually are and ensure that the proposal is working towards these. We recognise that the actual benefits have already been identified and the plan is to relate this to both the existing setup and the proposed framework. We again agree with this approach and believe it is important to identifying exactly what framework is generating the benefits.

In addition to this, the assessment should include consideration of other factors (e.g., risks to these benefits arising, any dependencies with other changes, key activities to realise benefits, responsibilities for benefits realisation etc.) to ensure the business case is actually delivered and not forgotten after sanctioning.

Identifying the Costs

Finally, we agree that there needs to be some consideration to the cost, and it needs to be proportional to the perceived benefits. Therefore, we highly encourage a cost-benefit analysis to ensure that the implementation of this proposal is feasible.

- ***What is your view on the most appropriate measure of benefits against the counterfactual?***

The most appropriate measure of benefits against the counterfactual should consider both direct and indirect benefits, such as reduced costs, improved efficiency, and increased competition. This should also factor in financial benefits, where possible, with the final outcome being expressed in terms of the value to the end- consumer.

If possible, it should also consider the contribution to increasing the pace of decarbonisation. The cost to decarbonise is exponential and as such, the true success factor will be in minimising missed opportunity and increasing the pace of the energy transition.

- ***How should we attribute these benefits between the governance changes in the proposed option, and other changes required to achieve the benefits?***

(We particularly welcome analysis from bodies that have undertaken an assessment of benefits, specifically how those benefits might be attributed to different policy reforms that are required to achieve those benefits.)

Attributing benefits to the specific governance changes will require clear identification of how each change is expected to contribute to meeting the intended outcome. This will allow for objective monitoring against the outlined success criteria and can remain agnostic of whether the contribution is direct, or indirect.

- **What additional costs might arise from our governance proposals?**

(We welcome views both on the activities that may arise and cause additional costs to be incurred, as well as the best way to estimate the size of the costs associated with those activities.)

Additional costs may arise from governance proposals in areas such as implementation, transition (e.g., loss of performance due to change disruption), and establishing new entities.

This includes inefficiencies during setup, cost of terminating any providers who are under contract to the DNOs for services that will no longer be required or will need to be reprocured by the Market Facilitator.

The procurement of new services will also lead to additional costs along with those attributed to the transferring of staff (if required) or as a result of redundancies for staff that are no longer required.

Cost of changes to other actors (e.g., Transmission Operators, Local Authorities, GDNs, ESOs transmission entities, Ofgem's relevant teams etc.) may also occur and would therefore need to be considered. The best way to estimate these costs is by conducting a detailed cost-benefit analysis.

- **What additional costs may arise from sharing functions with several interacting organisations?**

(We welcome views on set up cost, lost synergies, and implementation barriers)

Additional costs may arise from sharing functions with several interacting organisations, including set up costs, lost synergies, and implementation barriers. Set up costs could be incurred due to the establishment of a new infrastructure, resources, and organisational changes.

Lost synergies could result from decreased efficiency gains in areas where collaboration and resource pooling would have been beneficial. Implementation barriers may emerge from regulatory, technical, and organisational challenges that hinder the successful execution of the proposed governance changes. Involving industry stakeholders in further discussions and consultations will be crucial in addressing these concerns and refining the proposed framework.