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**Dear Fiona**

**Consultation on the future of local energy institutions and governance**

We welcome the opportunity to respond to Ofgem's consultation on the future of local energy institutions and governance. This response is being submitted on behalf of SSE's energy businesses - SSE Thermal, SSE Renewables, SSE Enterprise and SSE Energy Portfolio Management. Separate responses are being submitted by our network businesses.

We've provided answers to the specific questions posed in the consultation in an annex to this letter, but also felt it would be helpful to make the following high-level observations.

In terms of network planning:

- We recognise the **importance of coordinated network planning** (with a clear line of sight across sectors and vectors) in delivering an efficient energy system that will support the transition to net zero. All network companies will have a role to play in planning the network (and indeed have existing whole system obligations) and parties should be empowered to work together to achieve this (and held accountable for doing so). However, it is important to avoid duplication of roles (which can create conflict and inefficiencies).
- Ofgem's proposals do not set out in detail what any new planning role would look like and in our view **further consideration is needed of what can be done by existing network owners** (taking into account the commitments made in ED2) before considering a wider change. It is critical that any changes in industry roles do not interrupt, or delay, the transition to net zero and associated outcomes for consumers.
- If Ofgem takes forward its proposal to create a Regional System Planner (RSP) then it will need to carefully consider and consult on **the appropriate form and level of regulatory governance and oversight**. Clarity on roles, responsibilities and accountability will be critical as will the interface between parties.
- We think there is a **material risk that the new Independent System Operator (ISOP) will not have the capacity or capability to take on such a role**, particularly in the short to medium term. Although NGESO has a role in transmission planning it has limited expertise in distribution and is unlikely to have the knowledge of local networks necessary to undertake this role well.

In terms of distributed flexibility:

- We agree that **coordination will be key to unlocking the potential benefits of distributed flexibility**.
- As indicated by Ofgem's call for input on wider distributed flexibility policy there is not yet clarity on what this market will look like. It is therefore likely to be more beneficial for Ofgem to **focus first on what will deliver most value in the short term** whilst facilitating longer term efficient market development. Communication and data sharing across all parties is likely to be the first step in this.
- The proposed Energy Security Bill highlights Government's intent for the ISOP to be a 'trusted voice at the heart of the energy sector'. Ofgem therefore needs to consider carefully whether the **potential conflicts of interest** it identified from the ISOP taking on new market roles might undermine how it is perceived and what it might mean for the organisation itself (for example, would an element of ringfencing be required within the newly formed ISOP).

Ofgem is proposing a number of new roles for the soon to be formed ISOP in this consultation. These new roles would come alongside (or shortly following) significant change driven by the transition from NGESO to ISOP. We are concerned that new potential roles for the ISOP appear to be considered in an ad hoc way, which doesn't fully consider whether these roles fit together to create a cohesive organisation with a clear role and purpose. Any transition and **new roles must not distract from its core system operator role** and must be appropriately resourced from the outset.

In our view:

- Further detail on how Ofgem's proposals would work should be shared with industry before any decisions are made. In particular, Ofgem should consider what these proposed new roles might look like in practice, what deliverables would be expected and how it would hold parties to account.
- Whilst we welcome Ofgem's commitment to carrying out an impact assessment it is hard to fully comment on the proposals without seeing this. It is important that industry is given an opportunity to comment further once Ofgem has identified the impacts ahead of any final decision.

We look forward to further engagement with Ofgem on the issues raised in this consultation.

Yours sincerely,

**Sheona Mackenzie**  
Regulation Manager

## Annex 1

### **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 can see value in better planning and increased transparency across distribution and understand the desire to have one party with a clear line of sight over different sectors and vectors in order to ensure the electricity networks are able to support the transition to net zero. In particular, there is real value in common assumptions underpinning plans and a party being able to coordinate and join up local plans. However, without seeing an impact assessment it is hard to judge whether benefits of a 'new' party carrying out this role (compared to improved coordination between DNOs and IDNOs) is justified.

The consultation doesn't really address whether DNOs could deliver what is needed. Ofgem should consider further:

- the progress being made by DNOs (and future commitments made as part of ED2) and how this might be built on; and
- whether the increased role the ESO took on in transmission planning a number of years ago (following Ofgem's Integrated Transmission Planning and Regulation (ITPR)) project<sup>1</sup> has realised the benefits it expected.

Any change must not duplicate or undermine the role of DNOs (and IDNOs) who will ultimately remain responsible for delivering the investment needed in their networks. Duplication of these roles would not only be inefficient but would add unnecessary confusion to an area where trust and engagement with stakeholders is critical.

It is essential that the investment in electricity networks needed to facilitate the transition to net zero is appropriately supported. In considering whether changes to how the network is planned are appropriate, Ofgem must take into account whether there are likely to be any knock-on implications for that investment (i.e. identify and measure the risks).

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

It is difficult to comment on the design choices at this stage as we do not consider that the case for change has been clearly demonstrated. A clear statement is needed of what the new RSPs would deliver and how it would do this in practice. In particular, we need to understand how decisions would actually be made under the designs discussed.

For example, it is unclear if RSPs would be decision makers or simply advisory and how their role would fit in the wider process of network investment decisions. The role of any 'new' party needs to be very clear when engaging to stakeholders – otherwise will cause confusion and risks mixed messages being given to developers and local planning authorities with knock on implications for investment. The aim should be to simplify where possible rather than adding complexity to an already challenging area. The duplication, or overlapping, of roles should be avoided (for the reasons set out above).

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<sup>1</sup> [Integrated Transmission Planning and Regulation \(ITPR\) | Ofgem](#)

Further detail is needed about how RSPs would fit within the planning process and how this might work in practice (as well as how any transition would work) before any decision is made on this proposal.

Any body with responsibility for network planning must be appropriately held to account. Therefore, we agree that, if introduced, RSPs would have to be regulated. We would welcome further detail from Ofgem on the form and level of regulatory governance oversight it is proposing.

**Q3. Do you have views on the appropriate regional boundaries for the RSPs?**

It is important to take into account the different levels of devolution when considering the issue of boundaries. Such devolution means that policies, targets and how decisions are made can vary considerable across Great Britain. In addition, there are difference in the boundaries between transmission and distribution in Scotland compared to England & Wales. Regional boundaries should also take account of how the network is currently planned.

We would encourage Ofgem to consult on specific proposals once it has formed a view on the options available for such boundaries.

**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 (now known as the ISOP) does not exist at this time and therefore whether it has the characteristics to deliver the RSP role will depend on how roles, responsibilities and resources are transferred from NGESO. However, we think there is a material risk that the ISOP will not have the characteristics required to deliver this role – particularly in the short to medium term. Although NGESO has a role in transmission planning it has limited expertise in distribution and is unlikely to have the knowledge of local networks necessary to undertake this role well.

It is also important to consider the resources the ISOP is likely to have, and how the scale of any new roles might impact its core system operator activities. Specifically:

- The ISOP is being considered for a variety of new roles and we are concerned about whether it would be able to take on these roles quickly and efficiently. There is a risk that it becomes too big too quickly and loses focus on core activities such as system balancing.
- The transfer (of roles and people) from NGESO to the ISOP is not without risk. It would be prudent to wait until that transfer has been successfully managed before asking the ISOP to take on significant new roles.

The ISOP is being created, in part, to remove existing conflicts of interest within National Grid (which are currently managed by complex business separation arrangements). In considering new roles for the ISOP Ofgem needs to be mindful not to create new conflicts of interest (such as those identified in its consultation) or potential for bias (either real or perceived). In addition, care should be taken for any new roles not to undermine the Government's vision for the ISOP to be a "trusted voice at the heart of the energy sector". We are concerned that some of Ofgem's proposals may (unintentionally) conflict with the independence of the new body.

We agree that planning responsibilities should sit with those parties who are competent and have the right expertise to deliver them. We believe this should be the existing networks, and not another body, given the existing wealth of knowledge and expertise that the network companies have.

**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 are broadly supportive of the move towards a central market facilitator. We recognise the difficulties that would be associated with facilitation being provided by multiple parties and the inefficiencies this might cause. We also recognise the benefits flexibility could have if the market is unlocked.

However, we think this is an area where evolution is more appropriate than revolution and are not convinced that giving a 'new' party responsibility in this area will bring value in the short term compared to for example, a push to progress the ongoing ENA Open Networks programme. There is more that could be achieved by meaningful coordination between existing parties.

Ofgem's parallel call for evidence on distributed flexibility highlights to us the risk of changes in the short term that may not be consistent with the longer-term direction of travel.

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

The identified roles are too binary in their representation to comment fully on how they should be allocated. For instance, market engagement is necessary in all areas of flexibility markets and is currently carried out by the ESO, DSOs and market platforms. The nuances of responsibilities, activities and accountabilities between parties must be clear.

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

No comment

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

None of the parties considered are ideally placed to take on the role envisaged. We have outlined our concerns about the ISOP taking on additional roles in our response to question 4.

**Q9. 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?**

Given the risk of conflicts of interest it might be worth considered whether an 'Elexon-type model' could be appropriate for delivering what is needed (as this would avoid such conflicts). However, the cost of such a model would need to be considered given the limited role currently envisaged.

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

Yes, in our view the current approach generally works well, and we see no compelling case for change.

**Q11. What is your view on our proposed approach to the undertaking of an impact assessment as outlined in Appendix 1?**

An impact assessment is an essential part of the decision-making process and in our view should be carried out and shared with industry for comment ahead of any decision (rather than alongside a decision as Ofgem currently plans). It is important that industry participants can consider and comment on the detail of the likely benefits and costs of Ofgem's proposals.

Any changes made should be clearly shown to provide a net benefit and issues around implementation should be appropriately considered. If the impact assessment does not show clear net benefits, then Ofgem must reconsider its proposals.

The impact assessment should specifically consider whether the proposals might have any impact (intended or otherwise) on the electricity networks ability to support the transition to net zero.

**Q12. What is your view on the most appropriate measure of benefits against the counterfactual?**

Ofgem should include the realisation of benefits associated with current workstreams (ENA Open Networks etc) in the counterfactual and only allocate benefits to the proposal where these cannot be delivered under the current arrangements.

Given most of the proposals relate in some way to the new (not yet formed) ISOP there will be a number of challenges in creating a counterfactual. The impact (or risk) to delivery of core system operator responsibilities must be appropriately considered.

**Q13. 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 benefit.**

No comment

**Q14. 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.**

The detail of the design of any new roles will significantly impact the likely costs (which could be significant). Therefore, Ofgem must appropriately consider the costs before making the detailed design choices it faces. For example, the costs associated with RSPs will vary considerably depending on how regional boundaries are drawn and the precise scope of its role.

Ofgem must consider the proposals in light of other changes happening in the industry (including the creation of the new ISOP). Moving (or duplicating) roles between bodies can have a significant impact on industry resources. There is a limited pool of qualified professionals able to carry out these roles and the significant impact of the proposals on resourcing should not be underestimated.

**Q15. What additional costs may arise from sharing functions with several interacting organisations? We welcome views on set up cost, lost synergies, and implementation barriers.**

No comment