



Future of local energy institutions and governance  
Consultation:

SGN Response

10/05/2023



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10<sup>th</sup> March 2023

Dear Fiona,

**Consultation on Future of local energy institutions and governance**

Thank you for the opportunity to respond to your above consultation<sup>1</sup> on the future of local energy institutions and governance. This comes at a crucial time for energy system transition, and it is essential that networks support net zero and maintain all efforts toward decarbonisation of our energy system.

SGN is committed to supporting the drive toward net zero and decarbonisation of the network, having a gas distribution network that transports gas to 5.9 million customers in the Southern and Scotland licence areas. Our networks vary from the most densely populated regions of central London to the most sparsely populated regions of Scotland. As a distribution network, the transition to net zero will necessitate a transformation in how we operate, and how we will continue to operate in the future, with decarbonisation and decentralisation of generation and demand. It will be essential for a whole system approach to be recognised with clear roles and responsibilities to ensure the transition remains on track for delivery.

The balance between affordability, resilience, and decarbonisation is likely to continually change through the next decade. Any regulatory framework needs to support long-term planning aligned to a whole-system approach, deliver for customers, and maintain investment for networks with the capital needed, whilst being flexible enough to balance short and long-term affordability considerations for customers. As we progress toward the decarbonisation of energy within GB, the introduction of the Regional System Planners (RSP) role is an important function and should enable a more consistent and transparent approach to regional planning aligned to national objectives.

We support the need for change, and the introduction of a cross-network, cross-sector function with a focus on co-ordination of regional energy plans that align with national strategy to deliver benefits to customers and support longer-term objectives of net-zero and decarbonisation plans for GB. However, we must first be clear on the development of the role, responsibility and detail around the process supporting the RSP function in order to ensure that there is no duplication between that of the network planning function and the real-time operations of the network, both of which should still vest within network companies.

We have concerns around the perceived role of gas within this consultation; there is a real focus on electricity, and this could have an adverse impact on the choices available, leading to poorer customer outcomes as well as increasing levels of uncertainty. Certain pathways suggest that a steep decline in methane is targeted in the coming years, however, methane will play an important role in energy resilience and security and supply during the transformation of the GB energy system as it targets net-zero and decarbonisation plans. Maintaining a safe and reliable network is the main priority and continued investment will be required to achieve this for consumers. The role of Hydrogen within the energy system transformation in GB is a key

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element, it is important that Ofgem includes hydrogen in its thinking on any regional planning function and this should be consistent with any national planning and aligned at all levels.

Having reviewed this consultation, we have responded to questions where we feel we can add value and we will support further discussions as the detail around the roles and function develop. Should you require any further information with regards to our response then please do not hesitate to contact me at David.Handley@SGN.co.uk

Yours faithfully,

A handwritten signature in black ink, appearing to be 'D Handley', written over a light blue rectangular background.

David Handley  
**Director of Strategy and Regulation**  
**SGN**

## Consultation Questions and response

### Proposed governance reform: energy system planning

1. 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?

The proposed governance reform has the potential to lead to more efficient and cost-effective energy system planning, as well as a more coordinated and whole-system approach. This could help to achieve a cost-effective transition to net zero, while also reducing the risk to customers and investors. However, there are areas which require further development. The proposed system may result in duplication of planning activities between RSPs and existing actors, such as local/regional, national government and network companies. The roles and responsibilities of the RSPs and existing actors lack sufficient clarity which may lead to confusion and potential conflicts. To avoid redundancy between network planning and real-time operations, it is crucial to concentrate on enhancing the role, responsibility and process details that support the RSP function. These aspects need to be further developed to ensure that network companies can effectively manage both functions without overlap.

The proposed system may lack sufficient flexibility as all planning activities will need to align with the regional energy system plan developed by the RSPs. This could limit the ability of existing actors to respond to local needs and circumstances. Ofgem will need to set out clearly the roles and responsibilities of the RSP and introduce them in a way that enhances the existing regional planning functions (including but not limited to network companies).

The primary function of the RSP should be to provide a holistic, co-ordinating role that can then be supported by local actors and delivered by relevant bodies, such as network companies, in a way that is closely co-ordinated with national-level decision-making related to that infrastructure.

We are uncomfortable with the suggestion that RSPs would set the planning assumptions and common starting points that network companies should align to. The GDN, as the duty holder, must primarily concern ourselves with protecting security of supply and planning, developing, and maintaining our network to do so. We forecast our own peak demands used for planning our network using historic actual demand and taking account of all economic and legislative inputs. If, or when, our customers choose to move to alternative energy sources we will accordingly repurpose or decommission assets associated with the current supply to these areas and this will be reflected in our demand forecasts. Until there is absolute certainty of change and a clear definition around roles and responsibilities, we cannot change our forecasting process. To do so could jeopardise our licence requirement to maintain security of supply. We can use assumptions in future scenarios, but we cannot use forecasts.

There is an inconsistency between the description of the role of the RSP in this consultation and that set out in the FSNR consultation. The role of the RSP within this consultation seems much narrower than the activity that it would need to undertake to perform the Archetype 1 roles envisaged in the FSNR consultation, this seems to suggest that the RSPs will provide a delivery function (within FSNR). Our view is that the role of RSPs should be focused on providing greater linkage, coordination and collaboration between all key actors with a focus on regional needs and adding value to network planning and delivery, to assist price control decisions by the regulator

The RSP's responsibilities should not extend to determining and procuring the means of meeting an identified need. Instead, it should be the responsibility of network companies to determine the network infrastructure outcome that is required to meet regional plans.

We would also be interested to see the views of other key actors, other than networks, with a view to understanding how the role of the RSP would work as a regulated entity in setting a central framework and the ownership of a regional energy system plan, which could be at odds with their own strategies.

Ofgem will need to consider how the RSP role interacts, compliments and enables regional planning and how it coordinates activities with local authorities, network companies and other actors in order to enhance a whole-system approach. This must also recognise the complexities of regional requirements that may have an impact on national planning and objectives.

Another area to be considered within the development of the role is the competency of resource availability for the RSPs and where this will come from. Network companies have significant experience within existing engineering, policy, planning and operational functions that are currently delivering this function to mitigate any risks that may occur throughout the energy system transition.

Overall, the impact and success of the proposed governance reform will depend on implementation and how the roles and responsibilities of the RSPs and existing actors are defined, resourced, embedded and coordinated.

Feedback regarding Ofgem proposals regarding regional system planning activities<sup>2</sup>:

1) *“Creating and assigning a new regional system planning role to a single accountable body for a region, whom we consider should be a regulated entity. “*

- SGN agree that a single accountable body for a region is appropriate. We would question who it is accountable to and how that accountability is realised in practice. It is our view that they should remain a very strong local accountability as bringing the consumer alongside on a challenging decarbonisation journey will be critical to its success.
- SGN agree that it should be a regulated entity. It is our view that this should be a separate regulated entity that is governed by a licence that is specific to that region.

2) *“Ensuring RSPs are central to a framework of interacting organisations within each region, which all feed into regional energy system planning. “*

- SGN agree with the aspiration, however, we also note that this expands the competency required by the RSP to areas that are beyond the typical electricity centric approach of DSO and ESO. Having clarity on the process through which that competency will become established, and the timescales it will take to develop it.

3) *“That an RSP should be responsible for developing and owning a regional energy system plan, with other actors informing and being consulted in relation to their respective planning activities (i.e., network planning and spatial planning).”*

- SGN agree, however given the concerns expressed above regarding the capability and competency in all technologies it is very important to have a clear process through which those regional energy system plans are developed and updated, the process through which views and technical information will be established, the role of other organisations in providing that information, and the appeals process if a process is not followed or a relevant point of information is not taken fully into account.

If the role of the RSP is to ultimately determine whether an individual end consumer is going to have their heat provided by electricity, gas, hydrogen or district heating a decision that will have significant social and domestic consequences then the vires of the RSP need to be very carefully considered from the outset.

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<sup>2</sup> Para 3.6

Feedback regarding Ofgem's proposed strategic planning activities<sup>3</sup>:

*1) "Develop and own the critical planning assumptions, using inputs from local actors (e.g., DNOs, GDNs, LAs) and exogenous sources to develop key assumptions that inform system needs e.g., EV uptake numbers and expected contribution to peak demand. "*

- SGN agree in principle, however, GDNs have a strong understanding of their local network areas, based on years of experience and local knowledge, as well as existing relationships with all key stakeholders and are already investing and planning on a whole system basis based on obligations under RIIO-2. It is very important, however, to recognise that the views of local planners will in many cases have a high level of aspiration associated with them as they strive to secure the best outcome for their local area.  
Understanding the level of aspiration and the likelihood of it being realised and the resultant impact on network capacity is achievable with very close engagement between the local planning bodies and the local networks. It is therefore important to consider how the RSP fits into this relationship, whether their role is to present a view on the probability of the local plan being achieved (i.e. is the particular town going to grow as quickly as envisaged), a view on the way it is being achieved (i.e. higher electricity or hydrogen demand) or a view on the way that it is delivered (i.e. whether reinforcement is required or not) and it may cover all three.  
It is very important therefore for the RSP to have very strong links with the local community and to understand their plans and aspirations, and there is a significant risk of the RSP being seen as a technocratic imposition.

*2) "Coordinate, facilitate and ensure effective participation between local actors (which ensures a place-based understanding is central to how the regional energy system is planned). "*

- SGN agrees with this principle, it is also important to define the process through which this should take place, and the right of local actors to appeal should they consider that their views have not been fully considered or taken into account by the RSP, accordingly it is important to establish the basis on which those appeals would be considered and the varies under which the RSP operates.

*3) "Develop and own a regional whole system strategic plan that is coherent with national and local net zero ambitions and energy security priorities and that supports achieving the most cost effective decarbonisation outcomes, derived from and informing the individual sub-plans made by local actors. "*

- SGN agree in principle, however, the practical application could be significantly more challenging than the statement implies if there is a discrepancy between the aspirations of the local actors and the aspirations of the national net zero and energy security priorities. It is important to understand the balance between 'derived from and informing' as the balance between these two will have a significant impact on the way decisions are made and the level of local accountability.  
It is also important to recognise the implications of other RSPs. There will rarely be a neat boundary between RSPs, electricity networks, gas networks and local planning authorities, an RSP may cross over multiple network boundaries and it is important that the consumers of energy from the smaller network are not disenfranchised from the decision making process either because of a lack of a voice in their direct RSP or a decision made in a neighbouring RSP that impacts their ability to secure access to a service.

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<sup>3</sup> Para 3.7

4) *“Provide independent technical analysis and advice to support decision making, primarily within price control setting, for example, if different vectors' plans conflict and/or by identifying improvements and opportunities for whole system optimisation. ”*

- SGN agree with the aspiration, however, we note that the competency required to provide effective independent technical analysis at the level necessary for whole-system optimisation is very challenging and will take a long time to establish.

It is also very important to be clear on the remit and vires of the RSP, it is our view that as a gas network, we remain responsible for keeping our customers safe, protecting the security of supply, planning all activities, whilst developing and maintaining our network for all plausible pathways. This includes determining the level of investment necessary to maintain all the obligations we have as the duty holder. We would not see the RSP taking on these responsibilities or impacting these decisions. We would consider the RSP role to be in the coordination of demand related reinforcement work (there will be non-demand related reinforcement work) or de-energisation work. This would appear to be consistent with Ofgem's view stated in para 3.8.

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

The proposed design choices are aimed at improving the efficiency and cost-effectiveness of regional system planning in the UK. We agree with the principles of having an independent and regulated entity responsible for regional coordination. We welcome the potential for improved accountability and impartiality, and identification of cross-vector synergies.

The proposed design choice places accountability with a single entity, potentially limiting the opportunity for and involvement of network companies in the process. Therefore, it is crucial that the FSO is regulated given its monopoly position, costs, risks and non-standard delivery to ensure accountability. Creating a new entity to deliver regional system planning could add undue complexity to the overall system and require building skills and expertise. The FSO must have sufficient competence to fulfil its role, including modelling future supply and demand, understanding the impact of growth on the network, and stakeholder engagement skills.

We would suggest that the following key points are considered when developing the detailed design choices:


### **Roles and Responsibilities**

Gas Distribution Networks already have a strong understanding of their local network areas, based on years of experience, local knowledge, experienced and competent resource and existing stakeholder relationships.

The role of RSPs should be focussed on providing greater linkage and collaboration between regional needs and adding value to network planning and delivery, to assist price control decisions by the regulator. The RSP's responsibilities should not extend to determining and procuring the means of meeting an identified need or investment. Instead, it should be the responsibility of network companies to determine the network infrastructure investment outcome that is required to meet regional plans.

The role of the RSP must not duplicate this work performed by the networks, the RSP must introduce alignment with regional plans and enhance collaboration across all energy vectors.

Ofgem should clearly define the roles and responsibilities, including how it will ensure that there is no duplication of existing network planning functions in place, they must also maximise the opportunity to collaborate with these functions. We must also understand how the RSPs will work with other key stakeholders through the process to ensure we maximise the opportunity.



This needs to be clarified as soon as possible as the role of the RSP is crucial to the formation of any potential changes to the regulatory framework for the next price control period e.g. development of a response to the FSNR consultation is dependent on the RSP and FSO being in pace with clear roles and responsibilities, without this it is unclear how the Archetypes proposed by Ofgem would progress.

### **Role of regulation**

In para 3.18, Ofgem identify that the regional system planner should be regulated given its monopoly position and the cost that it will incur. A principle that SGN agrees with. Ofgem also identifies that this should help with regards to 'the risk it relays and ensure recourse for non- or sub-standard delivery'.

It is SGN's view that this is very important to build clarity around, when 'sub-standard delivery' is being considered what is the basis of that judgement? It is SGN's view that this should be based on standards of local accountability and engagement rather than the delivery of net-zero and national political targets. Having clarity on this is very important.

Secondly, when considering 'the risk it relays', again, it is very important to have a clear understanding of what risks they will be relaying, what risks they are responsible for and the type of organisation they exist as (i.e., whether profit making and private or non-profit and quasi-public), this will influence the risk they can bear and is to place upon them.

### **Institutional Change and Cross vector synergies**

Gas Distribution Networks already have a strong understanding of their local network areas including potential challenges seen by other sectors, this is based on years of experience, local knowledge, as well as experienced and competent resource and existing stakeholder relationships. The RSP must understand the planning function from a multi-vector, sector, and from a regional perspective (including local authorities, network companies, etc) and introduce a consistent and transparent approach to regional planning. This is an important factor when embracing a whole-system approach to planning.

The RSP function's role and responsibilities must be clear, this must also be the case for all other key actors and stakeholders involved in the process to maintain consistency and to fully understand what is best for each region based on a multitude of factors and variables. Engagement with all local authorities and devolved administrations is also important and their roles and responsibilities must also be clear and not hinder the process at all. must be understood

### **Resource, expertise and experience**

As mentioned in the response to question 1 above, and what we believe is a key factor in any regional or national planning, GDNs already have a strong understanding of their local network areas built through knowledgeable, skilled and experienced personnel with strong stakeholder relationships. GDNs have significant experience within existing engineering, policy, planning and operational functions that are currently delivering this function to mitigate any risks that may occur throughout the energy system transition.

Due to the tight timescales and the criticality of introducing the RSP in a timely manner for the next price control period, the RSP must be sufficiently resourced to deal with the demands of local area planning at a time when future energy scenarios are not fully understood. Obtaining the resource with the right competencies across a number of functions will be required to take ownership of this critical role.

### **Timescales**

With Heat Policy Decision expected in 2026 and the 2035 power decarbonisation target now only 12 years away, the 10GW of domestic hydrogen production target only 7 years away and other interim targets (for example, the installation of 600,000 heat pumps per year by 2028) also expected to have a major impact on



energy network planning in the short to medium term, the FSO and RSPs will have an important role to play in the price control period following RIIO-2 and its successors.

Ofgem needs to clearly define the role and responsibility of the RSP function, and how it will complement the work being done by existing network company planning functions and expertise at the earliest possible opportunity. This is of importance as the RSP role seems to have a prominent role in some of the Archetypes proposed under the FSNR consultation.

Time is of the essence, and this will need to be in place and embedded with clear accountability to ensure that is the case.

### 3. Do you have views on the appropriate regional boundaries for the RSPs? [page 28]

The complexity of existing boundaries, including electricity and gas distribution licence areas and local/regional government boundaries will introduce a challenge for the RSP in terms of ensuring that the right voices are heard and acknowledged in a manner that is appropriate.

Both electricity and gas network licence areas are determined primarily by the physical characteristics of the network and the flow of energy. This will therefore lead to areas of the country where customers have an apparent mismatch between geographical area and licenced utility.

We must consider the relationship between regional boundaries that the RSP is responsible for against that of Local Authority objectives and boundaries, whilst also managing against the uncertainty of the role of the RSP and that of the pathways toward decarbonisation. [REDACTED]

The implication of this is that;

1. At the local level areas of the network in a given RSP may be significantly impacted by decisions made by another RSP - for example, one RSP may look to implement a hydrogen solution, whilst the network feeding that region may be looking to implement heat networks and to de-energise and convert the gas network. Whilst will be resolvable it may require investment and it may change the relationship between the asset owners in that region.
2. Customers who are islanded in another network's RSP may feel as though they have less of a voice in the decision making process as their network is not as established with that RSP to have as effective a voice or to convey their views.
3. There is a trade-off between the scale of the RSP, the level of local accountability that it has, and the technical capability to resource it in a cost-effective manner. We need to recognise that local authorities have a democratic mandate however to provide cost-effective technical capability it may be necessary to cover multiple local authorities with different political priorities.
4. There may be concentrated areas of energy production or transmission investment where they do not feel the financial benefit associated with hosting that investment or enduring that level of disruption.

In para 3.22 an emphasis is placed on the variability that has been enabled by data standards and advanced digitalisation. We fully support this vision; however, we note that we are at the beginning of the journey and that there is significant time and investment required to achieve the desired outcome.

Local Authority boundaries could lead to conflict as Local Authorities set different targets to meet net zero, whilst the energy networks cut across LA boundaries.

Another consideration is in relation to data i.e. how does the RSP fit into the wider data sharing development being looked at under the ENA's current Data Group, this must be considered further as this will be a key part of the process.

4. Do you agree that the FSO has the characteristics to deliver the RSPs role? If not, what alternative entities would be suitable? [page 28]

Whilst the FSO may have many of the characteristics to deliver the RSP's role, SGN does not think it is necessarily desirable.

In Para 3.21 Ofgem suggest that the RSP should be a single entity that is delivered via multiple branches and would consider this to strike an appropriate balance between empowering a more decentralised approach and delivering consistency. At SGN we would disagree with this, it is our view that multiple branches within a single entity will lead to a centralisation of views around the region that has the greatest challenges or the strongest political voice and that these risks are to the detriment of regions that may be offering alternative visions or alternative pathways more suited to their local characteristics.

It is SGN's view that the regional RSPs should remain with a level of independence and central to the local needs and planning requirements of that area in order to provide a stronger local voice in the decarbonisation pathway appropriate to them. It is SGN's view that this will support a healthy challenge to the views of the FSO in terms of whether the national plans are operational and achievable on a local basis.

To achieve the consistency and coherence both vertically and horizontally aspired to in para 3.21, it is very important in our view that both FSO and the RSP are very open and transparent on the basis on which they are making their assumptions. As an example, if the FSO is assumption a level of energy efficiency in the domestic housing stock to enable heat pumps to operate effectively and the RSP recognises that the regional housing stock will not support that level of energy efficiency then this needs to be called out in a transparent manner and justified.

If the RSP and the FSO are one in the same organisation, then there is a higher risk that critical assumptions will not be challenged and that local requirements will go unrecognised and potentially ignored based on a national / central view.

The priority at the moment should be setting out the role and responsibilities of the RSP in detail. GDNs can then support discussions around how we can work closely with the FSO in ensuring the RSP works closely with the FSO and that all regional concerns and challenges are considered. Then we can support the develop robust processes to ensure information is available from all key stakeholders.

As well as issues with regional and local understanding, there is a further concern that the FSO also risks being overburdened with duties and roles, this will also be problematic when having to develop basic understanding in new areas of expertise e.g. maintaining and operating a methane network whilst developing plans for hydrogen use within the network.

## 5. Do you agree with our proposal for a single, neutral expert entity to take on a central market facilitation role? If not, why not? [page 33]

We agree that markets benefit from the standardisation of products and definitions, clear rules surrounding the creation of those products and a common understanding of the prioritisation of products and a clear understanding of the risks and liabilities associated with non-delivery.

In this understanding, it is very important to recognise the interdependencies across networks. Currently, a significant and increasing share of flexible capacity is provided by gas generators which are attached to the GDN. The rules that govern these generators, which provide energy to the electricity market, are not aligned with the rules that govern how they withdraw energy from the gas network. This is a serious and growing concern; markets developed in isolation without a full perspective of the entire energy system could create challenges in other parts of the network that may undermine service delivery.

Secondly, it is important to recognise that investors will respond to the price signal created by the market, and this may not align with the desired social or political outcome at all times, particularly at times of market stress.

Whilst we can see the attractiveness of a single neutral expert entity to take on the market facilitation role, we are not clear how this market facilitation role would align with the skills and expertise of other bodies, whether this is the FSO, the RSP or the with the real-time operations of the network companies (either DNOs or GDNs).

Considering the network, there is a risk that a lack of coordination between the market facilitator and network companies or a lack of technical understanding on the part of the market facilitator on the capabilities of the network work or an emerging technology could lead to inefficiencies and sub-optimal outcomes in the way that solutions are deployed and the price signals created within the market may not reflect the needs of the network in delivering an effective market based response to a shortage or scarcity.

Secondly, the remit of this market facilitation role also needs to be considered alongside the geographical focus and the role of the FSO and the role of the RSP. It needs to be considered whether the objective is to create a national market that supports the FSO and that RSPs in the majority benefit from or whether the markets should be supporting the RSPs in their primacy and therefore in aggregated supporting the role of the FSO.

Our perspective is that there are benefits of the latter and in which a case single market facilitation entity at a national level may be a lighter body and that more of the market facilitation is carried out aligned with the regional characteristics captured within an independent RSP structure – a national consistency but precise rules and characteristics that are defined according to the needs of local markets that are specific to each RSP. It is then important to note that some products may be local markets in electricity but have national implications for gas.

There could be unintended consequences of standardisation, such as limiting innovation or hindering competition. The increased reliance on market-enabling infrastructure and platforms could create cybersecurity and data privacy risks.

The role of the market facilitator must have the necessary expertise to reduce the risk of inefficiencies and delays.

There may be resistance from organisations as they seek to protect their commercial interests from open and transparent markets.

6. Do you agree with the allocation of roles and responsibilities set out in Table 2? If not, why not? [page 33]

The roles appear to be allocated correctly based on the proposal. However, it is important to note that the success of the proposed governance reform is contingent upon a more precise definition and the effective execution of these roles and how well coordination between relevant actors is ensured. Therefore, it is important to monitor and evaluate the performance of each actor and to make adjustments as needed to ensure that the governance reform achieves its goals effectively and efficiently.

7. Are there other activities that are not listed in Table 2 that should be allocated to the market facilitator or other actors? [page 33]

It is very important that product development and standardisation should have a cross vector responsibility so that the price signals and associated responses within one market do not have unintended consequences for other energy vectors.

Secondly, it is very important to understand the alignment of risk between the market facilitator, the structure and the network (and we would stress that this could be either DNO or GDN). If poor market design creates a poor customer outcome such as a supply interruption, then it is important to understand who takes responsibility for that outcome and that licence obligations are aligned accordingly.

8. What are your views on our options for allocating the market facilitator role? [page 35]

As discussed in our response to question 6, our view is that the RSP (as an organisation that is closely aligned to, but independent from the FSO) could be the appropriate body to take on responsibility for the market facilitator role, specifically as responsibilities are likely to be more regional.

If we consider hydrogen storage as an example, it is our expectation that hydrogen storage will need to develop across the country according to the local needs and the geographic capacity of storage infrastructure. Longer-term seasonal storage is likely to be more determined at a national level, intra-day and inter-day security of supply may be determined more locally according to the demand and generation mixes specific to that region, a national market facilitator is less likely to recognise the nuances of the local market requirements.

As such we agree that of the options presented, we do not think that the ENA is the appropriate body or has the appropriate governance structure to make market design decisions that could have material commercial and economic value.

In terms of the FSO or the RSP (on the assumption that they are independent from each other) we would suggest that the RSP is more appropriate as it is more closely aligned to the point of relevance for the market and the respective price signal it is looking to create.

9. 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? [page 35]

Co-facilitation: the government could select multiple parties to perform the market facilitator role jointly. This could result in increased competition and collaboration, which could lead to better outcomes. However, it could result in issues with coordination, duplication of efforts and additional administrative costs.

10. Do you agree that DNOs should retain responsibility for real time operations? If not, why not? [page 40]

We agree that DNOs are best placed to manage real-time operation of networks. DNOs are uniquely equipped to maintain the safety and quality of supply and manage network congestion efficiently while using knowledge of the local network to make decisions that benefit customers. Additionally, we support cross-vector operational coordination and work proactively with other DNOs, and relevant parties as required via support from the RSP in a coordination role. If the responsibility of real-time operations were to move to another actor this would cause a high level of disruption, not only for conventional operations but also through the additional complexities of managing the introduction of low carbon gasses e.g. biomethane and the use of hydrogen.

The proposed governance reform for real-time operations outlined in the document has significant implications for DNOs. The proposal will require DNOs to adapt to a changing system and manage increasing volumes of Distributed Energy Resources (DERs) to maintain system stability and manage network congestion. This will require enhancements to network visibility and monitoring to inform operational decision making, as well as transparent processes for sharing operational data across DNOs, with external third parties and the FSO. This would need to be considered further, there would need to be adequate funding available as well as time to develop, embed and implement in order to support the process.

Risks associated with the reform have implications for DNOs that require further development. DNOs would require significant investment to meet new requirements and responsibilities.

DNOs would need to coordinate with other DNOs and National Grid to ensure a coordinated response to events that affect the wider system. This could be challenging, particularly during high-stress situations, such as severe weather events.

We would need to understand the allocation of responsibility made by FSO, and the risk borne by the networks as this additional risk could result in reputational damage.

11. What is your view on our proposed approach to the undertaking of an impact assessment as outlined in Appendix 1? [page 43]
12. What is your view on the most appropriate measure of benefits against the counterfactual? [page 43]
13. 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. [page 43]
14. 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. [page 43]
15. What additional costs may arise from sharing functions with several interacting organisations? We welcome views on set up cost, lost synergies, and implementation barriers. [page 43]

At this stage, we have decided to group our response to Questions 11 – 15, as it is challenging to answer these questions due to the lack of detail available on the measures being proposed. We are happy to engage further with Ofgem as this develops.

It is our view that to be effective an impact assessment should be made and consulted upon in advance of the decision being made, that there should be transparency in the assumptions made and whether the outcome of the impact assessment changes significantly according to different assumptions.

Within this impact assessment, we believe it is important not to be overly optimistic regarding the perceived benefits or the timings of those benefits. It is a common perception that most significant institutional changes such as those proposed here, will take longer and cost more than originally proposed, the potential benefits are then likely to be highly dependent on the decarbonisation pathway deployed.

It is very important that such institutions should be impartial in their assessment and facilitate all decarbonisation pathways based on the evidence available to them. Otherwise, the social cost of locking customers into a more expensive pathway prematurely may significantly outweigh the social benefits that any such institution may otherwise create.