

Issued by: Ofgem

Territorial extent: Great Britain

Response author: SGN

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Response to specific questions

The FSO's Financial regulatory framework

1. Do you have any views on our proposed financial regulatory framework for the FSO?

We broadly agree with Ofgem's proposed financial framework, however, there are some points that we would like to clarify.

Para 2.13 states whilst the FSO's gas function is funded via NGT, we are taking this to mean that NGT will charge it as a pass-through cost to the shipper through established charging methodology principles.

For the recovery of electricity functions the document is not explicit on the cost recovery mechanism. We presume that this would be through existing charging structures as well, but we would like to confirm that this is the situation.

Whilst we recognise that cost recovery through the transmission networks may be the simplest approach, we are concerned that this risks reducing the transparency of the charges and their impact on customer bills, so it is important that they should be separated as clearly as possible.

2. Do you have any views on our emerging thinking on how we should regulate the FSO, including our objectives, the case for change, and potential future options?

We agree with Ofgem's objectives, as they are all credible statements which set a solid foundation for regulation. However, these objectives are broad and therefore hard to put a specific measure on. Accordingly, it would be appropriate to have a form of assessment that is independently verifiable as to whether those objectives have been achieved or not.

We would be keen to understand how emerging thinking will develop to ensure alignment between FSO objectives and through primary duties placed on GEMA through the Gas and Electricity Act.

In terms of regulatory design, we do agree with the approach, we are very aware though that of the example set out in Table 1 – assessment of the ESO against the FSO framework, the summary provided is very subjective. It is very difficult to envisage a red RAG status being presented and similarly, it is hard to see the assessment driving improvements in performance.

Having a more structured approach with agreed and measurable targets would help to improve transparency and focus on defining what 'good' looks like and would also help improve consistency between assessments particularly if there is limited continuity between the people undertaking the assessment.

3. What role should industry stakeholders and external parties have in holding the FSO to account, and what platforms are needed to achieve this?

It is our view that direct industry stakeholders should only have a limited view in holding the FSO to account. Their views are important, but they should be presented in an anonymised form to an evaluative panel. The reason for this is to reduce the risk of undue influence either as a result of historical practices or in the aspiration of future practices.

Given the importance of this body, we agree with Ofgem's initial view that it should continue to assess the FSO's performance. It is our view that option 1 of reporting against granular delivery schedules is the most important approach and that there should be stakeholder engagement in the delivery schedule definition and success criteria.

We are also very cognisant that the roles of the FSO have been historically focused on electricity and they are being asked to take on the role of GSO, it is important that each area has feedback from relevant stakeholders and external parties in that area.

4. Do you have any views on our approach to implementing changes?

No comments.