

Reference
Future System Operation

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Ofgem
Future System Operation Team

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Future System Operator – draft licences consultation

Thank you for the updates and the opportunity to respond and comment on this second consultation. This response is made on behalf of Cadent and can be published by Ofgem.

Our responses to the questions are included in the attached Annex, but we would like to make the following points:

- We note that this is a non-statutory consultation at this stage and many of the items we are seeking further clarity on will be covered in later consultations, so we look forward to this.
- We are keen to understand what safeguards will be put in place to enable and ensure whole system decision making as early as possible.
- There is a large amount of detail across various tiers of documents, and it can take a large amount of time and resource to understand the various interactions. Is there a way of making this easier for all parties to follow.
- In future consultations we need to understand the reasons for the inclusion, exclusion or amendment of all GSP licence conditions.
- If as the consultation suggests the FSO will be able to request work from other regulated entities, we would be looking to understand what agile funding mechanisms would be in place to enable all parties to cater to it.

Yours sincerely

A handwritten signature in blue ink that reads 'S. Easterbrook'.

Stuart Easterbrook
Head of Net Zero Energy Frameworks, Cadent



Annex

Consultation question 1: Does the draft ESO licence capture the policy intent set out by the joint 'Proposals for a Future System Operator' and 'Future System Operator: second policy consultation and project update' consultations?

Our response to Q1 and Q2 are interlinked and so we have only answered Q2.

Consultation question 2: Does the draft GSP licence capture the policy intent set out by the joint 'Proposals for a Future System Operator' and 'Future System Operator: second policy consultation and project update' consultations?

We believe that the draft conditions do broadly capture the policy intent but we continue to look forward to greater detail. The impact of the proposed changes are far reaching and not just applicable to the FSO, so we are keen to understand the detailed proposals as soon as possible. In particular, we would like to see what the role of the FSO will be in relation to cross vector whole system planning, and when this role will develop, especially with a view on emerging hydrogen systems.

We note the intent to create a new GSP Licence, however this consultation has only set out the thinking behind the conditions that have been copied or created. It does not include the rationale behind the decision to exclude various conditions. A good example of this is Standard Special Condition A12 of the Gas Transporters Licence. Given the FSO's role in raising UNC modifications, and in market strategy development, and a potential role as a Code Manager, we would expect to see A12 replicated in the GSP Licence. We look forward to the statutory consultation setting out the decision-making process on inclusion/exclusion for each of the current National Gas Gas Transporter/System Operator Licence conditions.

We note that the proposed system operator functions are very different across the vectors with the intended gas functions remaining shallow and would question whether this would remain sustainable. Whilst it may be impracticable to deliver fundamental change for the current gas sector, the new framework being developed for hydrogen can be built to reduce the imbalance in the SO role between electricity and gas.

We would also request that along with Directors being sufficiently independent it is vital that there is a good balance of knowledge across vectors, at the governance and sanctioning levels in the FSO. This would require ensuring that some Directors have gas industry knowledge to support more balanced decision making and guard against unconscious bias.

In addition, we would request that Condition B3 - Conduct of the ISOP Business is tightened to emphasise the criticality of ensuring that all vectors are given equal weight in FSO decision making. Robust organisational and governance design is required to deliver effective whole system decision making, but we have little confidence that this will be delivered with the current Licence drafting. As well as reinforcing this in suitably clear Licence drafting, we think there is a need to take further steps to scrutinise and ratify the organisational design of



the FSO e.g. through the composition of the FSO Board, or a formal role for Ofgem or Government appointed industry advisory group.

We would also like to see further clarification on the following conditions:

- B8 – Information ringfencing requirements. Can we have clarity on whether information gathered by GSP will be then used across the FSO functions or restricted to gas duties?
- B4: Compliance with directions related to national security – We request clarity on what is meant by this, and how these powers would be used and monitored.
- C4: Licensee's assessment of gas supply security Condition – Why does this condition only refer to security of supply? We would suggest that Ofgem need consider this carefully to assess the interactions between methane, hydrogen, and electricity as these are closely interlinked and affects are wide reaching.
- C7 – Energy resilience and reporting – we would ask that the FSO create a design standard for this resilience so that the networks know to what extent they need to prepare (for example to cater for a 1 in 20 extremity)
- C7: Arrangements in coordinating market strategy – We request clarity on the role of the FSO in the development of new hydrogen market framework and how this might interact with a Code Manager (or the party building a hydrogen Code if it isn't the Code Manager). Whilst this strategic role is clear for electricity and methane, further clarity is required on how this would apply to hydrogen, including any interaction with Government or Ofgem activities.
- C8: Gas strategic network planning – We note again the need for whole system consideration as soon as possible. For example, large power generators running on hydrogen converted from methane, has an impact on infrastructure and security across all vectors, and should be a consideration in the Day 1 planning, including a net zero power grid by 2035.
- D2 – Information requests by the licensee – we note that networks would need funding for ad-hoc information requests and that individually or cumulatively this would result in higher costs for the business. Rather than networks having to pursue re-openers for funding, or risk unfunded work if below a de minimis thresholds, we'd like to propose an alternative mechanism. The FSO is provided with a budget such as via a Use it or lose it fund that is available for such ad-hoc activities. This would enable agile funding but would also ensure the FSO is being economic and efficient in the information requests placed on other regulated networks. It would also establish an effective overall cap on the level of activity.
- We would also like to clarify whether the ISOP Information Request Process will cover the use of information as well as how it is requested?
- E1: Obligations regarding the Uniform Network Code - How are code obligations approached for ESO? Is it not sensible to continue with joint office obligations?



Consultation question 3: Do you have any other views or comments relating to the proposed approach to associated documents?

As stated in our response to Q1/Q2, we would like to see the formation of an enduring industry group to advise on the various ancillary documents. This would also make it easier for industry to have confidence in new and developing rules and guidance and could protect smaller players in the market who may not have the resources to monitor every page of FSO enabling documentation and consider the impact on their businesses.

Consultation question 4: Have we correctly identified the major consequential impacts of the FSO licence proposals on other licences? Any further comments are welcome.

While many of the impacts have been identified, it is difficult to form a view on this without greater clarity on the detailed proposals, and we look forward to the follow up consultations.