

## Future System Operator

### Summary of Government and Ofgem response to consultation – 6 April 2022

*At the 28<sup>th</sup> April meeting, ESO will update on the Future System Operator announcement and on its potential implications for the ESO Markets function.*

On 6 April, BEIS and Ofgem [confirmed](#) they are committed to proceeding with the creation of a new, independent Future System Operator, broadly in line with the proposals set out in the [consultation document](#) in summer 2021. The organisation will:

- be established as a public corporation, with operational independence from government.
- be licensed and regulated by Ofgem, and funded by consumers through price control arrangements.
- have a statutory duty to undertake its functions in a way that manages the trade-offs and synergies between
  - achieving net zero
  - ensuring security of supply of electricity and gas
  - ensuring an efficient coordinated and economical electricity and gas system.
- also have a statutory duty to have regard to
  - the need to facilitate competition
  - the need to facilitate innovation
  - impacts on consumers and consumer behaviour
  - whole energy system impacts
- take on all the existing roles and responsibilities of the ESO, as well as some strategic gas roles, including longer-term planning, forecasting and market strategy functions (but not real-time gas system operation or Network Emergency Coordinator functions).
- over time, take on responsibility for new and enhanced industry roles, including providing advice to Ofgem and government, strategic network planning, market design and driving competition.
- be created in a phased approach, requiring legislation, new and updated licensing arrangements, and amendments to industry codes.
- be operational by, or in, 2024, subject to a number of factors including the timing of legislation and agreeing timelines with key parties.

#### New and enhanced roles in markets

- The Future System Operator will be expected to shape and develop markets through its system and network planning functions, to build on the ESO's role in developing balancing services markets, as well as advising BEIS and Ofgem, proactively if necessary.

- The Future System Operator will be a leading party in developing gas market strategy, including publishing Gas Market Plans and leading Future of Gas forums.
- In line with the wider programme of market reform, the Future System Operator will be expected to play an important and central role in shaping market design, particularly in relation to the Capacity Market. Detailed roles will be considered as part of the next statutory Capacity Market five-year review.
- At this point, no changes are proposed to the ESO's existing Code Administrator roles. The consultation decision confirmed the concept of licensed code managers, with enhanced ownership of their codes and greater ability to progress and prioritise change. However, all decisions regarding the extent of the Future System Operator's long-term involvement in code management will be made as part of the Energy Code Reform consultation.
- The Future System Operator will have a licence obligation to provide advice to Ofgem on an annual basis as part of the regulator's new strategic direction setting role for the energy codes.
- During the implementation of new roles, there will be engagement and a consultation process to ensure transparency, clarity and co-operation with stakeholders.
- BEIS and Ofgem are mindful of not overburdening the Future System Operator too early in relation to completely new roles, particularly where the organisation may not initially have the relevant expertise. An appropriate way to build up new capabilities will need to be considered as part of the implementation phase.

### Next steps

- Primary legislation will be introduced when parliamentary time allows.
- Assuming primary legislation has been enacted, a limited amount of secondary legislation will be needed. New licensing arrangements will be required, and other industry licences and codes will need to be modified where necessary to take account of the new arrangements, with consultation of industry stakeholders where appropriate.
- Discussions will continue with key affected parties to make sure there is a plan in place for a smooth transition to the new arrangements. Subject to these discussions and legislation, there will be transactions between government and National Grid plc, as well as any other relevant parties (recognising the proposed divestment of National Grid Gas), to transfer the relevant elements of their businesses into the Future System Operator.