



E3G

FUTURE SYSTEM OPERATOR SECOND POLICY CONSULTATION AND PROJECT UPDATE

E3G SUBMISSION TO THE UK GOVERNMENT'S CONSULTATION

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About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

Response

Question 1 - Do you have any views on the proposed new security and resilience roles?

We support the addition of this new proposed role. We think it is essential that there is an updated approach to risk management in the energy industry, to reduce the likelihood of unexpected shocks on the pathway to net zero, and this new role could help in this regard.

We think the wording which directs which 'risks' the ISOP should be considering when it formulates its 'short, medium, and forward view of risks' is very important. Traditionally quite a narrow scope of risks has been considered within planning, mainly focusing on having enough capacity to deal with winter peak demand, and we think it would be valuable for this to be expanded.

Work is underway by Government and the ESO to improve our understanding of future system stress events and how to prepare for them. Considering this is essential for system planning decisions being made now and we believe further



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work is needed here. It's highly likely the ISOP will need to consider this under the current license wording, but it would be valuable for this to be explicit.

The area which we think may be overlooked with the current wording is for the ISOP to consider the risks which will affect the efficacy of different pathways to a net zero energy system. For example, supply chain shortages, fossil fuel price shocks, changes in demand patterns, a need to accelerate decarbonisation, delays to specific projects or changes to interconnector flows. They should consider the potential impact of these risks on the energy system, particularly as the energy system becomes more integrated and multi-vector.

Having the ISOP look into this broader set of risks would improve our planning and reduce the likelihood of unexpected shocks on the pathway to net zero. This is incredibly important as the energy system will be undergoing an exceptional amount of change in a short space of time, and it is important that this transition is not held up by unforeseen events and that the energy system remains reliable and resilient. A more comprehensive assessment of risks could be linked to the FES to show which pathways are resilient and feed into decisions about the future energy system. This could help the industry to choose pathways which have positive outcomes in 95/100 scenarios or allow increased flexibility, rather than choosing a solution which is hypothetically cheaper but may be positive in 1/100 scenarios. It could also help the industry evolve how it considers uncertainty as this could be viewed through a risk management approach and how this interacts with other risks.

Therefore, we think additional wording should be added which directs the ISOP to take a comprehensive approach when creating a forward view of risks for the system. An alternative approach could be to require the ISOP to not only formulate 'a short, medium and long-term view of risks that could impact the safety, security or resilience of the system' but also to consider the risks that could impact successfully meeting the carbon budgets and risks which could impact the cost of energy for consumers. This would align with the primary duties of the new ISOP.

Question 2 - Do you have any views on the proposed new National Security power, and duty on the FSO?

We broadly support this new power, but think it is essential that there are requirements for transparency around its use both in terms of what Government is asking for, and how the ISOP responds. This transparency will provide natural checks and balances to ensure the power is not being misused. We do



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understand though that this is a difficult matter, as in some circumstances where national security is at risk, full transparency may not be possible. We believe Government should look to strike a balance in the license conditions.