

REA Response to Policy Direction For The FSO's Regulatory Framework Consultation

The Association for Renewable Energy & Clean Technology (REA) is pleased to submit this response to the above consultation. The REA represents a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are over 500 corporate members of the REA, making it the largest renewable energy trade association in the UK.

Q1) Do you have any views on our proposed financial regulatory framework for the FSO?

The REA overall supports the proposed financial regulatory framework and, in particular, we stress that the following key principles should sit behind the financing regime:

- The FSO should be not for profit and not be steered by shareholder returns. It is therefore appropriate that Government, as the owner, does not receive any financial benefits and is not subject to losses.
- To provide certainty, funding needs to be committed to and predictable for a suitable future time period. We, however, note that while this can be done within 'fast money' arrangements, the funding must still be appropriately de-risked so that FSO investment plans that span longer than a year can be committed to.
- Financial arrangements must be suitably de-risked and immune from political uncertainty. The budgeting regulation applied by Ofgem should be firm and not possible to be unpicked for political reasons in the short term. This could undermine the FSOs ability to suitably plan for the future and undermine its independence.

However, we would also highlight that further detail is needed on how Government plans to ensure the FSO can manage any temporary cash flow constraints. This is especially important in the first few years of operation, when long term investment is needed to properly establish the body.

Q2) 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?

The REA agree with the objectives stated for the FSO to achieve.

In particular, we highlight that the primary objectives should be Independence, Accountability, and Transparency. It is imperative that the FSO is given full autonomy and that

no conflict of interest can occur within the organisation so that the FSO can decide how to best meet its legal duties and obligations. At the same time, it is also important that the FSO be held accountable for its performance with clear and effective consequences for non-compliance towards meeting its legal duties and obligations. Finally, Transparent processes that give confidence to all stakeholders are important for maintaining the sectors confidence in the FSO.

The REA also suggests that stakeholder engagement should be explicitly included under 'Accountability' to ensure that the FSO has a duty and obligation to engage with all areas of the sector are consulted on its performance.

We would also call for 'Decarbonisation aligned with the 2050 net zero target', to be a key regulatory-stated objective for the FSO, guaranteeing this role is also referenced in the organisation's regulations.

The REA also agrees with the stated Option 2 approach of *"Ofgem evaluates the FSO's performance delivering strategic outcomes, informed by FSO reporting on progress against major deliverables and a few key performance measures."* We agree this would mean the FSO is under more scrutiny from Ofgem and is not reporting on itself hindering the transparency of its operational performance. This must also provide the opportunity for Ofgem to run a consultation with industry stakeholders so that a platform for stakeholder feedback on the FSO's performance is provided as part of the evaluation.

Q3) What role should industry stakeholders and external parties have in holding the FSO to account, and what platforms are needed to achieve this?

The REA strongly supports maintaining the need for continuous, strong stakeholder engagement and feedback. An expansive range of methods should therefore be used for collating feedback and not just an annual questionnaire or consultation, but also utilizing online stakeholder workshops.

There should also be a requirement for the establishment of a quarterly or biannual External Stakeholder Advisory panel, this could comprise Trade Bodies and relevant external expertise to provide regular engagement.

However, we note that more detail is needed into how the FSO plans to be prepared to impose effective reputational penalties if ever required, so assurance is given to stakeholders that there are deterrents to misaligned actions against the FSO's legal duties and obligations. Crucially, there needs to be more extensive detail provided into the process in which stakeholders can raise concerns over the FSO.

Q4) Do you have any views on our approach to implementing changes?

The REA support the FSO's transitional approach but there must be clear and consistent timelines in place for this transition and it is of great importance that all through the transitional period the FSO continues to learn lessons and make adequate adjustments to regulations as the regulatory framework is implemented.