

# Consultation on Associated Documents to the proposed NESO licences – regulatory framework documents

## *National Grid plc response*

**This response to Ofgem’s “*Consultation on Associated Documents to the proposed NESO licences – regulatory framework documents*” dated 24 May 2024 (the consultation) is from National Grid plc (NG), on behalf of our transmission business, National Grid Electricity Transmission (NGET), our electricity interconnector business, National Grid Ventures (NGV) and our electricity distribution business, National Grid Electricity Distribution (NGED). It does not cover the separate National Grid Electricity System Operator business.**

We welcome the detail and amendments to the Associated Documents included in the consultation which will support the implementation of the NESO from Day 1, acknowledging that more fundamental changes to the regulatory framework will be developed in consultation with stakeholders in due course. In particular, we welcome the addition of Section 5 covering the expectations for ISOP implementation in the Roles Guidance, and that future NESO performance assessments will include these aspects.

Given its role at the centre of the energy system, the NESO has the potential to either create value which far exceeds its direct costs, or equally if it underperforms to have a wide-ranging negative impact across the entire sector. Therefore, it is important that Ofgem establishes a framework which incentivises a high performing NESO. While moving from a profit to a not-for-profit model will change the drivers and behaviours of an organisation, making it a public sector body will not, on its own, ensure it is high performing and focussed on delivering good outcomes for their stakeholders and customers. A clear incentive and regulatory framework, with adequate monitoring to identify if any performance issues are developing is essential. We encourage Ofgem to retain this principle in mind when it considers the new institutional arrangements and policy framework for the NESO. National Grid is keen to work with you and the NESO to define these new arrangements: inputs from all of industry will be necessary to design the optimal arrangements.

While we agree some of the proposals for streamlining the regulatory process for the remainder of the ESO’s RIIO-2 Business Plan 2 (BP2) assessment period, we do not agree with the proposed removal of independent oversight by the Performance Panel and the stakeholder survey at the 18-month review stage. This will leave a period of 12 months without any formal process to capture stakeholder feedback. The current process for the ESO requires a targeted review from the Performance Panel at the 18-month stage, which we believe remains appropriate and proportionate for the NESO. The period of transitioning to full implementation of the NESO will require close collaboration across all stakeholders. Through appropriate monitoring and engagement on the NESO performance, areas where further focus or clarity is required, or where there are developing issues, these can be identified and dealt with in a timely manner. In the absence of this monitoring, there is a risk that these areas will be missed.

In relation to the section added to the roles guidance for ISOP implementation, we would welcome more explicit acknowledgement that the NESO should consider the implications and interactions of its new roles with the other responsibilities and expectations set out in the rest of the guidance document, as there is a lot of potential overlap/interaction, e.g. SSEP and strategic planning. We would also welcome additional clarity on the ambition for RESPs and for the RESP roles to be defined in a succinct and comprehensive manner. A roadmap outlining the layered and continued maturity growth of the RESP would be useful to help inform stakeholders’ expectations both for the remainder of BP2 and beyond.

It will also be important for the NESO to be adaptable and pragmatic in delivering its roles and responsibilities so that they continue to match wider ambitions for the transformation of our energy system. We would welcome clarity on how stakeholders will be consulted where there are changes to wider policy for decarbonisation and net zero, to ensure that the role of the NESO is appropriately ambitious.

Finally, given the increased breadth of the NESO’s roles and responsibilities, prioritisation will be key to ensure that resources are focussed on the right areas at the right time. We look forward to further engagement on this both for the remaining BP2 period and the next reporting period post March 2025.

We have included more detailed feedback on each of the Associated Documents below. We are happy to discuss this further and we look forward to continued engagement on both the evolving NESO regulatory framework, and changes required to other Associated Documents.

## ISOP Roles Guidance Document

### Role 1: Control Centre Operations

We do not have any comments on the housekeeping changes made to this section of the document.

### Role 2: Market Development and transactions

- REMA: We note that there isn't a reference in this section to government's Review of electricity market arrangements (REMA)<sup>1</sup> programme. However, there is a reference to REMA elsewhere in the document, in relation to Connections Reform (Activity 3a, page 58, under 'Exceeds expectations'). Specifically, it is stated:

"Draw on thinking on longer term models and assessment to inform wider reform programmes, such as the **REMA**, future system planning approaches and others as applicable. This includes, but it is not limited to:

- o Proactively providing other parties (including Ofgem and Government) clear and timely direction in what is required to enable the reforms identified, giving sufficient notice to enable productive responses and consideration in all cases".

A similar reference could be repeated under Activity 2c ('Wholesale markets'). Any language should be broad enough to capture market reforms which are outside the REMA scope, as there are a number of market reform areas, referenced in the REMA consultation, which are progressing outside the REMA programme.

In its most recent consultation, government stated that it intends to conclude the policy development phase of the REMA programme by mid-2025 and move into full-scale implementation from 2025 onwards, or earlier where possible. Therefore, this version of the ISOP Roles Guidance Document (in effect until 31 March 2025) will likely coincide with the period of the REMA policy development phase. During this period, NESO will likely be progressing some reform aspects referenced in the REMA programme (e.g. assessing the case for reform to GB's dispatch arrangements, developing an electricity system operability strategy for 2035 etc.) and supporting government and Ofgem in the various reform programmes already in train.

### Role 3: System insight, strategic planning and network development

- We support your plan, as referenced in paragraph 4.1, to update the regulatory processes and documents in respect of strategic planning and network development to provide a consolidated set of expectations for strategic planning from April 2025. This should ensure that the requirements and expectations from the CSNP methodology can be reflected in these processes and documents.
- We are not clear if the reference in paragraph 4.2 to the ISOP delivering "a transitional CSNP (tCSNP)" refers to 'tCSNP2', which is now complete and formed part of the 'Beyond 2030' report published by the ESO in March 2024 or the proposed 'tCSNP3/tCSNP2 refresh' expected later this year/early 2025. We recommend the drafting in paragraph 4.2 is made clearer in this respect.
- Under activity 3b where it states "In line with any FEP Guidance" – we assume there will/should be FEP Guidance and so this should be updated to reference "the FEP Guidance"
  - Activity 3c – Optimal network investment
    - o There is ongoing reference to the NOA and the CSNP as well as transitional CSNPs in this section. We would welcome clarity on how the NOA is expected to interact with the CSNP and any further tCSNPs. We expect the NOA to be replaced by the tCSNPs and CSNP, but unclear at what stage this will happen. For example, against the "Coordination between network assessments" section, the requirement is for the ISOP to ensure proactive coordination between different assessments of solutions to transmission network needs, such as, "ensuring coherence between the NOA and CSNP assessments..." – we would not expect a solution to be subject to two separate assessments and are unclear what this reference is proposing. We would welcome further clarity in the updated drafting.
    - o The "Transitional CSNP" section needs to be updated to clarify that the tCSNP (HNDfUE and NOA8) was produced and published in 2024 (not 2023).

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<sup>1</sup> [Review of electricity market arrangements \(REMA\): second consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements-rema-second-consultation)

- In the “Development of the CSNP” section, this does not appear to fully reflect Ofgem’s CSNP Decision in December 2023. For example, it currently refers to earlier consultations and does not reference the decision. It also refers to iteration of “potential alternatives to modelling demand and supply.....for example considering the use of a single short term ‘central estimate’, followed by multiple scenarios..”, which the CSNP Decision concluded.

## Expectations for establishing the ISOP (FSO transition Activities)

Overall, we recommend drawing out more explicitly that NESO should consider the implications and interactions of its new roles with the other responsibilities and expectations set out in the rest of the guidance document, as there is a lot of potential overlap/interaction, e.g. SSEP and strategic planning. We would also welcome the addition of a statement to capture that there should be a focus on defining the interfaces and governance processes (such as escalation routes) between NESO and stakeholders to ensure clarity on the NESO’s roles and responsibilities and where stakeholder inputs will be required.

We also have feedback on the following areas:

- **The Strategic Spatial Energy Plan (SSEP):** Section 5 of the guidance, footnote 57 refers to the Gas System Planner licence condition C8, which does not seem the right reference for the SSEP.
- **Regional Energy System Planners (RESPs):** As this version of the ISOP Roles Guidance document is proposed to lapse on 31 March 2025, we would not expect RESPs to exercise their fully-fledged roles and capabilities during this period. Instead, we are aware that RESP maturity will increase over time, and we would welcome a roadmap which defines its growth in a succinct and comprehensive manner as this would help inform stakeholders’ expectations. Such a roadmap could include a timeline with layered growth and development expectations, so that the RESPs can focus on where they can (and need to) have the biggest impact. We believe this would help with alignment and coordination of investment across gas and electric networks and transmission/distribution. We also support additional clarity of the role RESPs will play in feeding into the various price control processes. For these reasons, it would be helpful if Ofgem could set out its expectations both for the duration of the ISOP Roles Guidance Document (31 March 2025) and beyond.

In addition, we offer feedback to the drafting of the NESO’s RESPs role in this consultation document. In particular:

- In paragraph 5.2, we ask that the guidance clearly indicates that the NESO is responsible for creating a RESP methodology and for working with local stakeholders. The guidance could bring forward relevant text regarding RESP functions indicated in Table 1 of Ofgem’s Decision – Future of local energy institutions and governance (15 November 2023)<sup>2</sup> and/or it could align with guidance text table 5.3 which states “Collaborating effectively with Ofgem and impacted stakeholders to further define the processes and methodologies associated with the RESPs.”
- We also ask Ofgem to clarify how paragraph 2.7 of its ‘Decision on the framework for the Future System Operator’s Centralised Strategic Network Plan (13 December 2023)’<sup>3</sup> fits together with Table 5.3 of the ISOP Roles Guidance document. Specifically, table in paragraph 5.3 states (under ‘Delivery of new roles’):

‘Delivering the requirements (relevant to this assessment period) set out in the Secretary of State’s Commission for a SSEP methodology, whilst ensuring coordination with wider strategic planning activities and developments such as the FEP, CSNP, the Gas Network Capability Needs Report, The Gas Options Advice Document, and RESPs;’

We fully support this ambition and ask for clarification on how and when this would be implemented, as there could potentially be confusion with the 13 December 2023 decision<sup>4</sup> where, in paragraph 2.7, Ofgem said that local planning of the electricity network is outside the scope of the first CSNP:

**“2.7 We have decided that local planning of the electricity transmission networks is outside the scope of the first CSNP [emphasis added]** which is why we have decided the focus should be on wider system needs on the MITS. We note, however, that there are circumstances where it will be necessary for the FSO and electricity transmission owners (TO) to cooperate on some aspects of local network planning as part of the CSNP. For example, where a wider network reinforcement strategy also requires changes to a part of the local network, or a local network reinforcement forms part of wider strategic reinforcement. More generally, we expect that the TOs’ load-related and asset replacement for local transmission network

<sup>2</sup> [Decision on future of local energy institutions and governance](#) sets out the following RESP functions: “Strategic planning, Technical coordination, Place-based engagement and coordination, Support to local actors”

<sup>3</sup> [Decision on the framework for the Future System Operator’s Centralised Strategic Network Plan | Ofgem](#)

<sup>4</sup> [Decision on the framework for the Future System Operator’s Centralised Strategic Network Plan | Ofgem](#)

planning to inform, and be informed by the CSNP, where the interactions with the wider network are relevant. We consider this further in Chapter 6, Decision 3.”

Stakeholders would benefit if Ofgem could provide more detail about its expectations for the various plans. We would also welcome clarity on the coordination among different strategic planning activities in light of Ofgem’s previous decision that local planning will not form part of the coordination in the first CSNP.

## ISOPRI Arrangements Governance Document

### Removal of incentive reward / penalty

We understand that the move to a not-for-profit entity requires a shift from financial to reputational incentives. It will be important to ensure that the reputational incentives, coupled with the need for stretching management incentives, are sufficiently strong to drive the right outcomes; achieving positive outcomes for the energy system and delivering a high quality of service for those stakeholders who interact with (and are reliant on) the NESO.

### Assessment of new NESO responsibilities and activities

We are pleased to see that the performance assessment for the remainder of the BP2 period will also consider ISOP implementation and establishment of new and enhanced capabilities (as detailed in the Roles Guidance Document). Ensuring progress and momentum to fully transitioning to the NESO, and delivering on additional roles and responsibilities, is essential for the NESO to reach its potential at the heart of the energy transition, as well as for other stakeholders to continue to deliver at pace.

### Streamlining and improving the regulatory process for BP2

In line with our feedback on the consultation on the FSO (NESO) regulatory framework<sup>5</sup>, the removal of financial incentives places extra emphasis on the other mechanisms to hold the NESO to account and to ensure appropriate regulatory oversight. Whilst we acknowledge the narrative in the consultation that the proposed changes to streamline the regulatory process for BP2 should not be viewed as lessening overall regulatory scrutiny from Day 1, the proposal to give the Performance Panel greater flexibility in its assessment (ie a more strategic and targeted approach rather than a detailed review), in lieu of further details for an enduring regulatory framework, appears to reduce the role of independent oversight at a time when monitoring delivery and performance of the NESO is vital. We are supportive of the Performance Panel maintaining its current level of oversight until an enduring approach to independent oversight is defined and implemented.

We acknowledge that there is a balance to be struck in terms of monitoring performance and allowing the NESO to focus on delivering on its roles and responsibilities, and we welcome Ofgem’s commitment to engage widely with stakeholders throughout the current incentive scheme. However, we do not agree that the role of the Performance Panel and the Stakeholder survey at the 18-month review stage should be deferred until the end of scheme review. This will leave a period of 12 months without any formal process to capture stakeholder feedback. The current process for the ESO requires a targeted review from the Performance Panel at the 18-month stage, which we believe remains appropriate and proportionate for the NESO. The period of transitioning to full implementation of the NESO will require close collaboration across all stakeholders. Through appropriate monitoring and engagement on the NESO performance, areas where further focus or clarity is required, or where there are developing issues, these can be identified and dealt with in a timely manner. In the absence of this monitoring, there is a risk that these areas will be missed.

With respect to the reduction in frequency of some existing Performance Measures we support this change on the basis that tracking continues at the current frequency (such as monthly or quarterly) with only the reporting frequency changing. We would welcome a commitment to review this reduction in reporting frequency where concerns around performance are identified.

We look forward to engaging further on the development of the enduring regulatory framework for the NESO.

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<sup>5</sup> [Consultation on the policy direction for the Future System Operator’s regulatory framework | Ofgem](#)

## FSO Transition Funding Governance Document

We have reviewed Ofgem's proposed changes to the FSO Transition Funding Governance Document. We value Ofgem's approach as this largely aligns with the original version of the FSO Transition Funding Governance Document and the changes support the ongoing recovery of National Grid's separation costs.