



David Beaumont
Ofgem
26 September 2024

Dear David

Re: Consultation on NESO's performance incentives framework for BP3

Thank you for the opportunity to provide representation on the above consultation. Please find below NGN's responses to your consultation questions.

NESOQ1. Do you agree with our proposed approach to the performance assessment for BP3?

We support the continuation of the existing BP2 Roles Assessment methodology. We agree with the proposed cross-cutting performance assessment. This approach would enable a more holistic assessment of NESO's performance. While we are supportive of the increasing focus on major outputs, we are not clear on what 'most important areas of performance' entails in relation to targeted assessments, and what methodology will be used to distinguish between high value and low value areas of the plan. There is a risk that this could bias towards low level of scrutiny for the so called low value areas.

Ensuring value for money is mission critical because it ensures that resources are being used efficiently and effectively to achieve just outcomes.

While we welcome Ofgem's proposal to continue with the BP2 incentives scheme design, we recommend broader clarity on Independent System Operator and Planner (ISOP) implementation assessment, and specifically how NESO's delivery of gas system planning will be measured. Similarly, further details are needed on Success Measures – as in how will the quality of outputs, key performance indicators and value for money be assessed?

NESOQ2. Do you agree with our proposed changes to setting performance expectations for BP3?

We agree with the proposal that the NESO Roles Guidance should focus on providing guidance on how NESO can best meet its licence obligations, and welcome the clarification of 'meets expectations' section of the Roles Guidance. Similarly, it seems sensible that BP3 incentives will be primarily underpinned by NESO's Performance Objectives rather than Roles Guidance because of the granularity of the latter which makes it difficult to draw out priorities.



While we support changes to expectation set for ESO's existing BP2 roles, greater clarity is needed on the expectations for NESO in relation to their new role as gas system planners. We consider it to be beneficial to provide additional guidance on NESO's license obligations to support key standards such as Condition C1 of the new NESO license, and the Gas System Planner (GSP) licence. Further clarity is also needed on design of NESO's key performance objectives.

NESQ3. Do you agree with our proposed requirements for NESO's Business Plan?

We welcome the proposal that NESO's Business Plan sets out the key Performance Objectives and Success Measures for BP3, and a proportionate update on associated costs. It will be vital for NESO's business plan to outline how the Performance Objectives will be aligned with NESO's statutory duties.

While we agree the costs should be proportionate to the level of information already received through the Cost Monitoring Framework (CMF), we do not support the forecast costs for BP3 not requiring additional strategic narrative. We consider that this approach lacks the required level of transparency and justification needed to demonstrate value for money.

NESQ4. Do you agree with our proposed approach to assessing NESO's Business Plan and the stages involved in the Business Plan process?

We accept proposal that the BP2 Business Plan process remains in place for BP3. We welcome that Ofgem's Business Plan determination will largely focus on three elements: 1) assessment and determination of NESO's Performance Objectives; 2) Value for Money assessment; and 3) proposals for reporting requirements, including the Performance Measures for BP3. That said, provision of further details on Performance Measures is recommended. We consider it will be valuable to keep ensuring that stakeholders have appropriate routes to input into and challenge the Business Plan process.

While we support that an assessment of NESO's proposed costs and value for money should continue to remain a key part of our business plan approval process, we disagree that there will no longer be a requirement of regulatory financial submission given NESO's not-for-profit status. This is because we consider such an approach not providing sufficient transparency, and scrutiny to demonstrate efficiency and value for money.

NESQ5. Do you have any views on performance measures for BP3?

Please see response to NESQ4

NESQ6: Do you agree with our overall approach to cost regulation for BP3?

With regards to cost regulation of NESO, no immediate changes appear to be happening and appears they will evolve over time. As long as we are properly consulted on changes during GD3, we support Ofgem's current proposal.

NESQ7. Do you agree with our overall approach to stakeholder and external scrutiny for BP3?

We support the approach of maintaining the role of the NESO Performance Panel initially, with a commitment to review during the next business plan cycle in 2026.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Greg Moulds
Head of Policy and Engagement