

Energy UK response to Ofgem Consultation on National Energy System Operator's performance incentives framework for BP3

30.09.2024

Submitted via email to FSO@ofgem.gov.uk

Executive Summary

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Energy UK welcomes and overall supports Ofgem's approach to NESO's performance incentive framework for BP3. Our main feedback concerns clarity on the level of scrutiny regarding the cross-cutting assessment of NESO's performance and how the aims of NESO will be weighed against one another during assessment.

During BP3, there will be a multitude of important workstreams that NESO must make progress on. Transparency and stakeholder involvement are thus essential during this period and we encourage Ofgem to think carefully about how it is best achieved.

Performance incentives

NESQ1: Do you agree with our proposed approach to the performance assessment for BP3?

Energy UK agrees overall with the proposed approach. The proposal to take a cross-cutting assessment of NESO's performance during BP3, a vitally important period for the sector.

While we agree with this, less granular-focussed approach we hope that Ofgem does consider how assessment of granular indicators feed into the higher-level cross-cutting assessment.

We do note that further clarity regarding what a 'cross cutting assessment' means is required from Ofgem. We appreciate the principle of a cross-cutting assessment covering the biggest issues NESO must undertake during BP3. However, factors such as the weighting of different issues and how they'll be assessed needs clarity in order to ensure NESO is held sufficiently accountable during this period.

NESQ2: Do you agree with our proposed changes to setting performance expectations for BP3?

We overall agree with Ofgem's proposed changes to performance expectations. We appreciate Ofgem's intention to clarify the 'meets expectations' text of the Roles Guidance.

We would only note that it appears unclear how stakeholders would have significant input on the Performance Objectives and Success Measures that will set the performance expectations. This is important to ensure expectations are set at the right level and right level of stringency at those levels.

Business Plan and plan assessment

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

Energy UK agree with Ofgem's proposed requirements for the NESO Business Plan.

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

Energy UK overall agree with Ofgem's proposed approach.

However, we do note some of the phrasing in the consultation that requires clarification from Ofgem. Firstly, the consultation states that should NESO meet its 'stretched' objectives, which they will need to be given the size of the task ahead of it, then this will be seen as NESO exceeding expectations. In other words, current phrasing in the consultation implies that NESO achieving its BP3 aims would be considered as going above and beyond expectations rather than it is performing its expected function. Whether or not this is the case requires clarity.

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

Energy UK would emphasise the need for there to be a measure for the degree of coordination NESO displays across various workstreams. This is essential given the

potential interactions of workstreams like REMA, TNUoS charging reform, connections reform and others.

Another needed measure should be on the degree of transparency and stakeholder engagement NESO achieves. This has frequently been cited as an issue regarding important workstreams in the past and needs rectifying during this crucial period.

Cost regulation

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

Energy UK agrees with the intention for cost regulation during BP3 to remain mostly unchanged.

Stakeholder and external scrutiny

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

Energy UK agree with the overall proposal to maintain platforms for stakeholder engagement during BP3. We also appreciate the desire to improvement engagement during the end-of-scheme stakeholder events. More detail on how this might be achieved would be useful.