

Policy direction for the Future System Operator's regulatory framework

Prospect submission to Ofgem

February 2024

Introduction

1. Prospect is the UK's leading energy trade union. Our response to this consultation is informed by the experience of more than 23,000 members working in energy generation, transmission, distribution, research, and system operation roles around the country. We are the largest trade union at National Grid ESO (NGESO) with a significant membership transferring to the National Energy System Operator (NESO)¹.
2. We welcome the establishment of NESO. Prospect wants the UK to build a clean, reliable, and affordable energy system that supports good jobs around the country. NESO will be at the heart of this, as a centre of technical expertise delivering a long-term, strategic approach to system operation and planning.
3. NESO's skilled and committed workforce will be central to delivering its ambitions. Prospect has long-standing concerns about the failure of Ofgem's regulatory processes to facilitate 'workforce resilience' – ensuring employers develop a skilled and well-resourced workforce able to withstand the pressures on the energy system.² This submission sets out how the regulatory framework for NESO can avoid these and other issues.

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

4. Overall, we support the proposed not-for-profit regulatory model with a 100% fast money approach and without organisation-level financial incentives.
5. The regulatory framework must enable NESO to offer fair pay to attract and retain the highly skilled workforce it will rely on in the context of a competitive labour market and sector-wide skills shortages. This includes ensuring pay levels are maintained over time and keep up with inflation. NGESO/NESO hopes to grow its workforce by 80% by the end of 2024 alone, which will not be achieved without a fair and competitive pay framework.
6. The consultation notes that NESO will be relatively asset-light. While this is likely to be true, the regulatory framework must enable sufficient long-term capital investment in IT systems, with appropriate financial and operational safeguards.

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?

7. The consultation proposes 'robust reputational incentives' but does not provide enough detail on how these would work in practice. Reputational incentives should encourage the development of world-class skills and capabilities within the organisation. There should be a focus on delivering the stable, secure, and reliable service that energy consumers are used to, while driving innovation and meeting wider policy objectives.
8. We believe there is an ongoing role for existing performance measures, such as customer satisfaction surveys, but it is not clear where these fit in the new framework. There is also a lack of clarity about what reward or punishment would look like under the new regime.
9. We agree that the regulatory framework needs updating to reflect NESO's new statutory duties, including the obligation to have regard to the government's Strategy and Policy

¹ NESO is also known as the Future System Operator (FSO) and is referred to as the Independent System Operator and Planner (ISOP) in legislation. In our response, NGESO refers to the current organisation and NESO to the future public corporation. <https://www.nationalgrideso.com/news/eso-announces-name-forthcoming-future-system-operator>

² <https://library.prospect.org.uk/download/2021/00490>

Statement (SPS). However, Ofgem needs to clarify how it will assess whether NESO is targeting the right outcomes and priorities in its business plans.

10. Government, Ofgem and NESO need to consider how to prioritise goals and resolve tensions between them in a consistent and transparent way. For example, delivering the pace and scale of change needed for net zero while continuing to run a secure and reliable energy system. There also needs to be a process for considering practical barriers to delivering priorities, such as delays in the construction and connection of infrastructure, implementation of market and operational mechanisms, or IT and data sharing.
11. Ofgem scrutiny of NESO spending must ensure the new organisation can invest in its workforce, with a comprehensive approach to workforce planning and development at the heart of its business plans. As with other energy employers, our members at NGESO report significant concerns about understaffing and skills shortages. NESO could act as a 'skills champion' for the wider energy sector, but this requires having the resources and capacity to train staff alongside delivering its day-to-day operations.
12. The regulatory framework should give industry an opportunity to provide feedback on policies and plans before they are finalised and implemented. This must include clear mechanisms for coordination between central government, Ofgem, NESO and the wider industry.
13. The regulatory framework must avoid creating conflicting work pressures for employees. This risks creating additional stress, reducing productivity, and unfairly undermining career progression. The new framework should foster a supportive work environment that enables NESO to take appropriately managed risks to meet ambitious goals, without creating undue levels of workload and stress for its staff.

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

14. We welcome the proposed focus on transparency and accountability. Stakeholder feedback and scrutiny must include regular engagement with recognised trade unions.
15. The regulatory framework should give industry an opportunity to provide feedback on NESO policies and plans before they are finalised and implemented (see response above).

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

16. Central government and Ofgem must consider the impact of the new regulatory regime on workers at NGESO/NESO. The transition should be managed in a way that gives clarity and certainty to current and future staff. It is important that, alongside industry, recognised trade unions are actively consulted as detailed proposals are developed and the new framework is implemented. We would welcome the opportunity to engage further with Ofgem and NESO as the new framework progresses.
17. We welcome the phased implementation of the new regulatory framework. While there is rightly a focus on driving change across the industry to enable the clean energy transition, this must be accompanied by well-designed reforms that minimise delivery risk and achieve long-term objectives.

Conclusion

18. NESO will be central to delivering a clean, reliable, and affordable energy system. We urge Ofgem to carefully consider the concerns outlined in this submission to ensure the transition to the new organisation is a success.