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## ESO response to Ofgem's Forward Work Programme 2024/25 Consultation

Dear Enterprise Portfolio Management Office,

Thank you for the opportunity to respond to your consultation on Ofgem's proposed Forward Work Programme for 2024 and 2025

### Who we are

As the Electricity System Operator (ESO) for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. We play a central role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate network and market-based solutions to the challenges posed by the trilemma.

As National Energy System Operator (NESO) we will continue to build on the ESO's position at the heart of the energy industry, acting as an enabler for greater industry collaboration and alignment. We will unlock value for current and future consumers through more effective strategic planning, management, and coordination across the whole energy system.

### Our key points

- We recognise the critical roles that Ofgem plays in enabling all energy industry participants and stakeholders to deliver for consumers, against the backdrop of the challenges of the past two years.
- We fully acknowledge the continued focus on supporting the launch of NESO. We look forward to continuing the collaborative work, already underway, to deliver the necessary changes to establish the regulatory framework of the new organisation, its licence and the other associated industry changes which are required.
- We agree with the need to build, at pace, a clean, reliable, and secure energy system, and acknowledge this vision throughout the Forward Work Programme.
- Building this system will require a significant level of investment and we welcome Ofgem's focus on the vital importance of the strategic plans, at national and regional level, which we, as NESO will deliver, in the Strategic Spatial Energy Plan, (SSEP), the Centralised Strategic Network Plan (CSNP), and the Regional Strategic Energy Plans (RESP).
- The connections process, developed originally to connect a small number of large fossil fuel plants through the course of a year, needs to evolve rapidly to connect the growing volumes of renewable generation and other associated technologies quickly and efficiently. We are pleased to see that

accelerating and reforming electricity network connections is a key priority in the Forward Work Programme.

- Unlocking the value of decarbonised and decentralised infrastructure for consumers, will also require secure and resilient data sharing at scale, to enable the digitisation necessary to leverage the 'smartness' and flexibility of the whole energy system.
- We recognise the importance of making sure that these benefits are shared by all and are pleased to note that the needs of consumers will be at the centre of all regulatory reforms and planned activities in the Forward Work Programme.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Laura Thomson at [laura.thomson@nationalgrideso.com](mailto:laura.thomson@nationalgrideso.com).

Yours sincerely

Adelle Wainwright

Head of Regulation (interim)

## Appendix 1 Consultation Question Responses

**Question 1: We would welcome your views on our refreshed strategic framework and proposed programme of work for 2024/25.**

### Proposed strategic framework for Ofgem's regulatory work

We agree that the three proposed strategic priorities; shaping a retail market that works for consumers, enabling infrastructure for net zero, and establishing an efficient, flexible energy system, are the areas to consider, to alleviate the immediate challenges faced by consumers, and deliver the longer-term changes needed to achieve the government's 2035 target of decarbonising the electricity system by 2035.

We are pleased that the formation and running of the FSO is a key initiative for Ofgem in the Forward Work Programme for 2024/5. The setting up of regulatory systems for heat networks, CCUS and transport infrastructure dovetail with NESO's forthcoming whole system view of network planning and design, and we look forward to partnering in the development of these.

We have set out below our comments on the refreshed strategic framework and proposed programme of work for 2024/25 across the three proposed strategic priorities.

#### 1. Shaping a retail market that works for consumers

As set out in the Energy Act 2023, NESO will have a duty to have regard to the consumer impact of a relevant activity and must have regard to the strategic priorities of the Government's Strategy and Policy Statement for Energy Policy in Great Britain. Moving towards net zero will also increasingly depend on the choices made by consumers as well as by industry.

We welcome Ofgem's intention to make sure that the energy retail market works better for consumers in a smarter energy world, with the opportunities of the net zero transition available to all. We believe that consumer engagement plays a vital role in the transition to a sustainable and secure energy system. As we have set out in our Future Energy Scenario 2023<sup>1</sup>, our Leading the Way and Consumer Transformation see high levels of change with consumers playing a key role in reaching net zero. Consumer Demand Side Response services will become increasingly important to help balance supply and demand during peak times. We have already seen this in the successful launch of the ESO's Demand Side Flexibility service. First launched for Winter 2022/23 this has again been utilised to allow the ESO to access additional flexibility during Winter 2023/24.

We welcome the planned review of the Consumer Vulnerability Strategy 2019-25 to identify if improvements are needed in supporting those who are digitally disadvantaged and at risk of not being able to participate in, and benefit from, the flexibilities of a more decentralised energy system, such as the Demand Side Flexibility service.

Whilst we have no comment to make on Ofgem's ongoing work to ensure fair prices, we will continue to provide analysis and insight to aid Ofgem in driving the industry behaviours which ensure energy markets deliver good outcomes for consumers.

We recognise the balance that must be struck between bringing new and innovative products and services into the retail market and not introducing regulatory barriers which hinder the development of these.

We anticipate that heat networks will have a role to play in the decarbonisation of the energy system and we welcome the planned activities to develop a regulatory framework to protect consumers in the sector and support investment.

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<sup>1</sup> [Future Energy Scenarios \(FES\) | ESO \(nationalgrideso.com\)](#)

## 2. Enabling infrastructure for net zero

We agree that there is a need for a significant increase in infrastructure to deliver the government's 2035 net zero target, and we recognise the central role Ofgem has to play to ensure its delivery in an economic and efficient way, that also guarantees high standards for consumers.

We are excited to carry on the work, already underway, to establish NESO, in collaboration with colleagues across Ofgem and the Department for Energy Security and Net Zero (DESNZ). It is vitally important that the establishment of the regulatory framework, the licence conditions for NESO, and other impacted organisations, and the coordinating code changes are delivered in a timely fashion, to ensure NESO is set up for success from 'Day One' and continues to develop beyond this into its 'Day Two' roles.

As NESO, we will take on a greater role than before in the strategic planning of the energy network, delivering the Strategic Spatial Energy Plan, and moving towards delivery of the Centralised Strategic Network Plan. We look forward to working with Ofgem to define the licence conditions and guidance documents which will set out the requirements for the CSNP, and key inputs including the SSEP and FES.

We are also pleased to note the intention to work alongside us to introduce the Regional Energy Strategic Planners (RESP) across Great Britain, to make sure that energy networks are coordinated across fuels and geographies, with input at local and regional levels. As outlined in the independent report we commissioned from Public First<sup>2</sup>, there are benefits to be gained from more coordinated and efficient delivery of key local infrastructure projects.

We also note Ofgem's intention to pursue the introduction of a Flexibility Market Facilitator. We believe that this organisation should be able to deliver market changes at pace, as well as looking at the wider market and policy reforms required to facilitate the growth of local flexibility. If appointed, NESO would stand up the role of Flexibility Market Facilitator, distinct from the transmission network design teams, which would draw on the extensive local engagement of the RESP function, whilst also working closely and collaboratively with other organisations and providers.

Low-carbon technologies, including new nuclear, carbon capture, utilisation and storage, and hydrogen will have varying parts to play in the decarbonisation of the energy system and we agree that economic and regulatory regimes need to be designed to help facilitate investment so that benefits of these technologies can be accessed.

In a more intermittent system of renewable generation, long duration energy storage which can be utilised across different time horizons will be vital. We welcome the work Ofgem plans to undertake to support the development of appropriate frameworks to enable investment.

We agree that there will need to be a major expansion of electricity networks to connect new generation and low carbon technologies. We are participating in the consultation process on the RIIO-3 frameworks as our key outputs, including FES 2024, will have a role to play in the business planning of the network owners, across gas and electricity, alongside other considerations. We anticipate that further understanding of the strategic role for hydrogen will develop within the RIIO-3 price control timeframe.

We welcome the continued focus on the Accelerated Strategic Transmission Investment (ASTI) framework and Large Onshore Transmission Infrastructure projects as part of the physical roll out of the nation's net zero ambitions.

We have recently published our Early Competition Implementation Update<sup>3</sup> and will be working closely with Ofgem and DESNZ to establish the frameworks and processes to launch a competitive process.

Along with our ongoing work on Offshore Coordination<sup>4</sup>, we will continue to work with Ofgem and DESNZ on how Offshore Hybrid Assets (OHAs) could be designed, controlled, and operated, and welcome continued valuable discussions with all stakeholders, to ensure that deriving the benefits of interconnected and offshore assets, is enabled in a way that is efficient for consumers, and takes account of the impacts on communities and the environment.

In 2023 the Winner Review found that one of the biggest barriers to delivering a decarbonised energy system is the time it takes to connect new renewable generation, and other assets. In December 2023 we published

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<sup>2</sup> [New Regional Energy Strategic Planner role | ESO \(nationalgrideso.com\)](https://nationalgrideso.com)

<sup>3</sup> [Early competition | ESO \(nationalgrideso.com\)](https://nationalgrideso.com)

<sup>4</sup> [Offshore Coordination Project | ESO \(nationalgrideso.com\)](https://nationalgrideso.com)

our final recommendations report following our Connections Reform consultation<sup>5</sup>. We will continue to take forward initiatives from the Energy Network Association's ('ENA') Strategic Connections Group and we believe that the work we are doing in developing the SSEP and CSNP will ensure that longer-term connections reforms are future proof and materially aligned to deliver increased benefits for our customers and ultimately, for consumers.

We believe that new and innovative approaches will be needed to meet the challenges of decarbonisation and welcome Ofgem's continued implementation of the Strategic Innovation Fund and network innovation allowances.

As well as decarbonisation, the energy system is becoming decentralised, which brings greater threats to energy infrastructure, from cyber threats to the threat of increased adverse weather events as a result of climate change. Our new Directorate of Resilience and Emergency Management will take a whole system perspective when considering resilience and energy security for Great Britain's energy system. As an Operator of Essential Service (OES) we will continue to work with Ofgem in their role as Cyber Competent Authority.

### 3. Establishing an efficient, flexible energy system

We believe that the Review of Electricity Market Arrangements (REMA) project has the potential to be one of the most far-reaching reviews of energy market arrangements since privatisation, delivering transformative benefits for consumers, and we will continue to work with Ofgem and DESNZ on the development and assessment of wholesale market reforms.

We also welcome planned work to ensure that signals sent through network charges work well with market signals. One of the key conclusions of Phase 3 of the ESOs Net Zero Market Reform programme was that locational signals are better placed within wholesale prices, rather than network charges<sup>6</sup>.

Whilst smart metering and market wide half hourly settlement are key elements for a smart energy system, we have no direct comment to make on the actions taken by Ofgem to promote the rollout of smart meters or work undertaken to support the timely delivery of the new systems and processes required for half-hourly settlement.

Data-sharing and digitalisation are also key elements of a decarbonised, decentralised whole energy system. We welcome the intention set out in the Forward Work Programme to accelerate digitalisation innovation and to embed the digital and data regulations, standards, and reforms necessary for consumer protections and prosumer engagement and trust.

Increased data-sharing and digitalisation across the energy sector will help to unlock the potential benefits of distributed flexibility from consumers and from other organisations. We are pleased to see continued focus on this in Ofgem's Forward Work Programme, and we look forward to forthcoming consultation on Artificial Intelligence and how this may be harnessed safely in the interests of consumers.

### Delivering environmental and social schemes for government

We note the continued work to administer a range of environmental and social schemes for government and have no further comment to make on these.

### Estimated expenditure

We note the budget increase above 2023/24 funding and have no further comment to make on this.

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<sup>5</sup> [Connections Reform | ESO \(nationalgrideso.com\)](#)

<sup>6</sup> [Net Zero Market Reform | ESO \(nationalgrideso.com\)](#)