

Adam Gilham  
ESO Regulation  
Ofgem  
10 South Colonnade  
London  
E14 4PU

**SSE plc**  
Inveralmond House  
200 Dunkeld Road  
Perth  
PH1 3AQ

[martin.namor@sse.com](mailto:martin.namor@sse.com)

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**Dear Adam**

**Call for input: ESO incentives BP2 – Mid-scheme assessment**

We welcome the opportunity to provide feedback on the performance of the Electricity System Operator (ESO) during the first year of its Business Plan 2 (BP2) regulatory period, running from April 2023 to March 2024. This letter is on behalf of SSE's energy businesses, including SSE Renewables and SSE Thermal (developers, owners, and operators of generation assets); SSE Energy Solutions (non-domestic energy supplier and provider of distributed energy solutions); and Energy Markets (wholesale energy market trading unit – previously known as Energy Portfolio Management).

SSE's energy businesses had numerous interactions with the ESO on a broad range of topics during the first year of BP2 and are therefore well placed to provide fair and constructive feedback on its performance.

Like other industry participants, the ESO faces significant challenges in delivering on its multiple objectives in a rapidly changing energy system. Against this backdrop and given the complexity of the activities it performs, we consider the ESO's performance to have been broadly positive over the last year. Nevertheless, there are areas where its performance needs to improve further to deliver better outcomes for stakeholders and consumers. Specifically, we would highlight the following areas.

- **Transparency:** Meaningful transparency is critical to the smooth operation and development of energy markets. We would welcome greater sharing, in an easily accessible format, of the data underpinning the ESO's analysis and decisions (both operational and policy-related). Whilst in recent years we have seen some improvements – for example, with the introduction of the Operational Transparency Forum (OTF); and between the first Holistic Network Design (HND) and its second iteration, the HND Follow-up Exercise (HND FUE) – transparency remains a critical area for improvement (as flagged by the Energy Data Taskforce, whose recommendations have not been implemented in full).
- **Approach to engagement and consultation:** The ESO should improve further the way in which it engages and consults with the industry. We welcome the introduction of regular OTF meetings and market roadmap documents, as well as improvements in managing industry expectations, by providing earlier visibility of future engagement opportunities and publishing consultations where

appropriate. We support the use of account managers to facilitate engagement with individual organisations, although we note that, sometimes, account managers can be unaware of wider developments within the ESO. The use of industry working groups (WG) is helpful but, on its own, not sufficient to ensure that changes are fully thought through, especially when relevant materials for discussion are only made available to WG members at short notice.

- **Process standardisation:** At times, the ESO can take an ad-hoc approach to resolving issues, rather than developing (or following existing) standard processes. For example, a lack of standardisation in the approach to developing and introducing new market products can result in some being very slow to come to market, whilst others are progressed more quickly but subsequently pulled.
- **Need for joined-up thinking:** We recognise the significant amount of work undertaken by the ESO but have concerns around some of this work being siloed (with some of the ESO's staff unaware of changes being planned or developed in other areas of the organisation). For example, some account managers can be unaware of changes to the connections process until later stages of development. It is important that the ESO considers the potential interactions between work areas to ensure its thinking is joined up.
- **Clarity over the ESO's role:** There are instances where the ESO is expected to present a neutral expert view and others where it may be appropriate for it to pursue its own interests. However, it is not always clear which of these two 'hats' the ESO is wearing. For example, the ESO's support for locational marginal pricing (LMP) appears to be based more on its own internal analysis and the benefits the ESO itself might be able to realise if LMP was introduced, than on broader consideration of the total potential welfare impact of such a policy.

Considering the ongoing transition from ESO to National Energy System Operator (NESO) and the additional roles and duties assigned to NESO, it is essential that sufficient resources remain available to deliver the ESO's existing electricity system roles. It is equally important that Ofgem continues to apply robust scrutiny to performance in these areas. The transition cannot distract NESO and Ofgem from delivering adequate levels of performance in relation to the existing core electricity system functions.

Please let us know if you would find it helpful to discuss any aspects of our response in greater detail.

Yours sincerely,

**Martin Namor**  
Senior Regulation Manager