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ESO Response to Ofgem's Consultation on Associated Documents to the proposed NESO licenses

Dear David,

Thank you for the opportunity to respond to your consultation on Associated Documents to the proposed NESO licenses.

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 energy trilemma.

As we will become the 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 are supportive of most of the proposed changes across the guidance documents.
- Within the ISOPRI Arrangements Governance Document we wish to highlight for further discussion with Ofgem;
 - Upon creation of the NESO, Ofgem should consider performance as a whole NESO and not solely on previous ESO BP2 commitments. Therefore, achieving the right balance between the assessment of current ESO and new NESO activities based on the new two-part assessment approach proposed for BP2 end of scheme is essential.
 - There is a need to establish clear and proportionate regulatory requirements across some of the new reporting elements including benefits reporting and ISOP plan delivery.

- We do not see that the term 'ISOP' will be frequently used publicly to describe NESO and it is no longer proposed to be used throughout NESO's licences. On that basis, we suggest that references to ISOP in the documents being consulted on are changed to NESO.
- We also wish to seek clarity on a small number of points within the ISOP Roles Guidance.

Our detailed responses can be found within the appendices below.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Simon Targett, Regulatory Incentives Manager, at Simon.Targett@nationalgrideso.com.

Yours sincerely

Zoe Morrissey

Director of Legal and Regulation – Electricity System Operator

Appendix 1 Comments and Feedback on FSO Transition Funding Governance Document

We agree with the proposal that this governance document reflects the requirements that remain relevant to NESO in relation to the funding of pre-Day 1 FSO Transition Activities, noting that this is on the assumption that Ofgem is, by the time these changes take effect, content with all reporting submitted prior to Day 1 (and so the relevant reporting/clarification provisions can be deleted).

We note that Chapter 3, FSO NG Cost Recovery Principles states that “All costs must relate directly to the FSO Day 1 Transition Activities”. As ‘FSO Day 1 Transition Activities’ is not a defined term within the NESO licence we therefore propose that the drafting be amended to “All costs must relate directly to the FSO Transition Activities carried out prior to FSO Day 1.”

We have listed a few typographic errors below.

- The footnote on Page 1 should be updated to reflect NESO’s change of ownership.
- We note that in Page 1 the third paragraph still includes a reference to ‘the licensee’s special licence conditions’. As the NESO’s licences do not contain special conditions, we propose this should read ‘the licensee’s licence conditions’.
- Paragraph 2.3 (page 13) makes reference to the ‘...licensee/FSO ...’. We propose that reference to the FSO is removed from this sentence.
- Paragraph 2.3 (page 13) – A full stop is required after ‘Condition F10 Part B’.

Appendix 2 Comments and Feedback on ISOP Roles Guidance 2023 – 2025

We are broadly supportive of and welcome the updates made to this Guidance document. We are comfortable that the additions, at a high-level, reflect our current BAU and new activities as we transition to NESO. Our roles and responsibilities will continue to evolve, and this also ensures alignment between us and Ofgem as we accelerate Great Britain's journey to net zero. Please find a summary of our feedback below:

- Many parts of the existing Roles 1 to 3 of the Roles Guidance are unchanged, and this is consistent with our understanding and Ofgem's expectation our new statutory duties will not lead to an immediate and significant step-change to all of our current activities from Day 1. We request that Ofgem makes this point explicitly in the updated Roles Guidance so that it is clear to stakeholders and fully reflects the expectation.
- Activities that are classified as “enhanced” from BP2 are referenced in the introductory paragraphs to each Role, however expectations are not provided beyond those which already exist (albeit with some minor tweaks). We had initially anticipated that these enhanced activities would be reflected by additions to the exceeds expectations criteria, however we are comfortable with the approach taken as this allows us to be more tailored in demonstrating evidence of our performance.
- The Roles Guidance is not prescriptive for expectations against our new NESO roles, stating, for example, “delivering new activities to a “good standard””. As we move towards a more strategic regulatory approach, we are comfortable with this as it will allow us to be more tailored in deciding how we can demonstrate evidence and performance against such criteria.
- We seek further clarification on changes relating to Future Energy Scenarios (**FES**) / Future Energy Pathways (**FEP**). Ongoing discussions on the detail within the FEP licence condition will have an impact on the content of the Roles Guidance document. Furthermore, we need clarification on what Ofgem will seek to sign off and approve regarding FEP.

For clarification purposes, where no changes have been made / additional expectations have been added to the outputs and we have not made reference to them in our more detailed comments below, it can be assumed that we agree with their inclusion in the Roles Guidance document for Day 1.

Please find our more detailed comments in the table below (the page numbers and other such details correspond to those in the tracked changes version of ISOP Roles Guidance 2023-2025 document, which was published alongside the consultation):

Chapter	Page Number	Output / Area	Meets / Exceeds Criteria	Wording	ESO Response
Introduction	10	N/A – Paragraph 1.2	N/A	“[...] with regard to the ISOP's licence obligations and incentives. [...]”	We suggest that paragraph 1.2 should be updated to also refer to NESO's statutory duties.
Introduction	12	N/A – Paragraph 1.6	N/A	“[...] issues arising out of non-compliance with the relevant licence.”	We suggest that “ <i>obligations</i> ” should be retained at the end of paragraph 1.6.

Introduction	12	N/A – Footnote 17	N/A	“the NESO licences consultation: Future System Operator - Second Policy Consultation and Update (ofgem.gov.uk)”	We understand that Footnote 17 should reference the statutory consultation weblink - https://assets.publishing.service.gov.uk/media/66053b92f9ab41001aeea46b/statutory-consultation-on-national-energy-system-operator-licences-and-other-impacted-licences.pdf
Introduction	12/13	N/A	N/A	-	It isn't clear to us why the provisions for updating the Roles Guidance have been removed (paragraphs 1.9 – 1.10 in the existing Roles Guidance).
Activity 1a: Electricity system operation	17	(Immediate and ongoing)	Meets	“Proactively identifying, assessing and communicating existing, emerging, and potential future risks to electricity security of supply through continuous assessment, horizon scanning and industry engagement [...]”	We suggest that consideration is given to updating this wording to reflect the new licence obligations in Condition C7 of the electricity system operator licence.
	18	Facilitating electricity security of supply	Meets	“Supporting Government and Ofgem in delivering relevant legislative or regulatory changes by providing expert advice.”	We suggest that consideration is given to the interaction between this and NESO's new advisory duty.
	19	(Immediate and ongoing) Coordinating with other network operators	Exceeds	“[...] in order to achieve significant reductions to overall operational costs (compared to the counterfactual) across the whole system.”	It may be clearer to change “ <i>whole system</i> ” to “ <i>whole electricity system</i> ” to avoid confusion with other context, where whole system is intended to capture gas activities.
	22	(By the end of RIIO-2) Coordinating with other network operators		“ISOP has proactively led the development and implementation of frameworks and processes that ensure the optimal real time operation of the whole energy system [...]”	
Activity 1c: Transparency, data and forecasting	29	(Immediate and ongoing) Forecasting	Both	-	We suggest that the name of this output should refer to “ <i>electricity</i> ” forecasting to avoid confusion.
Role 2 (introduction)	32	N/A	N/A	“Unified Network Code”	This should be the “ <i>Uniform Network Code</i> ”.

Activity 2c: Wholesale markets, industry codes and charging	46	(Immediate and ongoing) Improving GB rules and standards	Exceeds	“Development and implementation of activities and relationships that will enable the ISOP to organise, convene, listen and build consensus to ensure the GB gas market frameworks develop in the best interests of consumers.”	We acknowledge the new expectation wording that has been added. However, we propose that it should say “ <i>in the best interests of existing and future consumers</i> ”. We feel this could be read as being focussed on the now, however NESO will also need to take a longer-term view.
	49	(By the end of RIIO-2) Improving GB rules and standards	Exceeds	“ISOP has proactively influenced, comprehensibly reviewed and (subject to DESNZ conclusions) successfully implemented necessary changes to the Security and Quality of Supply Standard (SQSS) and other technical standards to ensure they are fit for purpose for a zero -carbon energy system.”	We suggest that “ <i>electricity</i> ” should be added before “ <i>technical standards</i> ” so that it reads: “ISOP has proactively influenced, comprehensibly reviewed and (subject to DESNZ conclusions) successfully implemented necessary changes to the Security and Quality of Supply Standard (SQSS) and other <i>electricity</i> technical standards to ensure they are fit for purpose for a zero -carbon energy system.”
Activity 3b: Energy system strategy and insights	72	(Immediate and ongoing until the end of RIIO-2)	Meets	“Competent and responsive development, management and maintenance of the Future Energy Pathways (FEP) process, with evidence for assumptions and decisions through a record of data inputs and the cross section of stakeholders views gathered, in line with any FEP Guidance.”	We are broadly comfortable with the additions to this output; however, we seek further clarification on changes to the FES/FEP. We seek further clarification on changes relating to Future Energy Scenarios (FES) / Future Energy Pathways (FEP). Ongoing discussions on the detail within the FEP licence condition will have an impact on the content of the Roles Guidance document. Furthermore, we need clarification on what Ofgem will seek to sign off and approve regarding FEP.
	73	Producing analytically robust long-term pathways	Meets	<ul style="list-style-type: none"> • Undertake a review of the purpose of the FEP and develop a new FEP Methodology • Ensure FEP analysis and modelling takes account of SSEP analysis and modelling” 	<p>The purpose of the Roles Guidance should be to expand on, or clarify further, what is contained within the licence or to provide a view on how the ESO should deliver its obligations. The statement to undertake a review of the FEP and develop a FEP methodology simply replicates what is (proposed to be) set out in our licence condition C15. As such, we believe this offers no further guidance and should be removed.</p> <p>With regards to the second bullet point, we would note that the exact timings and interactions between the FEP and SSEP are still to be determined. It is therefore difficult to comment whether this expectation is reasonable.</p>

Expectations for establishing the ISOP	91	Transition to ISOP	N/A	“Develop a clear strategy for exiting Transitional Service Agreements with National Grid plc and developing standalone back-office functions and capabilities, and make demonstrable progress against that strategy.”	<p>We do not feel that the wording added covers all back-office functions, we suggest changing the wording to:</p> <p>“Develop a clear strategy for exiting Transitional Service Agreements with National Grid plc and developing standalone <i>enabling services and capabilities to replace those services, and make demonstrable progress against that strategy</i>”</p>
	91-92	Delivery of new roles	N/A	“Making demonstrable progress embedding gas strategic planning capabilities within the ISOP organisation (inclusive of strategic planning for hydrogen transport and storage infrastructure), including by coordinating and progressing the new Gas Options Advice Document so it is on track to meet the required timelines;”	<p>We are supportive of the new requirement that we make demonstrable progress embedding gas strategic planning capabilities within the ISOP organisation. However, the NESO Gas System Planner licence requires that the Gas Network Capability Needs Report is delivered before the Gas Options Advice document and so should also be referenced in the Roles Guidance document.</p>
	92	Culture and industry perception	N/A	“Demonstrably building and embedding a culture that puts the ISOP’s statutory duties at the centre of its decision-making, as well as promoting transparency on decision-making, and robust engagement and collaboration with the full range of energy industry stakeholders.”	<p>We are comfortable with the additional wording in relation to building and embedding culture that puts the ISOP’s statutory duties at the centre of its decision-making.</p> <p>We’d like to see the latter part of this expectation changed slightly to: “<i>robust engagement and collaboration with a range of energy industry stakeholders.</i>” – as it is not clear as to what “<i>the full range</i>” of industry stakeholders would be – it suggests a finite list.</p>

Appendix 3 Comments and Feedback on ISOPRI Arrangements Governance Document

We have provided feedback for the ISOPRI Arrangements Governance Document based on the three key areas of change as described in the consultation cover letter, along with some additional points including considerations in relation to the timing of Day 1.

Removal of incentive reward / penalty

We agree with the removal of the incentive reward/penalty to align with NESO's not-for-profit status. We also endorse the proposed changes to the ISOPRI Arrangements Governance Document to reflect this adjustment.

Assessment of new NESO responsibilities and activities

We welcome the incorporation of the new NESO responsibilities and activities into the assessment methodology. Upon the creation of the NESO, Ofgem should consider performance as a whole NESO and not solely on previous ESO BP2 commitments. Therefore, achieving the right balance between the assessment of current ESO and new NESO activities based on the new two-part assessment approach proposed for BP2 end of scheme is essential. There is a risk of disproportionality in Ofgem's final outcome where a scoring assessment methodology is applied to 'Part 1: BP2 Roles Assessment' in comparison to a qualitative assessment methodology applied to 'Part 2: ISOP Implementation Assessment'. We look forward to discussing this with Ofgem further.

We include any comments in relation to the new NESO activities themselves in Appendix 2 above.

Streamlining and improving the regulatory process for BP2

We are broadly happy with the proposed targeted changes to the regulatory reporting and process requirements as an incremental step towards an enduring regulatory performance framework. We welcome the reduced frequency of reporting of some performance measures, small changes to Metric 1C, removal of Regularly Reported Evidence 2B, and streamlining of the 18-month review process and requirements (including moving to annual stakeholder surveys), and the inclusion of the EMR survey. Stakeholder engagement and feedback is a critical element across all our activities and holds us to account for what we've committed to. As NESO, we will continue to regularly engage and gather feedback from our stakeholders through a variety of channels.

We agree with the amendments in relation to reporting against the original business plan cost benefit analysis (CBA), and the opportunity to focus the reporting more on the demonstration of output quality and targeted evidence on the delivery of benefits. However, we welcome further discussion with Ofgem to establish clear and proportionate requirements regarding the granularity and scope of the revised benefits reporting.

We note the requirement to evidence plan delivery performance encompassing the new activities and responsibilities we will be taking on as NESO. However, it is important that we establish clear and proportionate guidelines with Ofgem on how we will report against these activities for this criteria, since they sit outside of the original BP2 delivery schedule.

Until further discussions have taken place in relation to benefits and plan delivery reporting requirements as above, we are unable to comment as to whether the proposed reporting requirements are more streamlined overall in comparison to the current framework.

We also note the proposed change to how the Performance Panel provides their recommendation to Ofgem, and the option for them to either follow the full assessment and scoring approach carried out by Ofgem or carry out a more strategic and targeted assessment and recommendation. We believe that it is important to have early clarity on this part of the process to enable greater transparency for how the process will work for ourselves and stakeholders.

Other points

At the time of writing, the date for the establishment of NESO (Day 1), and therefore the point at which the new ISOPRI Arrangements Governance document comes into effect is not known. Until Day 1 takes place, the current ESORI guidance document will continue to determine the process and requirements for the incentives framework. There are therefore certain requirements and guidelines set out in the ISOPRI Arrangements Governance document that may no longer be valid if they pre-date Day 1. For example, if Day 1 takes place on 1 October 2024 or later then we seek confirmation from Ofgem that the guidelines for the 18-month assessment reporting and associated processes will be determined by the current ESORI governance document.

Further to the above, we agree that ISOP transition activities should be covered in the value for money reporting under the incentives framework. However, we consider that the Day 1 cost report (required under new licence condition F10) should be the report that outlines the final costs, deliverables and measures taken to demonstrate economic and efficient spend up to Day 1. If the ISOPRI Arrangements Governance document comes into effect in time for the 18-month assessment reporting and associated processes then providing this same information through the incentives framework would be a duplication of effort. We therefore propose that the value for money reporting in relation to ISOP transition activities is only required for the end of scheme report for the period between Day 1 and 31 March 2025.

We also list a few minor changes required to the document below. Page numbers refer to the tracked changes version:

- Introduction, paragraph 1.4 (page 11) – It isn't clear to us why the paragraph covering updates to the document has been deleted and we suggest this is reinstated with any relevant changes.
- Table 2 (page 26) - Reference to 'Office of Energy Resilience and Emergency Management' should now be 'Resilience and Emergency Management'.
- Table 3 (page 44) – 'Value for money' reporting requirements for 'Quarterly report' should not include role-level reporting in line with requirements for the current framework.
- Table 4 (page 43) – Timing for the eighteen-month report is stated as 17th October 2024, and for the quarterly report is stated as 18th January 2025. These should both say '17th working day of the next month', in line with the text in the 'Step 6) Ongoing monitoring and reporting' section.
- Annex 1, paragraph 1.1 (page 54) – We do not see it as correct to refer to '*the ISOP's previous licence*', given the transmission licence will take effect as the electricity system operator licence. We suggest changing this to '*the transmission licence (held by ESO)*'.
- Annex 1, paragraph 1.2 (page 54) – We do not see it as correct to refer to '*the new ISOP licence*' and suggest '*In the electricity system operator licence, this requirement has been removed to...*'.
- Annex 1, paragraph 1.3 (page 54) – We suggest it would be more accurate to change this to '*...the licence took effect...*'.
- Annex 3, table 5 (page 68) – 'Reporting frequency' for RRE 2Aii should be 'Biannually' in line with Metric 2Ai.
- Table 4 – For Metric 1C (page 59). Wind Generation Forecasting:
 - method wording should read 'Measures the average absolute error between day-ahead forecast (between 09:00 and 10:00, as published on ISOP data portal) and post-event outturn wind settlement metering (as published on the Elexon insights portal) for each half hour period as a percentage of capacity for BM wind units only.'
 - the word 'completely' should be added as follows: 'did not withdraw availability completely between time of forecast and time of metering'
 - the word 'or' should be added as follows: 're-declare maximum export limit (MEL) from a positive value day-ahead to zero at real-time; or'