
ADE RESPONSE

OFGEM CONSULTATION ON NESO BUSINESS PLAN GUIDANCE

27TH SEPTEMBER 2024

Context

On behalf of our mission Empowering Energy Demand, the ADE welcomes the opportunity to respond to Ofgem's consultation on the NESO Business Plan Guidance.

Our mission is to embrace the value of a decarbonised, demand-led energy system, creating a future where households, businesses and industry are properly rewarded. The current electricity system is creaking under the demands of a rapidly changing system. We must harness the millions of EVs, heat pumps and the immense industrial demand we have right now to lower bills and keep our electricity system operable. Instead, we're fighting against them. Even more than that, industrial energy is decarbonising with long-term consequences for our energy system – creating new infrastructure and unlocking even greater sources of flexibility. The Government, Ofgem, the CCC and others all recognise that households, businesses and industry should play an active role in a decarbonised electricity system. Now is the time to make this a reality.

ADE Draft Response

In our recent report, Demanding More, we made recommendations to Ofgem to better reflect the new responsibilities NESO will have as a public body and lay out clearer expectations, now that reputational incentives are the core regulatory lever. The scale of industry concerns with ESO performance have been underestimated and therefore the incorporation of stronger safeguards in the SPS and licence has not occurred. This objective can be supported by what is laid out in the NESO Business Plan Guidance by Ofgem. Primarily, the importance of stakeholder engagement should be emphasised given NESO's historical issues with transparency and accountability to stakeholders. In our report we have laid out a recommendation that the licence should mandate that on a quarterly basis Ofgem runs public forums for NESO officials to present on public concerns and work being undertaken to address them. Specific recommendations such as this could also be made by Ofgem in the Business Plan Guidance to ensure sufficient stakeholder engagement, not just at the Plan Review stage.

Detail on existing IT investments should be provided into BP3. IT incapacities pose increasing risks to achieving satisfactory outcomes for the electricity system, let alone the whole energy system. Thus, progress on IT investment should be consistently reported against. Since "changes on [ESO's] legacy systems" are cited repeatedly over the years as reasons for delayed deliverables, one would assume that ESO's investment in future systems would prioritise adaptability, meaning it is imperative that this is monitored throughout BP3. We strongly agree that if the strategic aims of the NESO for BP3 are going to be the same as what has been laid out for RIIO-2, that NESO should have to provide detail on what strategic objectives have changed in transitioning into their new role with new responsibilities. We cannot continue to treat NESO the same as ESO for Day 1 when their role requirements are going to fundamentally change. The Guidance should emphasise the requirement for adherence to the SPS. Detailed guidance on how this is done by NESO should be included in the guidance for BP3.

We agree with the requirements set out by Ofgem in what NESO will need to provide in their Business Plan, with the caveats laid out above. The Business Plan Guidance could act as a strong lever to help heighten scrutiny and accountability of NESO as they go through this transition. Their success in their new role should play a part in enabling homes, businesses, and industry to be rewarded within the energy system. A new public body established in the midst of an energy revolution cannot simply be left to slowly evolve on its own preferred timeline – Government and the regulator must provide stronger checks and balances.

We encourage Ofgem to read our [report](#) in full, as part of our consultation response, as it heavily relates to the content under discussion in the Guidance.

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