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Dear David

Consultations on NESO's Performance Incentive Framework and Business Plan Guidance for BP3

On behalf of the SSE Group, I welcome the opportunity to respond to Ofgem's consultation on the performance incentive framework and business plan guidance for the National Energy System Operator (NESO) during the third and final business plan period (BP3) of the RIIO-2 regulatory framework.

The SSE Group is a FTSE-100 company headquartered in Perth, Scotland, with interests across the UK and Ireland, Continental Europe, Asia-Pacific, and North America. We are one of the largest electricity network companies in the UK and a leading generator of renewable electricity. We develop, build, own, and operate the low carbon infrastructure that is essential for the energy transition. This includes electricity transmission and distribution networks; offshore and onshore wind; hydro and pumped storage; solar and batteries; and flexible thermal generation (including the development of hydrogen and carbon capture and storage solutions). We also provide energy products and services to business customers.

We support Ofgem's decision to introduce changes to the existing regulatory framework for the Electricity System Operator (ESO) in a phased way that reflects the key milestones of the transition from ESO to NESO, with separate proposals covering:

- The period between NESO Day 1 and the end of BP2 (1 October 2024 to 31 March 2025).
- The third business plan period (BP3) within RIIO-2 (1 April 2025 to 31 March 2026).
- The enduring framework that will apply from the start of RIIO-3 (1 April 2026 onwards).

In assessing Ofgem's proposals, our primary focus will be on the enduring framework that will come into effect in April 2026, for which we understand proposals on more substantial changes will be published for consultation in 2025. However, similarly to Ofgem's previous consultation on proposed changes applying between NESO Day 1 and the end of BP2, we welcome the opportunity to provide feedback on Ofgem's proposals for the BP3 period.

Overall, we support the move to a less granular and more holistic, cross-cutting assessment of NESO's performance, which focuses on the achievement of key Performance Objectives reflecting NESO's biggest priorities. We suggest that Ofgem should put in place a formal requirement for NESO to consult with

stakeholders on its proposed Performance Objectives to ensure that these capture the industry's biggest priorities.

On stakeholder engagement more broadly, we reiterate the importance of establishing an engagement framework that delivers genuine stakeholder engagement and a truly collaborative approach, allowing NESO to benefit from the extensive expertise available throughout the industry, and industry stakeholder to gain visibility of the rationale and evidence behind NESO's analysis and decision-making.

On the shift from a more granular to a more holistic and cross-cutting assessment, we welcome Ofgem's acknowledgement that this should not result in a lower level of scrutiny of NESO's performance, particularly in areas of concern. Considering NESO's increasing importance at the centre of the energy sector and in support of the energy transition, we would expect its performance to be scrutinised at least as robustly, if not more robustly, than is currently the case, and Ofgem to act promptly and decisively to rectify any instances of poor performance.

On Performance Objectives more specifically, we agree that these should be set at a stretching level of ambition; however, we question the logic behind Ofgem's proposal to consider the achievement of these objectives "*equivalent to an 'exceeding expectations' performance outcome*". It seems counterintuitive that meeting these objectives would be considered exceeding expectations, as this would imply a base expectation that these objectives would not be met.

Finally, we note that beyond BP3, Ofgem are proposing an enduring "*move towards annual business plan cycles for NESO*". Whilst the proposed business plan development and assessment process (with five separate stages, including draft and final business plan submissions from NESO and determinations from Ofgem) appears sensible, it seems rather burdensome for this process to be repeated every year, as NESO and Ofgem would spend a significant portion of each business plan cycle, respectively, developing and assessing the business plan for the next cycle.

For future business plan cycles beyond BP3, we encourage Ofgem to consider either streamlining the business plan development and assessment process to involve less stages; or to adopt longer business plan cycles lasting two or more years. As explained in Appendix 1, our preference would be for the latter.

Appendix 1 includes responses to each of Ofgem's consultation questions, including more detailed feedback on the key points highlighted above and further feedback on a number of other issues.

We look forward to continuing engaging with Ofgem and other stakeholders to support a successful implementation of NESO.

If you would find it helpful to discuss any aspects of our response in greater detail, please do not hesitate to contact me.

Yours sincerely,

Martin Namor

Senior Regulation Manager

Appendix 1 – Detailed answers to consultation question

Performance incentives

Q1. Do you agree with our proposed approach to the performance assessment for BP3?

We broadly agree with Ofgem's proposed approach to performance assessment in BP3.

Considering the significant increase in the number and scope of NESO's roles relative to those of the existing ESO, we support the move to a less granular and more holistic, cross-cutting assessment of NESO's performance across key Performance Objectives and the resulting departure from the existing assessment approach based on three roles and a long list of activities, outputs, and expectations associated with each role.

We welcome Ofgem's acknowledgment that this shift should not result in a lower level of scrutiny of NESO's performance, particularly in areas of ongoing concern. Considering NESO's increasing importance at the centre of the energy sector and in support of the energy transition, we would expect its performance to be scrutinised at least as robustly as (if not more robustly than) in the past, and Ofgem to act promptly and decisively to rectify any instances of poor performance.

We agree that the proposed cross-cutting assessment should focus on NESO's achievement of business plan aims and delivery of value for money.

Achievement of business plan aims

We agree that for BP3 the assessment should focus on the achievement of key Performance Objectives reflecting NESO's biggest priorities, rather than aggregating NESO's performance across multiple, granular deliverables and activity-based expectations; and that there should be a smaller number of more impactful Performance Objectives compared to the very large number of discreet deliverables currently listed in the BP2 Delivery Schedule.

We agree that Performance Objectives should be set at a stretching level of ambition; however, we disagree with Ofgem's position that the achievement of these objectives "*would be equivalent to an 'exceeding expectations' performance outcome*". It seems counterintuitive that meeting these objectives would be considered exceeding expectations, as this would imply a base expectation that these objectives would not be met. We would encourage Ofgem to reconsider and clarify its proposed approach to determining whether NESO's performance has met, exceeded, or fallen below expectations.

We understand the reasoning behind moving away from using five distinct, stand-alone evaluation criteria in favour of a cross-cutting assessment of NESO's performance against its Performance Objectives; however, this assessment should continue to cover NESO's performance in all areas associated with the existing evaluation criteria:

- Timely delivery.
- Quality of deliverables.
- Stakeholder feedback.

- Performance against metrics.
- Demonstration of value for money.

We agree with Ofgem's proposals to attach one or more Success Measures to each Performance Objective; and to continue setting requirements around Performance Measures, stakeholder surveys, and the publication of regular reports outlining progress against Performance Objectives.

Delivery of value for money

We agree with Ofgem's proposals to assess NESO's overall spending compared to its initial BP3 forecast; the extent to which delivery has out-turned as planned; and how well any deviations have been explained and evidenced.

Q2. Do you agree with our proposed changes to setting performance expectations for BP3?

We broadly agree with Ofgem's proposed changes to setting performance expectations for BP3.

We support the proposal for the NESO Role Guidance to provide clearer guidance on how NESO can meet its licence obligations and minimum standards to support greater use of the guidance from an enforcement perspective; and the proposal for BP3 incentives expectations to be primarily underpinned by the NESO's Performance Objectives rather than the Role Guidance.

However, in relation to the proposal for Performance Objectives to replace the existing 'exceeds expectations' text in the Roles Guidance, please note the point we made in response to Q1 on Ofgem's proposal to consider the achievement of Performance Objectives to be equivalent to an 'exceeding expectations' performance outcome.

On the proposal for NESO to develop, test, and submit to Ofgem for approval its own Performance Objectives and Success Measures as part of its business plan submission, we suggest that Ofgem should formally require NESO to consult with stakeholders on the development of its Performance Objectives to ensure that these objectives correctly capture the industry's biggest priorities.

We agree that, as part of its business plan determination process, Ofgem should be able to add, remove, or amend Performance Objectives. Stakeholder should then be given a further opportunity to express their views on any such revisions to the Performance Objectives by responding to Ofgem's consultation on its draft determination.

Business Plan and plan assessment

Q3. Do you agree with our proposed requirements for NESO's Business Plan?

We broadly agree with Ofgem's proposed requirements for NESO's business plan and its emphasis on Performance Objectives that reflect NESO's biggest priorities; are aligned with NESO's statutory duties; and are supported by appropriate Success Measures providing clarity on how the achievement of these objectives will be measured.

We are broadly supportive of Ofgem's proposals in relation to the content of its draft Business Plan Guidance for NESO; we note the reference to the relevant requirements set out in licence conditions G1 (Business Plan) and C2 (Licensee's regard to Strategy and Policy Statement), and understand the rationale for not requiring the development of a new set of Strategic Aims for BP3; we agree with the principles set out to inform the development of Performance Objectives, Success Measures, and Major Deliverables.

In relation to the Performance Tracker, we encourage Ofgem to strengthen its wording to make it a formal requirement for NESO to record its Performance Objectives, Success Measures, and Major Deliverables in a published Excel template, by changing the wording from "*Ofgem may require NESO to record (...)*" to "*NESO must record (...)*" or an alternative but equally prescriptive wording.

Similarly, we encourage Ofgem to strengthen its wording to make it a formal requirement for NESO to publish its Performance Tracker on its website as part of its business plan submission, by changing the wording from "*NESO should publish*" to "*NESO must publish*" or an alternative but equally prescriptive wording.

Q4. Do you agree with our proposed approach to assessing NESO's Business Plan and the stages involved in the Business Plan process?

The proposed business plan development and assessment process, involving draft and final business plan submissions from NESO followed by draft and final determinations from Ofgem, is in line with the process underpinning regulatory price controls for energy networks and other regulated utilities.

However, we note that beyond BP3 (covering one year between April 2025 and March 2026), Ofgem are proposing an enduring "*move towards annual business plan cycles for NESO*". Whilst the proposed business plan process appears sensible, it involves five separate stages (draft and final business plans with a formal plan review in-between; draft and final determinations) over a period of several months, with numerous interactions between NESO, Ofgem, and stakeholders during this period.

Therefore, whilst the process itself appears sensible, it also seems rather burdensome for it to be repeated every year, as NESO and Ofgem would spend a significant portion of each business plan cycle, respectively, developing and assessing the business plan for the next cycle. For future business plan cycles from April 2026 onwards, we encourage Ofgem to consider either streamlining the business plan development and assessment process to involve less stages and take a shorter period of time; or to adopt longer business plan cycles lasting two or more years.

Our preference would be for the latter, as the current five-stage process provides multiple opportunities for stakeholders to feed their views, which is welcome; and longer business plan cycles would provide more stability and longer-term certainty and ensure less time is spent during each business cycle to develop and assess a business plan for the next cycle. The possibility of new key priorities arising mid-cycle and having to be reflected into new Performance Objectives could be addressed by introducing a process to allow objectives to be added or updated without the need for producing an entirely new business plan every year.

We agree that Ofgem's business plan determination should focus on:

- NESO's Performance Objectives, to ensure they (a) sufficiently cover key areas and priorities; (b) are suitably stretching and ambitious; and (c) are clear and measurable.

- Success Measures, to ensure they are well specified and relevant to the Performance Objectives they relate to.
- Value for money, to ensure business plan proposals have been sufficiently justified and demonstrate overall value for money for consumers.
- Frequency and content of within-scheme reporting requirements, including Performance Measures.

Q5. Do you have any views on performance measures for BP3?

We note Ofgem's indication that limited changes to Performance Measures will be made before the end of RIIO-2, with more substantial changes being introduced from April 2026 to reflect the full spectrum of NESO's roles.

At this stage, we have no suggestions in relation to the detailed design of specific Performance Measures for BP3. However, it is important that these are linked to Performance Objectives and can be used to measure NESO's performance in delivering its key priorities.

For example, we would expect these to cover areas such as connections reform and strategic planning, to ensure that the associated outputs from NESO are both timely delivered and effective in achieving the intended policy objectives (e.g., measuring NESO's delivery of connections reform both against its proposed delivery timeline and its effectiveness in reducing the size of the queue and re-ordering it in line with government's strategic planning objectives such as Clean Power by 2030 and longer-term net zero targets).

Cost regulation

Q6. Do you agree with our overall approach to cost regulation for BP3?

We agree with Ofgem's proposal not to introduce any material changes to its approach to cost regulation for BP3 relative to the framework that will apply between NESO Day 1 and the end of BP2, maintaining a pass-through funding model, ex-ante and ongoing cost assessment from Ofgem, and a requirement for regular reporting on the delivery of value for money for consumers.

Stakeholder and external scrutiny

Q7. Do you agree with our overall approach to stakeholder and external scrutiny for BP3?

We agree with Ofgem's proposal to maintain the same platforms for external scrutiny and engagement as those that will apply between NESO Day 1 and the end of BP2, including a Performance Panel, regular and independently administered stakeholder satisfaction surveys, end-of-scheme events and other calls for evidence.

We support Ofgem's proposal to review its approach to end-of-scheme events to establish whether changes can be made to increase engagement and contribution from stakeholders.

Overall, we reiterate the importance of establishing an engagement framework that delivers genuine stakeholder engagement and a truly collaborative approach, allowing NESO to benefit from the extensive expertise available throughout the industry, and industry stakeholder to gain visibility of the rationale and evidence supporting NESO's analysis and decision-making. Stakeholder engagement cannot be approached as a mere box ticking exercise to satisfy a regulatory requirement but needs to be driven by a genuine attempt to understand and consider the views expressed by stakeholders.