

Consultation on NESO regulatory framework: Associated Documents for the BP3 period

National Grid plc response

This response to Ofgem's "*Consultation on the Performance Arrangements Governance Document and Licence Expectations Document for NESO for the RIIO-2 Business Plan 3 period*" dated 04 February 2025 (the consultation) is from National Grid plc (NG), on behalf of our transmission business, National Grid Electricity Transmission (NGET), our electricity interconnector business, National Grid Ventures (NGV) and our electricity distribution business, National Grid Electricity Distribution (NGED).

Executive Summary

We appreciate the opportunity to provide our feedback on the Associated Documents related to the assessment of the National Energy System Operator (NESO) performance during the Business Plan 3 (BP3) period. Ensuring that the performance and incentives framework for the NESO is fit for purpose is essential as it builds capability to fulfil its broader remit and to reflect the changes to its organisational design.

We remain supportive of the phased approach taken by Ofgem to introduce changes to the NESO's regulatory framework. As NESO evolves as an organisation it is essential that the performance and incentives framework supports the NESO to deliver against both its statutory duties and to deliver in the interests of consumers. As demonstrated by the breadth and significance of activities in both the licence expectations and NESO BP3 documents, successful delivery in the BP3 period will be critical in supporting delivery of the Government's ambitious climate goals. We look forward to further engagement on the development of the enduring framework in due course.

Overall, we are supportive of the changes being proposed to the Licence Expectations and Performance Arrangements Governance (PAGD) documents. We are pleased to see the Licence Expectations document set out in eleven thematic chapters, in contrast to the previous Roles Guidance being structured around 3 broad roles. This updated structure enhances clarity and allows for a clearer delineation of expectations across different workstreams. We also welcome the focus in the PAGD on stakeholder feedback, increasing the frequency of the Stakeholder Satisfaction Survey from annually to every 6 months. However, in the context of NESO's central role in the energy sector the definition of Value for Money is narrow and does not consider the wider sector impacts that NESO actions can have (for example, through system access and constraints). In assessing NESO's value for money, we suggest that these wider impacts on costs across the sector should be recognised in the performance assessment.

We would like to highlight the following key points of our response, with further specific comments on each associated document in Annex 1 and Annex 2:

Licence Expectations

- **Optimising outage planning to facilitate project delivery:** If ambitious plans to deliver CP2030 are to be realised, and to support investment and delivery during the next transmission price control period, NESO must refresh system access rules and ensure that these do not slow down or inhibit the transformation of the grid. Maximising system access to add new infrastructure and upgrade the grid will help maintain a reliable system and minimise costs to consumers. Optimising outage planning arrangements was a recommendation in the Transmission Acceleration Action Plan, and we would like to see a clearer commitment, and accountability, for its implementation. Improving the system access arrangements and ensuring NESO is incentivised to support the expansion of the transmission network is a major external dependency which will need to be addressed if transmission owners are to be able to deliver their RIIO-T3 plans
- **Role clarity in the development of the Centralised Strategic Network Plan (CSNP):** The expectations placed on NESO to 'Aid Ofgem in stakeholder engagement' and to 'support the development of all stages of CSNP' makes it unclear who is leading the consultation process on the development of the CSNP. It is important that roles are well-defined for transparency and streamlined decision making.

- **Inclusion of the Regional Energy Strategic Plan (RESP):** Chapter 10 should include a subsection to adequately address the expectations for NESO to develop RESP in this BP3 period. While we recognise this is not yet in the Electricity System Operator licence, the Licence Expectations Document includes a subsection on the tCSNP2 Refresh, which also does not feature in the licence.

Performance Assessment Guidance Document (PAGD)

- **Importance of stakeholder engagement:** We welcome the focus in the document relating to NESO's obligations to enable stakeholder feedback and how this can be used to demonstrate the achievement of a Success Measure for a Performance Objective. The NESO holds a central role in driving the energy transition and stakeholders rely on it to deliver so that they in turn can deliver on their own objectives. In particular, we think that stakeholder feedback should form a key part of NESO's quarterly reporting to Ofgem on Performance Objectives progress so that it provides a rounded view on which Ofgem can make an accurate assessment.
- **Value for Money demonstration:** NESO is responsible for the annual costs of running the system which are currently in the region of £3-5bn, with its recent annual balancing cost report suggesting they see little scope for significant reductions in these costs over the next 14 years. To put this into context, at the lower end of this range, these costs are similar to the combined annual revenues of the National Grid Electricity Transmission, the two Scottish transmission owners and all of the Offshore Transmission Operators combined. We would welcome further emphasis in the description and assessment of NESO's value for money performance to ensure that there is a strong focus on driving these costs down. We welcome the recognition in paragraph 3.14 that reducing expenditure on certain activities or investments during BP3 may not deliver value for money if the lifetime cost is subsequently higher.
- **Focus on quality:** We are concerned that performance assessment focuses too narrowly on achievement of milestones or deliverables, without a qualitative assessment of whether that deliverable or milestone was of sufficient quality. In line with our comments on the importance of stakeholder feedback to inform Ofgem's performance assessment, this is another area where significant value can be added through stakeholder engagement, as well as building trust and transparency.
- **Alignment with NESO's final BP3:** The PAGD states that NESO should provide an update on progress against 'Major Deliverables' in its BP3. However, NESO's final BP3 does not list any 'Major Deliverables' against the Performance Objectives. It is important that the terminology of reporting requirements is consistent with NESO's final BP3 to avoid misinterpretation and to better hold NESO to account.

To reiterate, it is essential to establish a clear and transparent performance assessment framework that incentivises NESO to deliver timely and high-quality outputs. This will enable other industry parties to take forward these outputs with confidence and at pace in the coming year, which will be fundamental in determining the successful delivery of CP2030. We welcome further opportunity to engage on our response to this consultation and the development of the enduring regulatory framework for NESO. We hope that any early learnings from the framework for BP3 can be taken forwards and strongly believe that a focus on stakeholder engagement and transparency can support this.

Annex 1 Specific comments on the proposed Licence Expectations Document

Chapter	Specific comments/ feedback
Chapter 2: Electricity system operation	<p><u>Page 12: Coordinating with other network operators</u></p> <p>This subsection would benefit from an explicit reference to the Transmission Operators (TOs).</p> <p>Additionally, it would be helpful to clarify whether ‘identifying and progressing changes to outage plans in order to minimise constraint costs.’ refers to evaluating the reasonableness of the constraint costs associated with the TO proposed outage plans.</p> <p>A commitment to optimise outage planning arrangements to facilitate and maximise delivery of new capacity and network upgrades should be added.</p> <p><u>Page 12: Minimising outage changes caused by error</u></p> <p>A clear definition of what constitutes a ‘NESO error’ should be provided to ensure consistent understanding.</p>
Chapter 8: Managing electricity connections and implementing connections reform	<p>The updates align with expectations of new requirements on the NESO to facilitate reform. However, as noted in our previous feedback to Ofgem in a reform licence drafting consultation, the provisions do not adequately address the essential interactions with onshore TOs to discharge most of these roles.</p> <p><u>Page 31-32: Managing connections</u></p> <p>The acknowledgement of interactions with onshore TOs is particularly missing from this section. Close coordination and collaboration with onshore TO licensees is vital in ensuring economic and efficient connection offers, undertaking proactive horizon scanning, aligning connection processes with broader transmission network designs, and integrating reforms with system planning.</p> <p>Furthermore, we would like to highlight that the expectation of offers for the reformed connections queue being delivered by the end of 2025 is dependent on a timely decision by Ofgem for the policy changes needed to codes and methodologies for NESO to implement TMO4+. While the networks are committed to delivering updated offers for end of 2025, the current implementation timetable is already challenging and continues to be compressed for both transmission and distribution offers.</p>

[Page 31: Managing connections](#)

We would welcome additional information on the process for NESO to consider 'wider impacts of the National Electricity Transmission System (NETS)' ensuring that associated distribution costs and impacts are included in this expectation.

The expectation for NESO to undertake proactive horizon scanning considering changes in other strategic planning processes should make an explicit reference to consider changes in the development of the Regional Energy Spatial Plan (RESP) in this period.

It is important for NESO to ensure that connections processes cohere with both distribution network design and wider transmission network designs, to achieve a balance between the need for optimal designs and providing firm and reliable connection dates.

Additionally, we would welcome further detail on how the expectation for NESO to 'help deliver a high degree of coordination between connections and network access processes across transmission and distribution networks' will be measured to facilitate accountability and transparency across industry.

Finally, regarding the End to End consultation and the overall customer experience, we would encourage some clear metrics on the level of engagement by NESO with customers prior to issuing a connection offer – to discuss the optimum connection solution.

[Page 33: Connections Reform](#)

We question the applicability of an expectation for NESO to deliver a material improvement to connections for users in the BP3 period as an improvement in connections time is unlikely to be noticeable until 2026-2027.

The expectation for 'development and maintenance of the three Connections Methodologies' should call out a requirement for stakeholder engagement at the right level within stakeholder organisations (Distribution Network Operators, TOs, customers etc) and the need for transparent updates to industry in this development process. Engaging, reviewing and updating in a timely manner is important to ensure that there is sufficient fact finding in the process of assessing what is or is not working

	<p>well in the development of updates to the methodologies. NESO should also continue to support networks in the maintenance of associated guidance to compliment the full reform framework.</p> <p>NESO will need to ensure that all guidance and process is still fit for purpose ahead of each new application window – to enable lessons to be learnt and incorporated into the framework and continually improve the efficiency of the transition to Net Zero.</p> <p>The expectation for NESO to efficiently handle and coordinate applications to connect to the transmission network should be extended for applications to connect to distribution networks for embedded projects also applying for direct contracts, such as Bilateral Embedded Generator Agreement (BEGA) and Bilateral Embedded Licence Large Generator Agreement (BELLA).</p> <p>We would like to see this section further include an expectation for NESO to provide timely responses (supported by Service Level Agreements) to queries associated with the transmission/ distribution interface and distribution customer agreements, along with appropriate metrics for accountability.</p> <p><u>Page 33: Connections Reform</u></p> <p>We view the assurance for Interconnector connection applicants as a positive deliverable in this BP3 period. It resembles the previous Connection and Infrastructure Options Note (CION) process and ideally promotes proactive collaboration with developers to uphold this principle as NESO implements Connections Reform. However, after reviewing the Connections Reform methodologies and Connection and Use of System Code (CUSC) modifications, we seek further clarity on how this will be implemented.</p>
<p>Chapter 9: Energy system strategy and future pathways</p>	<p>Overall, the chapter lacks sufficient information about the Strategic Spatial Energy Plan (SSEP) and its interaction with the Future Energy Pathways (FEP). Additionally, we would welcome reference to the Government's Clean Power 2030 Action Plan and NESO's expectations in the pathway set out therein.</p>

	<p><i>Page 38: Producing analytically robust long-term pathways</i></p> <p>The final expectation in this subsection should be extended to ensure that FEP analysis and modelling not only takes account of, but also aligns with, Clean Power 2030 as well as SSEP analysis and modelling.</p>
Chapter 10: Strategic energy planning	<p>We welcome the addition of the tCSNP2 refresh recognising that it is not in the licence but will be an important deliverable for the BP3 period.</p> <p>However, the chapter currently lacks a subsection to adequately address the expectations for NESO to develop RESPs in this BP3 period (noting this has similar status to tCSNP2 refresh). Although the actual delivery is expected outside of this period, it is important to include a subsection outlining the milestones for 2025-26. For example, NESO is expected to publicly consult on draft transitional RESP (tRESP) outputs in September 2025 and on the final tRESP outputs in January 2026. There should be an expectation for NESO to deliver these outputs in a manner that actively involves stakeholders from the outset. Additionally, we expect to see the standing up of Technical Working Groups and Regional Forums as a mechanism to develop and test the transitional RESP outputs.</p> <p><i>Page 39: Background</i></p> <p>We welcome the additional context for the CSNP and NOA in this background section. It sets out how NOA currently "provides optimal interconnector capacity growth" but will be superseded by CSNP. This is an important deliverable, and we are keen to work with NESO to ensure that interconnector capacity growth is effectively integrated into the enduring Strategic Network Planning (SNP) cycle, particularly as an input for the SSEP in 2026.</p> <p>However, we would welcome the same level of detail for the context of Gas strategic network planning activities, RESPs, and SSEP. We would also expect this section to explicitly reference tCSNP2 Refresh and the offshore coordination exercises NESO is currently working on, e.g., Holistic Network Design Follow Up Exercise Impact Assessment and Strategic Offshore Design Analysis.</p> <p>Furthermore, footnote 23 states the guidance covers versions of the tCSNP developed during the April 2023 to March 2025 period. This implies the guidance we will be out-of-date on publication of the final expectations</p>

document due in March 2025. We would appreciate further clarity on why this timeframe excludes NOA-type exercises after March 2025, such as the tCSNP2 Refresh.

[Page 41: Identifying network needs and solutions](#)

In the expectation for NESO to robustly challenge TO delivery dates, it is important to note that the CSNP process also allows for options to be submitted by third parties, and the delivery dates for these options will also need to be robustly challenged. While this has been appropriately acknowledged in the preceding section on tCSNP2, it is absent in this context.

[Page 42: Coordination between network assessments](#)

It is important that there is coherence between the NOA and CSNP assessments, assessments for Network Services Procurement, offshore wind connections and the tCSNP2 Refresh, which is currently missing from this section.

It is unclear whether the expectation to 'develop a clear future vision and strategy for an optimal network assessment process' is intended to consider interaction between known existing/upcoming network planning processes, or whether it could generate new planning processes. It should be expected for the strategy to consider wider industry processes, e.g., connections reform, Review of Electricity Market Arrangements, etc.

[Page 43: Procurement of network solutions](#)

The expectation to deliver the requirements set out in the Secretary of State's Commission for a SSEP methodology, whilst ensuring coordination with wider strategic planning activities and developments should additionally mention the necessary coordination with the tCSNP2 Refresh and CP2030.

Further clarification is needed on which mechanisms procurement of network solutions will take place under.

[Page 43: Transitional CSNP 2 Refresh](#)

We welcome clarification on expected timelines on the expected delivery for the tCSNP2 Refresh. We had understood the current expectation to be an end of January 2026 publication date, however the wording 'by January 2026' also implies before the start of the month.

The refresh should additionally consider the outcome of wider industry processes including CP2030, offshore coordination and connections reform.

It is important that NESO takes on feedback from all stakeholders, as well as Ofgem, about the tCSNP2 methodology. Therefore, the expectation should consider how NESO engages with a broader range of stakeholders.

[Page 44-46: Development of the CSNP](#)

The expectations placed on NESO to 'Aid Ofgem in stakeholder engagement' and to 'support the development of all stages of CSNP' are unclear, as it was assumed that the responsibility for consulting on the CSNP lies with NESO rather than Ofgem. It is essential to clearly establish the roles and responsibilities within this process to enhance transparency and facilitate a more efficient delivery of the CSNP.

Additionally, somewhere in this section we would like to see this reference NESO developing a methodology that produces a CSNP that is "capable of being endorsed in planning policy, should the Government choose to do so". Endorsement in planning will be a key benefit in helping to speed up end to end delivery of transmission infrastructure. Therefore, it is important to ensure the methodology enables this, if the Government chooses to so endorse the plan. This was a key recommendation of the Transmission Acceleration Action Plan (Recommendation NP2).

Further clarification is needed on which mechanisms competitive tenders will take place under.

We believe the reference to the findings of Ofgem's Electricity Transmission Network Planning Review from 2021 should instead refer to Ofgem's latest decision on the CSNP framework, published in December 2023.

To avoid confusion on references to CSNP 'stages', this section would benefit clear articulation of which activities are included in each 'stage' of development. The articulation should be consistent within the licence expectations and NESO's latest methodology thinking.

The expectation for NESO to lead on developing the methodology for the identification of system needs should include a reference to how they work with stakeholders. This acknowledges that system needs are not solely identified by NESO, and therefore the methodology must be developed with input from other stakeholders, including TOs.

	<p>We welcome the direction for NESO to consider multipurpose interconnectors and a "strategic advisory output" for future interconnectors. This is an important and positive development. As a developer with several future projects, we are keen to work proactively with NESO on this, especially given that these projects often have long lead times, with some taking nearly a decade to complete. We seek further clarification on how this will function within a developer-led model.</p>
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Annex 2 Specific comments/ feedback on the proposed Performance Arrangements Governance Document (PAGD)

We welcome the focus in the document relating to NESO's obligations to enable stakeholder feedback and how this can be used to demonstrate the achievement of a Success Measure for a Performance Objective. The NESO holds a central role in driving the energy transition and stakeholders rely on it to deliver so that they in turn can deliver on their own objectives. In particular, we think that stakeholder feedback should form a key part of NESO's quarterly reporting to Ofgem on Performance Objectives progress so that it provides a rounded view on which Ofgem can make an accurate assessment, supporting early identification of where further focus/attention is required.

We are also supportive of the approach outlined in paragraph 3.9 of the document which considers applying a higher weighting to NESO's performance against a Performance Objective where this has led to significant benefits for industry/consumers. And conversely, where poor performance has led to significant detriment. We believe that this assessment should consider stakeholder feedback on what they perceive to have delivered the greatest benefits to consumers and industry, or where performance has been poor and had a detrimental impact.

As well as assessing whether deliverables and milestones are achieved, there also needs to be a focus on the quality of that deliverable or milestone. We are concerned that performance assessment as it stands focuses too narrowly on achievement of milestones or deliverables, without a qualitative assessment of whether that deliverable or milestone was of sufficient quality. In line with our comments on the importance of stakeholder feedback to inform Ofgem's performance assessment, this is another aspect where significant value can be added, as well as building trust and transparency.

In terms of value for money, we welcome the recognition in paragraph 3.14 that reducing expenditure on certain activities or investments during BP3 may not deliver value for money if the lifetime cost is subsequently higher. However, the current definition of Value for money is narrow and underplays the importance of NESO's role at the centre of the energy sector. As currently proposed, the value for money criterion does not consider the wider sector impacts that NESO actions can have (for example, through system access and constraints). In assessing NESO's value for money, we suggest that these wider impacts on costs across the sector should be recognised in the performance assessment to ensure that NESO is driving the right outcomes for consumers and capitalising on its central role. Furthermore, NESO is responsible for the annual costs of running the system which are currently in the region of £3-5bn, with its recent annual balancing cost report suggesting they see little scope for significant reductions in these costs over the next 14 years. To put this into context, at the lower end of this range, these costs are similar to the combined annual revenues of the National Grid Electricity Transmission, the two Scottish transmission owners and all of the Offshore Transmission Operators combined. We would welcome further emphasis in the description and assessment of NESO's value for money performance to ensure that there is a strong focus on driving these costs down.

With the importance of transparency for stakeholders, and the increased emphasis on reputational impacts, we recommend NESO takes steps to improve the availability and visibility of key documents on its website. Important documents, such as the final publication of the BP3, are difficult to locate. Strengthening NESO's bandwidth and improving document accessibility would not only ease stakeholder engagement but would also support in establishing NESO's credibility to external stakeholders.

We have outlined our specific feedback on each of the reporting documents in the table below.

Reporting Route	Specific comments/ feedback
Reported Metrics	<p>We note that paragraph 4.9 states that the full list of reported metrics for will be confirmed in Ofgem's BP3 Final Determinations.</p> <p>We believe that the reporting agreed for the remainder of BP2 should be continued into BP3, with any additional metrics added as necessary. We think this is particularly important following the removal of quantifiable Key Performance Indicator's in NESO's final BP3.</p>

	<p>We look forward to Ofgem's final BP3 determinations to clarify which specific metrics from NESO's Performance Objectives will be required for reporting.</p>
<p>Performance Objectives Progress Reports</p>	<p>We are supportive of this report being produced quarterly to ensure that any under-performance or areas of concern can be identified early. We look forward to Ofgem publishing the template.</p> <p>We believe it is essential to include an opportunity for stakeholders to provide their perspectives on performance for this quarterly review of performance, rather than relying on NESO's self-assessment of its progress. This approach is particularly important this year, in the context of the BP3 being a first business plan publication since transitioning from the ESO to NESO. Although we would be open to reassess the frequency for future monitoring, we prefer a more rigorous oversight until we are confident NESO possess the necessary skills and capabilities fulfil its broadened remit.</p>
<p>Cost Monitoring Framework (CMF)</p>	<p>We appreciate the flexibility for the CMF to include reporting on non-IT costs if there are areas where Ofgem require additional scrutiny and transparency. This approach should be extended to allow other stakeholders to put forward areas where they may seek additional oversight.</p>
<p>Value for Money Reporting</p>	<p>We are pleased with the alignment of the Value for Money Reporting with the underpinning 'BP3 Building Block- Value for money' outlined in NESO's final BP3. This is an important requirement for NESO to demonstrate its commitments as well as addressing Ofgem's concerns.</p> <p>Listed as a core outcome in NESO's final BP3 is how NESO activities achieve lower costs 'than would otherwise be the case'. To demonstrate this, this report should require NESO to provide a comparative metric to establish how much costs have been reduced. Additionally, this report should demonstrate NESO's recognition of the inevitable trade-off between the interests of current consumers or future consumers. Particularly when demonstrating why bills are lower due to NESO's actions (are they higher now but cheaper in the future).</p> <p>We support Ofgem's clarification that NESO's forecast costs have not been determined by Ofgem to be an efficient benchmark or budget. It is important NESO strive for significant cost reductions than what is currently forecast.</p>

Stakeholder Satisfaction Survey	<p>We welcome the increase in frequency of the stakeholder satisfaction survey from annually to every 6 months. We agree that stakeholder inputs are key to ensure that NESO is delivering and being held to account by the parties that rely on it. NESO has a unique and vital role at the centre of the energy transition; ensuring that the stakeholders that rely on it to deliver their own objectives can give regular and transparent feedback is an essential aspect to drive an organisation that understands and delivers on its stakeholders needs.</p>
End of year report	<p>We welcome the confirmation of role for a Performance Panel, that will provide an independent view of performance to be used by Ofgem in its final determinations. We would welcome further detail on its membership.</p> <p>We are supportive of NESO's performance being taken into consideration when deciding on senior staff remuneration, this is appropriate given the transition to a public body and the accompanying removal of financial incentives.</p>