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Dear David

**Consultation on the Performance Arrangements Governance Document and Licence Expectations Document for NESO for the RIIO-2 Business Plan 3 period**

On behalf of the SSE Group<sup>1</sup>, I welcome the opportunity to respond to Ofgem's consultation on the following documents supporting the implementation of NESO's regulatory framework for the RIIO-2 Business Plan 3 (BP3) period:

- NESO Performance Arrangements Governance Document.
- NESO Licence Expectations Document.

As stated in response to previous consultations<sup>2</sup>, we support Ofgem's move to a less granular and more holistic, cross-cutting assessment of NESO's performance, focusing primarily on the achievement of key Performance Objectives reflecting NESO's biggest priorities, provided this does not result in a lower level of scrutiny of NESO's performance. Given NESO's increasing importance at the centre of the energy sector and in support of the energy transition, we expect its performance to be scrutinised at least as robustly as previously, if not more robustly, and Ofgem to act promptly and decisively to rectify any instances of poor performance.

Overall, the Performance Arrangements Governance Document broadly reflects Ofgem's November 2024 decision on the performance incentive framework for NESO's BP3 period. However, there are a small number of points we wish to raise as part of our response.

In relation to Ofgem's assessment of NESO's achievement of its business plan aims, Ofgem proposed a mechanism where NESO would be graded as 'meeting expectations' when "*examples of successful / strong*

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<sup>1</sup> The SSE Group is a FTSE-100 company headquartered in Perth, Scotland, with interests across the UK, 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; flexible thermal generation (including hydrogen and carbon capture and storage). We also provide energy products and services to business customers.

<sup>2</sup> For example, SSE Group's response to Ofgem's August 2024 Consultation on NESO's Performance Incentive Framework and Business Plan Guidance for BP3.

*performance and areas of unsuccessful / inadequate performance broadly balance each other*". We consider this to be a low threshold. The base expectation for NESO should be for instances of strong performance to exceed instances of poor performance, and for the first to significantly exceed the latter for NESO to be graded as 'exceeding expectations'.

Ofgem noted that, in assessing the extent to which NESO has achieved its business plan aims, "*not all factors may be of equal importance / impact*", but decided not to introduce explicit weightings for individual Performance Objectives and Success Measures, indicating that it "*will apply discretion to consider the relative strength of performance in different areas*". Ofgem should be fully transparent with stakeholders in relation to its assessment of the relevant importance / impact of different areas and explain clearly where and how discretion is being applied.

In determining NESO's overall grade, Ofgem plans to combine the grades assigned to the two parts of NESO's assessment (achievement of business plan aims and delivery of value for money) and indicated that "*NESO could exceed expectations in one part of the assessment and fall below expectations in the other and still receive an exceeds expectations grading overall*". If Ofgem decided in favour of an overall 'exceeding expectation' grade despite one of the two parts of NESO's assessment having been graded as 'below expectations', we would expect Ofgem to provide a robust explanation for this decision.

In relation to the six-monthly stakeholder satisfaction survey, Ofgem indicated that "*the exact survey participants will be determined by NESO through its stakeholder contacts database*". We suggest that there should be stronger requirements from Ofgem on the composition of the survey's sample, to ensure that all relevant stakeholders are represented and there is no actual or perceived conflict of interest associated with NESO having discretion in deciding what stakeholders will be asked to provide feedback on its performance.

Finally, in the Licence Expectations Document, we note that the section on Strategic Energy System Planning is entirely focused on network strategic planning, with no expectations set in relation to strategic spatial energy planning (SSEP) nor regional energy system planning (RESP). Whilst licence obligations in relation to RESP are still being developed, those associated with SSEP are already part of NESO's licences. Therefore, Ofgem should integrate the Licence Expectations Document to include expectations in relation to SSEP and, as soon as the relevant obligations are included in NESO's licences, also RESP.

We look forward to continuing engaging constructively with Ofgem to support the design and implementation of a suitable regulatory framework for NESO, particularly for the new RIIO-3 control period starting in April 2026.

In the meantime, 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