

Reference
NESO BP3

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NESO regulatory framework:
Associated Documents for the BP3 period

As one of the largest regulated energy networks in the UK, we are working enthusiastically with our sector colleagues in the NESO as they establish themselves in what we firmly believe is a vital role for the UK's energy system.

To achieve the new organisation's potential, it must be seen by all sectors as a trusted, respected and credible voice at the heart of the energy system.

The two documents currently being consulted upon will play an important role in the NESO's early years development towards achieving this aim, and we have outlined below our thoughts on the draft proposals.

1. In the Licence Expectations document, we note that in Section 7.2 Promoting Efficient Charging and Access Arrangements, it is not entirely clear whether the intended focus is just electricity? The references to electricity mechanisms and documents would suggest it is aimed at electricity.
2. An observation with implication for both documents is the question of the NESO's role in assessing where the UK energy system is on its journey to net zero. Whilst there remains considerable uncertainty over the coming decades, we do know failing to deliver net zero by 2050 is not an option. The regulatory framework governing the NESO's performance could be used to shine a very bright light on where we are in terms of the likelihood of delivering net zero. We would support making a significant core of the NESO's performance framework align with a role in assessing and communicating the energy systems journey to net zero.

This should include an honest appraisal of the performance and overall effectiveness of current energy policy, and the identification of credible alternative options where original 'Plan As' are demonstrably failing. Without this, the UK risks continuing with Plan As well beyond the point where a Plan B could be implemented. We would also recommend the NESO has a role in



monitoring physical delivery of infrastructure works against any defined strategic plan, including an overall view of the likelihood of timely delivery.

3. In Section 9 of the Licence Expectations document: Energy system strategy and future pathways; Ensuring coordinated Pathway development it requests the NESO:

Engages and coordinates with stakeholders (e.g. Ofgem, national and devolved government, Committee for Climate Change, industry, other licensees (e.g. Gas System Operator, DNOs)) to ensure regional and cross-sectoral interactions are clearly taken into account in the pathway development processes.

We would be keen to see an explicit reference included in this section to the Gas Distribution Networks as well.

4. In 10.2 of the Licence Expectations document, which discusses the CSNP, reference is made to the networks in scope: "...as well as gas transmission..."

Whilst the definition of transmission in electricity is understood, including regional variations, with 132kV treated as distribution outside of Scotland, references to gas transmission need to be clarified. Gas Distribution networks own and operate significantly more kilometres of similar high pressure gas transmission assets, as those owned by National Gas. Clarity and consistency is required on what is or isn't included when references are made in such documents to gas transmission.

5. In Section 10 of the Licence Expectations document: Output and Licence expectations, Identifying network needs and solutions, the following bullet is unclear in its purpose:

- *Make recommendations to other parties and take NESO procurement decisions for the electrical transmission network (including onshore, connections for offshore wind and interconnection) the gas transmission network and proposed hydrogen network that manage the design principles of being economic and efficient, deliverable and operable and appropriately consider environment and community impacts.*

It isn't clear if the NESO procurement decisions just relates to the electricity transmission system, and it is also unclear what the recommendations and procurement decisions must relate to e.g. Is it all encompassing, or does it relate to "design principles"?

Our final points relate primarily to the NESO Performance Arrangements Governance Document.

6. We welcome the recognition of the value of: "...identifying additional solutions not proposed by others.." and "...network and non-network.." solutions. As part of the ongoing monitoring of the NESO's performance we would welcome reporting on the scope



for such innovation, so that any unconscious bias towards familiar electricity centric solutions can be identified and if necessary, acted upon at pace. If such creative optioneering is a requirement, associated reporting should be in place to monitor performance.

7. As well as delivery, we fully support the need for the NESO to take clear and effective whole energy system decisions. Given the NESO's initial grounding in electricity, we would urge for their performance framework to include a robust stakeholder driven assessment of how effective they are from a whole energy system perspective. This will encourage the NESO to ensure it considers alternative and potentially better outcomes to electricity based solutions. Failure of the NESO to take the right initial whole energy system steps will also undermine ongoing stakeholder engagement, and damage the credibility of the NESO when it comes to taking on a more expansive role in coming years.
8. Finally, we are pleased to see an independent performance panel at the heart of this process, however, great care must be taken on ensuring its membership is constantly reviewed for its diversity and capability. For example, simply continuing with the ESO performance panel would clearly be inappropriate, and participants able to provide feedback from outside the immediate electricity sector, is critical, and should be an urgent action for Ofgem to address.

We hope you find them constructive, and we are very happy to follow up any of the points raised with you.

Yours sincerely

Stuart Easterbrook

Head of Net Zero Energy Frameworks