

# Response to Ofgem's NESO Business Plan 3 Draft Determinations

**30 April 2025**

At the end of January 2025, we published Business Plan 3 (BP3) for the period April 2025 – March 2026. This is the final Business Plan in our five-year RII0-2 price control, and our first as NESO.

The energy system is the foundation of a thriving modern society in Great Britain. As the system continues to undergo rapid and fundamental transition, our focus remains on promoting net zero, access to affordable energy and ensuring security of supply for the nation.

Our business plan, which was informed by engaging with our customers, identifies eight Performance Objectives that ensure we deliver value for consumers and fulfil our purpose and vision. These objectives serve as guiding principles for our expanded roles and responsibilities as we move towards clean power by 2030 and aim for net zero emissions by 2050.

We welcome the opportunity to respond to Ofgem's proposed assessment of our plan in their Draft Determinations. We are pleased that Ofgem's proposal recognises that successful delivery of the plan will unlock benefits for consumers; driving progress towards net zero whilst keeping the system operating securely and economically and establishing NESO as an independent organisation. We are also pleased Ofgem consider our Performance Objectives cover an appropriate range of key activities and collectively represent an ambitious plan.

We will continue to work with Ofgem to provide additional information to support their value for money assessment and further develop some of our Success Measures ahead of Final Determinations.

Our detailed responses to Ofgem's five Draft Determinations consultation questions are set out in the rest of this document. Should you require further information on any of the points raised in our response please contact Rachel Smith, Regulatory Business Planning Manager ([rachel.smith@nationalenergyso.com](mailto:rachel.smith@nationalenergyso.com)).

## BP3 Draft Determinations consultation question responses

### Inputs to NESO's BP3 Plan

Q1. Do you agree with our proposal that the Business Plan reflects Government priorities from the Strategy and Policy Statement for energy policy in Great Britain, is built on the Electricity System Operator's original RII0-2 ambitions and reflects wider stakeholder priorities?

#### NESO response:

We agree with Ofgem's proposal that our Business Plan reflects Government priorities, is built on our original RII0-2 ambitions and reflects wider stakeholder priorities.

BP3 is the final Business Plan in our five-year RII0-2 price control, and our first as NESO. It is a 1-year plan for the period April 2025 to March 2026 and is transitional as we work with Ofgem to determine the enduring regulatory framework for NESO. The framework for BP3 reflects the change in NESO's ownership and roles, focusing on delivery of key objectives and major priorities for the BP3 period.

It does not cover all that we do. However, we remain committed to delivering our existing commitments made under BP2, our licence obligations and our core functions. Our eight Performance Objectives underpin our NESO strategic priorities, enabling us to fulfil our statutory duties as well as our purpose, vision and values.

In developing BP3 we engaged with a broad range of customers and stakeholders from across the energy sector. In March 2024, we formally stood up our Independent Stakeholder Group (ISG), consisting of a range of representatives from across industry who were consulted throughout the plan's development to help ensure that the priorities we took forward as NESO were the right ones. Those strategic priorities then informed the development of our eight BP3 Performance Objectives and related Success Measures, which were further tested with, and shaped by, ISG.

We agree that successful delivery of the plan will unlock benefits for consumers; driving progress towards net zero whilst keeping the system operating securely and economically and establishing NESO as an independent organisation.

## Ofgem assessment of BP3 Performance Objectives

Q2. Do you agree with our proposal that the Performance Objectives comprise an ambitious one-year plan and sufficiently cover the key outcomes for the energy system and consumers during BP3? Are there additional key areas or outcomes that NESO should focus on for BP3?

### NESO response:

We agree that our Performance Objectives cover an appropriate range of key activities and collectively represent an ambitious plan. The energy sector is undergoing a fundamental transformation, with the pace of change continuing to accelerate and a clear government driven ambition to reach Clean Power by 2030. Our business plan seeks to reflect the unprecedented change that is taking place across the energy system, focusing on the most critical and impactful activities we need to undertake.

Our proposed Performance Objectives demonstrate our expanded and wide-ranging whole system remit as NESO. Many of the activities we will undertake for this period represent roles we have not previously been responsible for. In some areas, we are committed to undertaking work that has never been done before to advance the energy transition, both in the energy sector in Great Britain and on an international scale.

We are confident that our business plan sets the necessary level of ambition, while remaining both credible and achievable, at this pivotal moment for the energy sector.

We agree that stakeholder feedback should provide a key measure of our achievement of Performance Measures. We routinely gather stakeholder feedback across all of our activities. Through ongoing stakeholder engagement, we are committed to making sure our BP3 Performance Objectives are informed by stakeholder priorities and needs. In designing our stakeholder engagement activities, we aim to:

- Provide a route for stakeholders to share their views and hold us to account for delivering what we have promised
- Work collectively across the industry to achieve Great Britain's net zero goals
- Allow a diversity of views to inform our business plans.

We are continuing to work on how to improve and refresh how we interact with stakeholders, particularly with our new responsibilities as NESO.

Q3. Do you agree with our proposals for the individual Performance Objectives (and supporting Success Measures) as set out in this section? Are there any missing or incomplete Success Measures which Ofgem should set additional expectations for?

### **NESO response (set out by Performance Objective):**

#### Strategic Whole Energy Plans

We are pleased that Ofgem has recognised the ambition of this Performance Objective and agree that our Success Measures support the delivery of this outcome. Given that many of the activities supporting this Performance Objective are new to NESO, we agree that delivery of these in line with our licence obligations should demonstrate a performance that meets expectations, with evidence of high quality or early delivery demonstrating exceeding expectations. It is important that we work closely with Ofgem to ensure we have a shared understanding of what strong performance looks like and where additional benefits could be realised. We look forward to delivering all the work we have highlighted in our business plan for Strategic Whole Energy Plans. Delivery will be challenging as this is new work with few examples to follow. However, we know it is critical in addressing government and industry priorities and has great potential value if done well.

We note the expectations for tCSNP2 Refresh publication to set clear signals for industry investment and not require further refresh and we will work closely with Ofgem in ensuring that these expectations can be met.

#### Enhanced Sector Digitalisation and Data Sharing

We are generally supportive of Ofgem's Draft Determinations position. We recognise the concerns around lack of clarity from the Performance Objective on how we will work with the sector to develop the digital ecosystem and that successful delivery will see NESO recognised as a digital leader that has collaborated with the sector.

In BP2 we have demonstrated our leadership in energy system digitalisation, including our work on the Virtual Energy System, an ambitious programme to develop a connected digital twin of the entire Great Britain energy system. We will build on this for BP3, striving for NESO to be recognised as a digital leader in this space. Our ambitious plans around the Data Sharing Infrastructure (coordinator role and minimum viable product) and sector digitalisation plan will demonstrate how we will work collaboratively across the industry and engage others as we develop and deliver our plans. Ofgem's decision outlines the coordinator's roles and responsibilities, which will be implemented through our business plan. To be successful in all these activities will require effective engagement with energy system and users.

#### Operating the Electricity System

We appreciate Ofgem's recognition of NESO's role in maintaining a safe, reliable, and efficient energy supply for Great Britain and that Ofgem agrees that the Performance Objective comprises an ambitious one-year plan that sufficiently covers the key outcomes for the energy system and

consumers during BP3. We are committed to progressing our RII0-2 aim to have all the necessary tools in place to operate a secure zero-carbon system, ensuring that Great Britain is on a pathway to a fully clean power system in the future.

We agree that most of the Success Measures we have set out are relevant to the activity and reflect a suitable level of ambition. We understand the importance of clearly articulating what success looks like in meeting the overall Performance Objective. We are committed to refining the measures that are not yet sufficiently defined to ensure they are ambitious and measurable.

We recognise that the Success Measures in the areas of Balancing Cost Strategy, forecasting and transformation of people, processes and systems within NESO are not yet defined to the level that can create certainty that delivering the measures will demonstrate the right level of ambition. We are committed to refining these measures as we work collaboratively with industry to evolve our deliverables.

We recognise the industry feedback, particularly the desire to create a quantitative target for skip rates. While we strongly support the goal of reducing skip rates as far as possible, as fast as possible, we agree with Ofgem that the currently we are unable to set a reliable, realistic, and achievable target. As we progress our root cause analysis work and stabilise the skip rate methodology, we will gain better insights and continue collaboration with industry on what might constitute appropriate targets.

As part of our incentives framework, we will ensure transparency of our skip rates performance throughout BP3. We will publish timely, accessible, and accurate skip rates data using both the 5-stage post system action methodology and any updated methodology agreed with industry. Our goal is to enhance transparency on our dispatch decision making and deliver a substantial reduction in skip rates that results in, as far as is practicable, relative parity across technology types by the end of BP3.

## Connections Reform

We welcome Ofgem's support for our Performance Objective and Success Measures for Connections Reform. Reforming the connection process is a key priority and represents a critical opportunity for Great Britain to efficiently drive growth and achieve clean power targets.

NESO and the network companies have worked collaboratively to draw up an implementation timeline for the TMO4+ reform package. The timeline has been subject to detailed planning and scrutiny, involving both Ofgem and Government input. We note that the milestones and deliverables from this implementation timeline will require revision of the timing of the deliverables associated with our Success Measures for Connections Reform. We will engage on this with Ofgem over the coming weeks to ensure that appropriately revised targets are in place. We look forward to working closely with Ofgem, Government and industry to successfully deliver these ambitious objectives.

## Fit-for-Purpose Markets

We are pleased that Ofgem consider Fit-for-Purpose Markets represents a key focus for NESO. We believe that this Performance Objective is ambitious. In RIIO-2 we have already rolled out response and reserve products and non-energy service markets. We welcome Ofgem's recognition of the steps we have taken to reform our markets to enable the operation of a zero-carbon electricity system and how NESO's role aligns with government and industry priorities. We have ensured that the relevant markets are now in place to enable a zero-carbon system to be operable for short periods of time should the market present itself in this way. Our proposals for BP3 will continue to build on this, delivering our final reserve products to market and developing other products and services to enable access to revenue opportunities.

We recognise that our Markets Roadmap was not published in time for Draft Determinations and welcome Ofgem's review of our plans within it for their Final Determinations. We consider that this document highlights how we will progress reform of our markets and enable participation in all of our services. Given this, we believe this Performance Objective represents an ambitious outcome.

On the Success Measures, we are pleased that Ofgem considers our proposals to be generally relevant to demonstrating progress towards delivery of the Performance Objective. On the specific areas that Ofgem would like to see change, we are comfortable that our plans and ways of working will result in proactive engagement with the Market Facilitator and we have resourced our teams to enable this. We are supportive of the general intent for Ofgem to understand our activity on code and market rules changes and believe that we have a positive track record in managing and proposing changes to the codes. Therefore, we welcome further discussion with Ofgem on the appropriate way to develop relevant assessment of this.

Separately, we are comfortable that a review of the Market Design Framework may be warranted but that this should be done in consideration of consumer benefits this would achieve and, if enacted, the appropriate time for this to take place given the continued rollout and development of NESO markets. If this were to be an ongoing expectation from Ofgem it may be appropriate to consider how to identify this as a specific activity required of NESO in a more enduring manner.

## Secure and Resilient Energy Systems

We welcome Ofgem's determination that endorses our vital role in ensuring security of supply in Great Britain and our expanded remit in whole system resilience. Acceptance that we have clear ambition in our Performance Objective and relevant Success Measures across new and enhanced responsibilities is also appreciated.

We understand that Ofgem would like us to create additional Success Measures that more widely cover our expanded roles. We agree to the additional suggested Success Measures put forward by Ofgem.

We understand Ofgem's concerns around us demonstrating successful delivery of 95% of capability and arrangements to meet the Electricity System Restoration Standard (ESRS). We

acknowledge that our proposed 95% measure would involve qualitative judgements on the progress across a number of project areas that are not all absolute requirements for ESRS enablement. Full compliance with ESRS is due nine months after the end of BP3. Rather than rely on this 95% measure we propose holding ongoing open progress update sessions with Ofgem to show we remain on track to meeting the ESRS by the end of 2026.

## Clean Power 2030 Implementation

We appreciate Ofgem's agreement that a separate Performance Objective on CP30 is required as we agree that providing clarity to industry on roles and responsibilities around clean power is important. We appreciate confirmation that the CP30 Success Measures are relevant and can be used to track delivery.

While we note the importance of coherence and making sure that roles of all actors in relation to CP30 are clear, there may be a need for caution around whether our CP30 Delivery Plan should be "identifying the key roles of all actors" as this could be argued to be more of a role for government. We also appreciate the recognition that some Success Measures "are still subject to further detail which will be specified over BP3" as this was our intent with this Performance Objective (i.e. that more detail is likely to emerge over time).

We are currently working with Ofgem on cost-benefit analysis in relation to cap & floor to support their decision making. This is in addition to Long Duration Electricity Storage (LDES) analysis that NESO is carrying out more generally to support DESNZ.

We acknowledge the potential overlaps between CP30 activities and those of other areas. This is due to the fact CP30 will be mainly achieved by delivery of activities across NESO (Fit-for-Purpose markets is a good example of this). We will work with Ofgem to ensure that interactions are understood and that there are no duplications against Success Measures that could lead to confusion around outcomes.

## Separated NESO Systems, Processes and Services

We agree with Ofgem's Draft Determinations position on Separated NESO Systems. We appreciate that Ofgem acknowledges that we won't be able to attain full independence until 1 October 2026 and consider the outcome of this Performance Objective for BP3 will be indicative of our ongoing progress in transitioning away from National Grid.

We are keen to build our own core technology platforms and supporting infrastructure to remove reliance on National Grid for IT services. This will enable us to provide modern, scalable and reliable capabilities that can respond swiftly to the needs of NESO and customers.



## Value for Money

Q4. Is the information on NESO costs that we have provided in the Appendix 2 sufficient additional cost information? If not, what further information do you think NESO should make available publicly on its cost forecasts and value for money justification?

### NESO response:

We recognise the importance of Ofgem's value for money assessment and that Ofgem are seeking further information to support this assessment. We look forward to working with Ofgem to enable this ahead of their Final Determinations.

## Reporting Requirements

Q5. Do you agree with our proposal for Reported Metrics and the CMF?

### NESO response:

We are generally supportive of the proposed reporting requirements set out in the Draft Determinations. We are keen to seek a proportionate approach for all requirements. We will continue to work with Ofgem to ensure all evidence provided in our reports provide sufficient value and insight. Due to changes in context and the performance framework, it should not be assumed that all reporting requirements will continue to offer the same value.

### Reported Metrics

We note the requirement to continue reporting BP2 Metrics and Regularly Reported Evidence (RREs) as Reported Metrics in BP3. We are supportive of the proposal not to retain reporting of Metric 2Ai, RRE 3X and RRE 3Y. We are also supportive of the replacement of RRE 1E with a new skip rate measure (subject to ongoing root cause analysis and skip rate methodology work through which we will gain better insights and continue collaboration with industry on what might constitute appropriate targets).

We would also like to propose that RRE 2Aii (balancing services procured in a non-competitive manner) is not retained as a Reported Metric as this is directly linked to Metric 2Ai under the current BP2 framework. For BP3, this will be replaced by the competitive procurement Success Measure under the Fit-for-purpose Markets Performance Objective.

We note Ofgem's proposal not to retain pre-defined benchmarks for Reported Metrics. Whilst we agree that our performance won't be assessed as meets, exceeds or below expectations against a benchmark for these Reported Metrics, we may choose to include historical averages or figures based on the BP2 benchmark methodologies to support narratives.

We note in paragraph 6.3 of the Draft Determination that Ofgem state "As most Reported Metrics are pre-established processes, we also do not consider they will create disproportionate cost for NESO that outweighs their value". Whilst we agree that Reported Metrics processes are pre-established, it should be recognised that the value of reporting requirements may change over



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time as the performance framework evolves. Requirements should always be reviewed to ensure they continue to drive sufficient value to Ofgem and industry.

### **Cost Monitoring Framework**

We are pleased with Ofgem’s recognition of positive change and increased confidence in our DD&T portfolio. As per our response to Ofgem’s consultation on the BP3 Performance Arrangements Governance Document (PAGD) in March 2025, we note the ongoing use of the CMF in BP3 and will seek alignment with Ofgem on the steps needed to remove this additional regulatory reporting requirement in the future to reflect an outcome-based framework.