

# Business Plan 3 Draft Determinations – National Energy System Operator

## *National Grid plc response*



This response to Ofgem’s consultation on its “Business Plan 3 Draft Determinations – National Energy System Operator” dated 31 March 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 welcome Ofgem’s draft determination in relation to the National Energy System Operator’s (NESO) Business Plan 3 (BP3) and, overall, are content that the BP3 provides a sound basis for evaluating NESO’s performance over the relevant period. In particular, it is reassuring to see confirmation by Ofgem that it will consider the quality of delivery of activities by NESO, not simply whether an activity is delivered.

We are also pleased to see the focus on stakeholder and industry feedback to support Ofgem’s assessment of quality although it is unclear exactly how this will be collected and captured to ensure it is representative and accurate. We remain strongly supportive of NESO being a stakeholder driven organisation if it is to fulfil its role in driving the transition to Net Zero. In relation to this, we believe that a **mechanism for effective measurement and integration of stakeholder feedback, as well as transparent decision-making processes**, should be developed and are in fact vital for effective industry engagement, stakeholder satisfaction and ultimately the delivery of the best outcomes for consumers and society. Not only will this support both NESO and Ofgem in evaluating performance, it will also help to build trust with stakeholders. Achieving Government ambitions requires a collaborative effort by actors across the energy sector; working with NESO as a trusted partner will be key to success.

In addition, delivery of many of the Performance Objectives will require **clear and high-quality engagement plans** (for example, Connections Reform, CP2030 and Strategic Planning). To deliver outcomes that accurately reflect the requirements of key stakeholders, it is essential that NESO takes a structured and transparent approach to engagement, including across the transmission, distribution, and interconnection sectors, throughout the development, design, and implementation of relevant BP3 outcomes and beyond. Ensuring that the NESO has suitable engagement plans in place for key workstreams should form part of the performance assessment of the relevant activities delivered under Performance Objectives.

As outlined in the consultation, successful delivery during the BP3 period can unlock substantial benefits for consumers. However, we are concerned that some of the performance objectives and related success measure do not go far enough and stronger incentives can deliver better outcomes for consumers. In particular, we remain concerned that there is **insufficient focus on reducing the current (and) forecast level of system operation costs (balancing and constraints) to lower customer bills**, reduce carbon emissions and support accelerated delivery while continuing to operate the system safely and efficiently. NESO is responsible for managing the annual costs of balancing supply and demand across the system which are currently in the region of £3-5bn, with NESO’s recent annual balancing cost report suggesting it sees little scope for significant reductions in these costs over the next 14 years<sup>1</sup>. In the past, a strong focus on incentivising the System Operator to reduce balancing costs resulted in substantial savings<sup>2</sup>. We suggest that learnings from previous approaches to incentives should be considered, and where appropriate, taken forward for the long-term regulation of NESO performance where this has the potential to deliver considerable savings to consumers. A possible route to incentivising the NESO more strongly on managing the cost of balancing the system could be to link Executive pay to reported actions and performance on reducing the cost of balancing the system. For example, this could include a measure of the pro-active approach NESO take in applying the System Operator Transmission Owner Code procedure for working with Transmission Owners to reduce constraint costs or a measure of the accuracy of the constraint

<sup>1</sup> <https://www.neso.energy/document/318661/download>

<sup>2</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2000/09/transmission-price-control-review-of-ngc-from-2001---transmission-owner-final-proposals-2709\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2000/09/transmission-price-control-review-of-ngc-from-2001---transmission-owner-final-proposals-2709_0.pdf)

costs forecasts NESO produce under this procedure. This should be explored further for the enduring framework from April 2026.

Finally, we remain concerned that the timelines for the workstreams on System Access Reform will be completed too late to mitigate the delivery risk associated with achieving Clean Power 2030 (CP2030). Maximising system access to add new infrastructure and upgrade the grid will help maintain a reliable system and minimise costs to consumers. We would like to see a **clearer commitment, and accountability, for implementing optimised outage planning arrangements**. This is a major external dependency that needs to be addressed if Transmission Owners are to be able to deliver their RIIO-T3 plans.

We have responded to the specific questions in the consultation below. We are keen to maintain an open dialogue with both Ofgem and NESO on the delivery, implementation, and assessment of BP3 itself and the monitoring and evaluation framework. We would be happy to discuss the details of our response in more detail and look forward to participating in the development of the enduring performance and incentives framework over the coming months.

## **Responses to consultation questions**

### **1. 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 RIIO-2 ambitions and reflects wider stakeholder priorities?**

We agree with Ofgem's proposal that NESO's BP3 is reflective of Government's Strategy and Policy Statement for energy, builds on the previous RIIO-2 ambitions and reflects wider stakeholder priorities. NESO's strategic aims align well with the priorities and objectives laid out in the Strategy and Policy Statement for energy policy and cover the breadth of NESO's remit.

### **2. 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?**

We agree that overall, the current Performance Objectives in the BP3 cover the key areas and outcomes for NESO activity in the coming year. In our response to Question 3 below, we provide feedback on specific Performance Objectives where we think that more ambitious commitments are required.

In addition to the areas already covered in the BP3 document, we think that there should be a focus on developing NESO as an organisation particularly in relation to stakeholder engagement and transparency. With the move to a not-for-profit organisation, stakeholder feedback will be at the heart of assessing whether the NESO is delivering on its Performance Objectives. To ensure that this is done in a consistent, transparent and reliable way we believe that a **mechanism for effective measurement and integration of stakeholder feedback, as well as transparent decision-making processes**, should be developed and is in fact vital for effective industry engagement, stakeholder satisfaction and ultimately the delivery of the best outcomes for consumers and society. Not only will this support both NESO and Ofgem in evaluating performance, it will also help to build trust with stakeholders. Achieving Government ambitions requires a collaborative effort by actors across the energy sector; working with NESO as a trusted partner will be key to success.

We acknowledge that NESO has existing mechanisms in place, such as the 'You said, we did' summaries, to share how it has addressed feedback received to consultations. However, where feedback from stakeholders is used to assess the quality of a success measure and therefore contribute to the overall assessment of NESO performance, we believe that a more rigorous approach needs to be adopted to ensure that stakeholder views are accurately presented and reported.

Furthermore, delivery of many of the Performance Objectives will require **clear and high-quality engagement plans** (for example, Connections Reform, CP2030 and Strategic Planning). Ensuring that the NESO has suitable engagement plans in place for key workstreams should form part of the performance assessment of the relevant activities delivered under Performance Objectives. To deliver outcomes that accurately reflect the requirements of key stakeholders, it is essential that NESO takes a structured and transparent approach to engagement, including across the transmission, distribution, and interconnection sectors, throughout the development, design and implementation of relevant BP3 outcomes and beyond. For example, for the Centralised Strategic Network Plan (CSNP) there is nothing public detailing when or how NESO are to engage with offshore network developers such as NGV. Providing a clear and public summary of the planned engagement approach for key workstreams will ensure that we as National Grid, and wider industry, can provide quality inputs to the development of CSNP, allow us to allocate resources efficiently, and ultimately result in delivery of better outcomes.

We would also welcome clarity on how the NESO intends to engage and collaborate with European Transmission System Operators on cross border interests, which is relevant for a number of Performance Objectives for BP3 including Strategic Whole Energy Plans, Fit-for-Purpose Markets and Operating the Electricity System.

**3. 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?**

**Performance Objective: Strategic Whole Energy Plans**

We note Ofgem's description in paragraph 4.12 under the Performance Objective 'Strategic Whole Energy Plans' confirming that 'outputs need to be able to be used reliably for decision making and industry planning'. In previous consultation responses we have stated that NESO must ensure that the processes and methodologies of the CSNP and Strategic Spatial Energy Plan (SSEP) are robust and enable outputs to be endorsed in planning. We would welcome confirmation from Ofgem that the description of outputs being able to be used reliably is equivalent to enabling planning endorsement, and for the language to be amended as such. For strategic planning exercises to unlock the intended benefits of acceleration and achieving Government ambitions, endorsement in planning will allow the outputs of the SSEP and CSNP to be delivered with confidence and at pace.

We welcome NESO's commitment to review the Security and Quality of Supply Standard (SQSS) as well as noting its relevance for the delivery of Strategic Energy Planning. We are supportive of Ofgem's expectation that delivery of the SQSS review is evidenced and would appreciate further details on how the review being progressed and how stakeholders can be involved. It is essential that parties with a common obligation to meet the requirements, such as National Grid Electricity Transmission, are fully engaged in the whole review.

Furthermore, and as described above in our response to Question 2, we would welcome a clearer view from NESO on how it plans to engage with stakeholders on the delivery of strategic whole energy plans to ensure that key stakeholders can contribute fully to the process and support delivery of better outcomes.

**Performance Objective: Operating the Electricity System**

NESO is responsible for managing the annual costs of balancing supply and demand across the system which are currently in the region of £3-5bn, with NESO's recent annual balancing cost report suggesting it sees little scope for significant reductions in these costs over the next 14 years. The NESO BP3 states that achieving lower costs than would otherwise be the case is a core outcome and consumer value is one of its strategic priorities. **We do not believe that there is sufficient evidence of activity that can deliver these outcomes and priorities particularly in relation to the cost of balancing the system.** The Performance Objective 'Operating the Electricity System' does not clearly outline how NESO will effectively drive down the costs of system operation. Ensuring affordability for consumers during the transition to net zero is essential. To this end we suggest that NESO clearly demonstrates evidence of working with stakeholders to explore, develop and assess innovative solutions to minimise balancing costs and increase flexibility on the system. For example, this could include a measure of the pro-active approach NESO takes in applying the System Operator Transmission Owner Code procedure for working with Transmission Owners to reduce constraint costs or a measure of the accuracy of the constraint costs forecasts NESO produce under this procedure. In the past, a strong focus on incentivising the System Operator to reduce balancing costs resulted in substantial savings<sup>3</sup>. We suggest that learnings from previous approaches to incentives should be considered, and where appropriate, taken forward for the long-term regulation of NESO performance where this has the potential to deliver considerable savings to consumers. A possible route to incentivising the NESO more strongly on managing the cost of balancing the system could be to link Executive pay to reported actions and performance on reducing the cost of balancing the system. This should be explored further for the enduring framework from April 2026.

**Performance Objective: Clean Power 2030**

We remain concerned that the timelines for the workstreams on System Access Reform will be completed too late to mitigate the delivery risk associated with achieving Clean Power 2030. Maximising system access to add new infrastructure and upgrade the grid will help maintain a reliable system and minimise costs to consumers. We would like to see **clearer commitment, and accountability, for implementing optimised outage planning arrangements**. This is a major external dependency that needs to be addressed if Transmission Owners are to be able to deliver their RII0-T3 plans.

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<sup>3</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2000/09/transmission-price-control-review-of-ngc-from-2001---transmission-owner-final-proposals-2709\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2000/09/transmission-price-control-review-of-ngc-from-2001---transmission-owner-final-proposals-2709_0.pdf)

**4. 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?**

We welcome Ofgem's efforts to establish sufficient confidence in the costs and value for money information submitted by NESO for BP3. The BP3 publication refers to the relevant systems, processes and governance being in place to ensure value for money and commits to refine and improve these on an ongoing basis. To give stakeholders confidence in the systems and processes in place to ensure value for money transparency is essential. We recommend that NESO publishes minutes of key decision-making forums and shares details of the relevant governance, systems and processes in place to ensure accountability.

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

We agree with Ofgem's assessment that the majority of BP2 reported metrics will continue to have value in BP3. In line with a previous response to a NESO regulatory framework consultation in 2024<sup>4</sup>, we believe that the frequency of the reporting for metrics should be kept under review, and where concerns emerge there may be a case to increase the frequency of reporting for certain metrics.

We would welcome clarity from Ofgem regarding the reasoning behind the proposal to remove the pre-defined benchmarks for NESO on the reported values. The benchmarks provide a helpful and transparent route for stakeholders to understand how the NESO is performing.

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<sup>4</sup> [Consultation on Associated Documents to the proposed NESO licences – regulatory framework documents | Ofgem](#)