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NESO Framework Development
Ofgem

By email to: NESORegulation@ofgem.gov.uk

8th July 2025

Dear David,

NESO Enduring Regulatory Framework, including Business Plan Guidance Document

Thank you for the opportunity to respond to the above consultation¹. Given their intrinsic link, our response covers both this Regulatory Framework consultation, and the Business Plan Guidance Document consultation².

SGN manages the network which distributes natural and green gas to 5.9 million homes and more than 188,000 industrial and commercial (I&C) customers across Scotland and the south of England, providing warmth to over 14 million customers. Our 4,600 colleagues keep gas flowing safely and reliably to our customers, 24 hours a day, seven days a week. As such, SGN considers NESO to be a key stakeholder in our future network operation and we look forward to building a strong working relationship.

We welcome the significant stakeholder engagement undertaken by Ofgem when designing NESO's enduring regulatory framework. Our consultation response below makes several references, and reproduces aspects of, the slide deck presented by the NESO Framework Development Team in Ofgem at the recent May 2025 workshops³. As such, while we do not consider our response to be confidential, Ofgem should be mindful of these references to their own material when considering publication of this response.

Following a significant period of growth, NESO is now beginning to develop and deliver its first tangible set out outputs, such as the transitional Regional Energy Strategy Plan (tRESP) and Centralised Strategic Network Plan (CNSP). Development and operation of these outputs will also necessitate a significant resourcing investment from NESO's counterparties – such as the gas networks. As such, this is a critical time for NESO as an organisation to establish best practice in terms of industry engagement, effective use of data, and leadership and coordination of a truly whole systems approach, whilst minimising duplication and maximising efficiency. As such, while we acknowledge Ofgem's ambition to move towards a more strategic, less granular style of regulation, we are of the opinion that this would be more appropriate as NESO matures into its role, and we consider that this first price control period (2026-2028) as a minimum should be more granular-based, in order to support both NESO and industry in establishing its new way of working. We agree with Ofgem that ongoing stakeholder scrutiny should be embedded in NESO's business planning processes and would again highlight the criticality of this scrutiny in NESO's early operation, to ensure a well-developed industry-endorsed future model.

Should you have any questions regarding our response, or wish to discuss further, please do not hesitate to contact me at Hilary.Chapman@SGN.co.uk.

Yours sincerely,

Hilary Chapman
Head of Regulation,
SGN

¹ [Consultation on the enduring regulatory framework for NESO](#)

² [NESO Business Plan: Guidance Document](#)

³ Workshop on the design of NESO's future regulatory framework, taking place in London (2nd May 25), Glasgow (15th May 25) and online via webinar (22nd May 25)

Appendix 1: SGN Responses to Consultation Questions

Performance Incentives

1. Do you agree with our proposal to continue with an evaluative performance assessment that is aligned with our BP3 approach?

SGN agrees to a certain extent. Our response to Q1 makes reference to the performance incentive descriptions as set out in Ofgem’s slide deck, reproduced below for ease.

We are generally supporting of a public, evaluative performance assessment, in line with BP3. However, we have the following observations regarding the use of granular vs strategic incentives (as defined in Figure 1 below).

We support Ofgem’s view that “there is value in moving from a granular assessment approach towards a more strategic assessment focused on key outcomes”⁵, however there is a balance to be struck. It is also important that this is a glide path rather than a step change, and the timing of this transition is critical. Given NESO is in the early stages in output delivery, we would expect the regulatory focus to remain relatively granular (“Option 1”), to ensure that outputs are fit for purpose both in their development, design and delivery. This will ensure that NESO is delivering the activities and outputs expected. SGN is of the opinion that strategic outcomes (“Option 2”) at this stage would be too high level and risks resulting in varying outcomes given their subjectivity to evolving policy decisions.

Figure 1 - Performance Incentive Matrix⁴

Options for performance incentives		Focus of incentives	
Type of incentive	Evaluative assessment	Granular Outputs	Strategic Outcomes
	Reporting requirements only	<p>Option 1: Ofgem publicly evaluates the delivery of granular deliverables/metrics, against detailed activity-level expectations</p> <p>(e.g. ESO RIIO-2)</p>	<p>Option 2: Ofgem publicly evaluates NESO’s achievement of key outcomes, informed by progress against success measures</p> <p>(BP3 approach)</p>
		<p>Option 3: Outturn data published against pre-set targets on granular deliverables / outputs / metrics</p> <p>(e.g. ESO RIIO-1 / traditional network price control)</p>	<p>Option 4: NESO self assessment on progress achieving outcomes</p>

We acknowledge that as per Figure 1, BP3 has already adopted a more strategic outcomes -based approach, and as above, we acknowledge that there is a glide path to be followed. However, we would expect that for the next business plan cycle as a minimum (2026-2028) NESO’s regulation would retain a more granular focus. Furthermore, whilst a strategic outcome -based performance incentive may be the desired end-point in a mature NESO role, given the ongoing criticality of NESO’s deliverables, such as the tRESP, RESPs etc, we would expect a degree of specified granular outputs to be retained on an enduring basis. This is consistent with the treatment of other licensees where it is determined that certain activities should be held to a higher regulatory standard, for example the explicit granular outputs in relation to pipeline pressures and 1-in-20 demand planning in the Gas Transporter licence, which satisfy the greater strategic outcome of network resilience.

In summary, while we support a public evaluative performance assessment, SGN is of the view that this should remain on the basis of granular outputs for the next business planning cycle as a minimum, with elements of this approach retained even as NESO matures and Ofgem’s regulatory focus becomes more strategic outcomes -based. Given Ofgem’s comments⁶ within the consultation document regarding a continued level of scrutiny of NESO’s performance, in addition to the inclusion of Major Deliverables⁷ in the business plan, we consider our view to be aligned with Ofgem’s intentions in this regard, but we would welcome an explicit acknowledgement of the retention of granularity in the regulatory framework itself.

⁴ Slide 7, Ofgem slide deck, *Workshop on the design of NESO’s future regulatory framework*

⁵ 3.7, p22

⁶ 3.7, p22: “For clarity, whilst our assessment method focusses on the key outcomes and major outputs, we are not proposing a lower level of scrutiny of NESO’s performance”

⁷ 4.11, p14, Business Plan Guidance Document

Business Plan and Plan Assessment

2. Do you agree with our proposals for the Business Plan and plan assessment (including the specific proposed requirements in our draft NESO Business Plan Guidance document)?

We broadly agree, however make the following comment.

We welcome the alignment of the business plan with NESO's strategic aims and agree that it is appropriate for a new set of aims to be established for April 2026. However, we consider a minimum 6-yearly review⁸ of the aims to be too infrequent and would expect that they are reviewed and republished every two years regardless, as part of the business planning process, as articulated in the Business Plan Guidance Document⁹. Given the current pace of change in the industry in terms of the emergence of low carbon markets, plus the transition to net zero, a review every 6 years is likely to render the aims insufficiently dynamic or would require them to be so broad that they may lose their strategic value¹⁰.

Cost Regulation

3. Do you agree with our overall approach to cost regulation and reporting?

We broadly agree, although would highlight the requirement for costs to remain efficient and controlled. In the absence of comparable organisations, it will be more challenging to define an ideal level of efficient operation (such as that which is established through regression analysis of the gas networks) and as such it is increasingly important for Ofgem to have full visibility and oversight of NESO's costs.

Stakeholder Mechanisms

4. Do you agree with our proposal for a new NESO stakeholder challenge panel?

Yes - we agree that a consolidated, single stakeholder panel makes sense in principle. One, well-resourced, suitably independent panel with robust terms of reference governing purpose, membership and outputs should be sufficient to provide oversight of NESO's stakeholder engagement activity. It also removes any ambiguity in respect of roles and responsibilities that could conceivably occur were two separate panels to continue indefinitely.

We would also take the opportunity to highlight that all vectors should be suitably represented on the panel, including gas.

5. Do you agree with our changes suggested to within-scheme stakeholder feedback?

Yes – the proposed approach indicates that there will be sufficient opportunity for stakeholders to raise views and challenges in a suitably transparent manner via appropriate mechanisms such as feedback surveys.

6. Do you have any suggestions for new and additional mechanisms or licence obligations that could improve NESO's accountability to stakeholders?

No response.

⁸ 2.7, p8, Business Plan Guidance Document: "The Strategic Aims should be reviewed and republished at least every 6 years"

⁹ 2.5, p7, Business Plan Guidance Document: "at any point at which NESO submits a Business Plan there must be a relevant and up-to-date set of Strategic Aims in place".

¹⁰ As such, we consider that 2.8 in the Business Plan Guidance Document is in conflict with 2.5, and the former should be amended or removed.

Licence Obligations and Enforcement

7. Do you agree with our overall approach to NESO's licence obligations and enforcement?

We broadly agree, however would draw Ofgem's attention to our response to Q1, where we highlight the requirement for more granular performance assessments in (a) the initial stages of output delivery and (b) in relation to certain outputs on an ongoing basis. We would expect these granular outputs to be articulated in the NESO licence.

Senior Staff Incentives

8. Do you agree with our proposal for NESO senior-staff level incentives?

SGN agrees that there should be "a clear and meaningful link between senior management remuneration and Ofgem's assessment of NESO's performance to drive high performance and ensure the credibility of the regulatory framework"¹¹.

Broadly we agree with the proposal for senior staff-level incentives, and would highlight that our suggestion of retaining an element of granularity in the regulatory framework would provide direct traceability from outputs to staff remuneration.

Regulatory finance

9. Do you agree with our overall approach to NESO's financial regulatory framework and reporting?

We broadly agree.

Innovation

10. Do you agree with our proposal for innovation funding for NESO?

Option 1 seems reasonable that NESO should have access to the same funding mechanisms, NIA and SIF as networks. Regarding NIA, NESO will need to set out clearly the key areas of focus for innovation it is proposing to undertake during the period in its Business Plan. This will also include:

- Delivery of its innovation strategy
- The values and benefits it anticipates to bring to consumers
- Identify collaboration with third parties, as well as networks
- Dissemination and
- Rollout of proven innovation

As part of their stakeholder engagement programme, we would expect NESO to ensure that there is no conflict with or duplication of innovation being carried out by the networks as part of their own price controls.

¹¹ 8.7, p49