

Email to:

NESOregulation@ofgem.gov.uk

July 08, 2025

Dear David Beaumont,

Response to the enduring regulatory framework for NESO consultation

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 380-plus members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

Scottish Renewables welcomes the opportunity to respond to Ofgem's consultation on the enduring regulatory framework for the National Energy System Operator (NESO).

The UK is at a critical juncture in its transition to net-zero, and NESO will play a vital role in achieving this goal. NESO is an essential enabler for the UK Government's 'Clean Power by 2030' (CP30) target, the Scottish Government's 2045 target, and the UK Government's 2050 net-zero target. As the energy sector continues to undergo significant transformation and NESO's responsibilities grow and evolve, stakeholders must be given the chance to help shape a regulatory framework and provide critical feedback. Scottish Renewables supports Ofgem's recognition of the importance of NESO delivering critical outcomes in the interests of consumers while striving for excellence. Reflecting its status as a public body, we fully agree that its regulatory approach should be suitably adapted to reflect this.

Although we have not addressed your questions in detail, we have submitted comprehensive feedback and wish to draw your attention to the **key areas** we believe Ofgem should prioritise in finalising the framework.

Performance Incentives and Accountability

For NESO to successfully deliver and operate an efficient, coordinated, secure, and flexible clean energy system for all, the **robustness of the regulatory framework governing its operations is crucial**. The NESO objectives and principles, which form the basis of the regulatory framework, aim to promote high performance, accountability, independence,

organisational flexibility and stakeholder trust. **Achieving these aims requires clear targets** that are regularly reviewed and supported by consequences aligned with national energy objectives.

We support Ofgem's outcome-focused regulatory framework through continued public assessment of the NESOs' performance, and we emphasise that any **performance-based incentives should be tied to measurable outcomes**, such as emissions reductions, system reliability and consumer cost savings. These **incentives must be both financial and reputational**, ensuring that NESO remains motivated to innovate, improve and facilitate the delivery of major energy system outcomes, while ensuring that costs maximise value for consumers.

Furthermore, **the framework must establish clear accountability structures** to prevent the risk of fostering inefficiency and complacency. Accountability mechanisms should also include transparent reporting, independent audits, stakeholder and industry oversight to maintain public trust and regulatory integrity.

It is encouraging to see that Ofgem has proposed maintaining an ongoing 'call for evidence' on NESO's effectiveness, which essentially enables the industry to raise concerns or issues as they emerge. This represents a more rational approach as opposed to waiting several years before inviting industry to share their opinions. Another positive aspect of the framework is the proposal for Ofgem to adopt a slightly more active role in determining the remuneration policy, by granting NESO principles and requiring them to justify their decisions, rather than simply publishing its approach to setting pay.

Business Plan and Plan Assessment

We **support Ofgem's continued use of the staged business plan process** and formal consultation processes for both Draft and Final Determinations. Maintaining this approach provides structure and transparency, ensuring that stakeholders and industry participants can provide meaningful feedback throughout the business planning process.

Given NESO's ever-growing and evolving role, we **support the requirement for NESO to update its strategic aims in April 2026**. This update will offer much-needed clarity to industry and stakeholders regarding NESO's objectives and responsibilities, enabling more effective oversight and accountability. We also **welcome Ofgem's intention to consult on these strategic aims** to ensure they align with the needs and expectations of the wider energy system.

The **establishment of an Independent Challenge Panel, mandated by the regulatory framework, requires greater clarity**. Since this panel is intended to a) hold NESO accountable and b) produce a report that will directly inform Ofgem's assessment of NESO's effectiveness, it is inappropriate for NESO to manage the group, including selecting the chair and members, even if guided by Ofgem.

Such a group could offer vital challenge and scrutiny of NESO's business planning processes, thus improving transparency and accountability. However, a NESO-administered challenge panel, replacing the current one run by Ofgem, would compromise the independence of the panel.

Clarity of Roles and Responsibilities

The enduring **framework must provide absolute clarity on the respective roles and responsibilities** of NESO, TOs, DNOs and other industry stakeholders. Ambiguity in this area risks inefficiencies, duplication of effort, and potential conflicts that could undermine the system's delivery and outcomes for consumers.

Transmission Owners (TOs) and Distribution Network Operators (DNOs) possess vast operational knowledge and long-term asset stewardship responsibilities, and they are subject to strict licence obligations. Thus, the **network operators' role mustn't be diminished or marginalised in the new arrangements**.

We urge Ofgem to ensure that the framework preserves a meaningful and respected voice for network owners and operators in system planning, investment decision-making, and operational management, while establishing robust compliance mechanisms that mirror the accountability structures applied to wider stakeholders. This is particularly relevant and important in the context of efficient and effective coordination and collaboration regarding data exchange processes. **Clear performance standards and enforcement measures must be implemented** to ensure NESO's ongoing compliance with its licence conditions, enabling it to deliver its CP30 obligations and UK net-zero targets.

The framework **must ensure that the established requirements are substantive and enforceable**. Over-reliance on public and reputational consequences as the primary mechanism for ensuring compliance is not effective in isolation, particularly in the absence of material financial penalties. The obligations under the **framework should include specific data sharing requirements, coordination protocols with network operators**, and

transparent reporting mechanisms that demonstrate alignment with strategic energy planning objectives.

Additionally, there should be **independent oversight mechanisms with the power to investigate, audit and impose sanctions for non-compliance**, ensuring that NESO remains accountable for delivering against national energy objectives. This includes mandatory performance reporting against CP30 milestones and net-zero targets, with clear consequences for failure to meet these obligations that are proportionate to those imposed on private sector stakeholders.

Given the significant expansion of NESO's roles and responsibilities, it is **crucial to establish a clear distinction between the duties of NESO as a public body, those of Ofgem, and those of the Government**. In our view, Ofgem should **place trust in the technical expertise that resides within NESO**. However, **decisions relating to policy and regulation must remain firmly within the remit of Ofgem and the Government**. NESO's input on such matters should be considered and consulted on in line with the views of other key industry stakeholders, ensuring a balanced and transparent decision-making process.

Finally, in line with the Clean Power 2030 Action Plan, Scottish Renewables continues to work closely with NESO, Ofgem and wider industry on energy code and connection reforms, REMA, network charging and strategic energy planning. We are concerned about the potential for a lack of coordination across these various workstreams. To ensure the timely delivery of coordinated, economical and efficient outcomes across each of these interrelated areas. We think NESO should **consider establishing a cross-process technical working group**. Such a group would ensure alignment across workstreams and facilitate the completion of appropriate and sufficient engineering assessments in a timely manner, in a logical sequence, thus mitigating associated risks.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

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Scottish Renewables