

Meeting 1: Independent Stakeholder Group (ISG)

Monday 15 April



Agenda

Agenda item	Lead	Time
Arrival	-	10:00
Welcome and purpose of the group	Kayte O'Neill & Zoe Morrissey	10:05
Introductions	All	10:15
Introduction to new NESO roles	Colm Murphy	10:40
Coffee break and NDA signing	-	11:00
Stakeholder group operation <ul style="list-style-type: none">• Terms of reference review and feedback• Ways of working	Andy Manning (chair)	11:25
Q & A	Andy, Kayte, Zoe	12:10
Lunch	-	12:30
Direction of travel for regulatory framework and stakeholder response to Ofgem FSO policy consultation	Hannah Kruimer	13:35
NESO regulatory commitments Day 1 – April 2025	Adelle Wainwright / Rachel Smith	13:55
Coffee break	-	14:40
Q & A	Andy, Kayte, Zoe	14:55
AOB	All	15:05
Group closed session	Group members only	15:15
Close	-	15:45

Welcome and purpose of the group



What is the purpose of the ISG?

Purpose

The group will be forward looking in its remit, bringing a stakeholder lens and constructive challenge to the development of our regulatory commitments, both for Day 1 and future regulatory business plans.

What will the group provide?

A whole energy system perspective with refreshed membership, which will continue to evolve

Relevant experience and expertise in specific areas to help us develop our strategic commitments

Constructive challenge on proposed commitments and whether they are the right areas of focus

Advice on the level of ambition of our commitments

Feedback on the structure of future documents as they develop from a stakeholder perspective

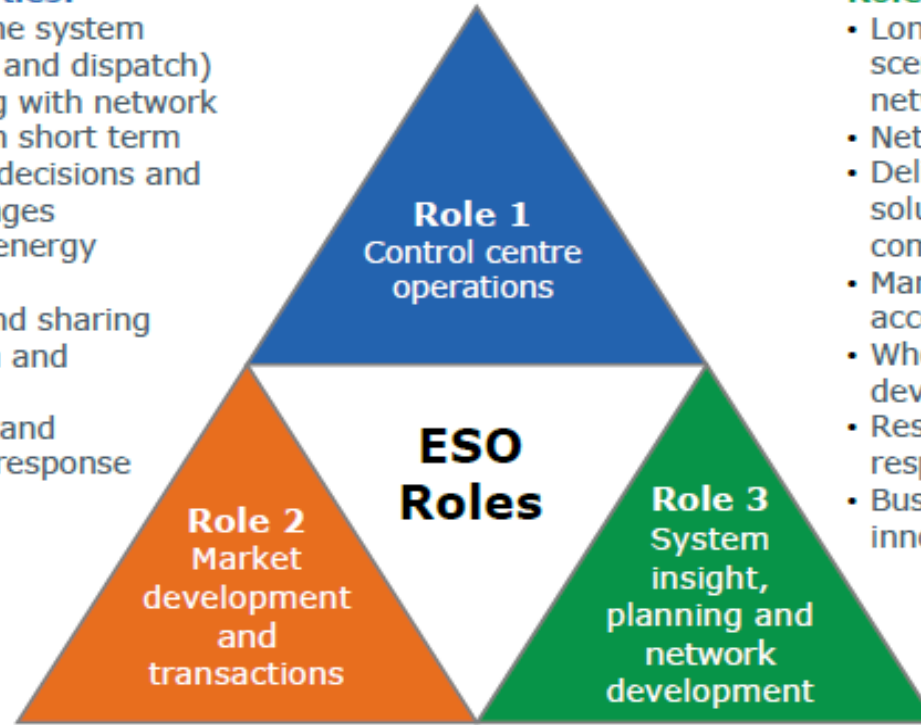
Introduction to the new NESO roles



Current ESO roles

Role 1 activities:

- Operating the system (monitoring and dispatch)
- Coordinating with network operators on short term operational decisions and outage changes
- Short term energy forecasting
- Managing and sharing system data and information
- Restoration and emergency response



Role 2 activities:

- Balancing and ancillary service market design
- Service procurement and settlement
- Revenue collection
- Policy advice and delivery of market framework changes
- Code administrator
- EMR Delivery Body

Role 3 activities:

- Long term forecasting, energy scenarios and identification of network needs
- Network Options Assessment
- Delivering competitive system solutions and early network competition
- Managing connections and access to the network
- Whole system process development
- Restoration and emergency response planning
- Business change strategy & innovation

NESO - Transformation to Day 1

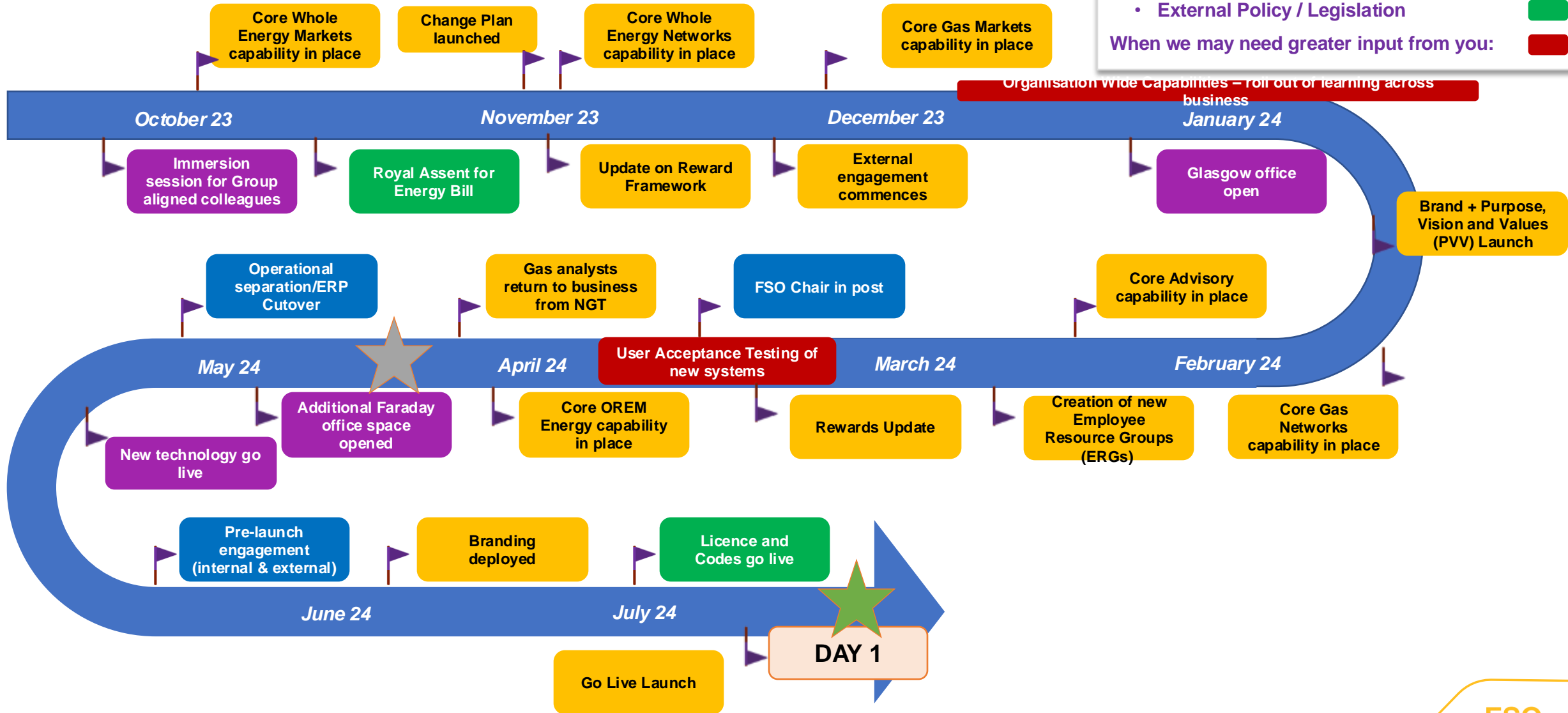
Key Milestones

Milestone:

- Transformation
- Enabling Services
- Business Change
- External Policy / Legislation

Key:

- When we may need greater input from you:



New NESO roles



Strategic Planning

- Bringing together the strategic planning of gas and electricity networks together for the first time and recommend whole energy solutions to resolve network constraints across gas, electricity, and hydrogen.



Security of supply

- Publishing medium-to long-term assessments of security of supply across gas and electricity, taking into account macro-economic conditions and geopolitical risk.



Resilience

- Assessing the resilience of the energy system and providing recommendations to mitigate risks, taking into account interactions between gas and electricity as well as other systems in the process



Market Development

- Drive the evolution of market arrangements across gas and electricity, leading market participants in identifying opportunities for optimisation across markets.



Net zero energy insights

- Sharing our independent perspective on specific whole system topics when requested by Ministers and Ofgem, and on the optimal strategic direction to support Great Britain's decarbonisation efforts.



**Coffee break & NDA
signing**

Stakeholder group operation

(11:25-12:10)



Terms of Reference (ToR) of the group

Role of Stakeholder Group members

Members of the Stakeholder Group are responsible for scrutinising and providing input and expert challenge. While members don't formally represent all of the organisations in their sector, we expect members' views to be influenced by the type of organisation they are from, and their experience of a particular sector.

In practice, this means individual members will:

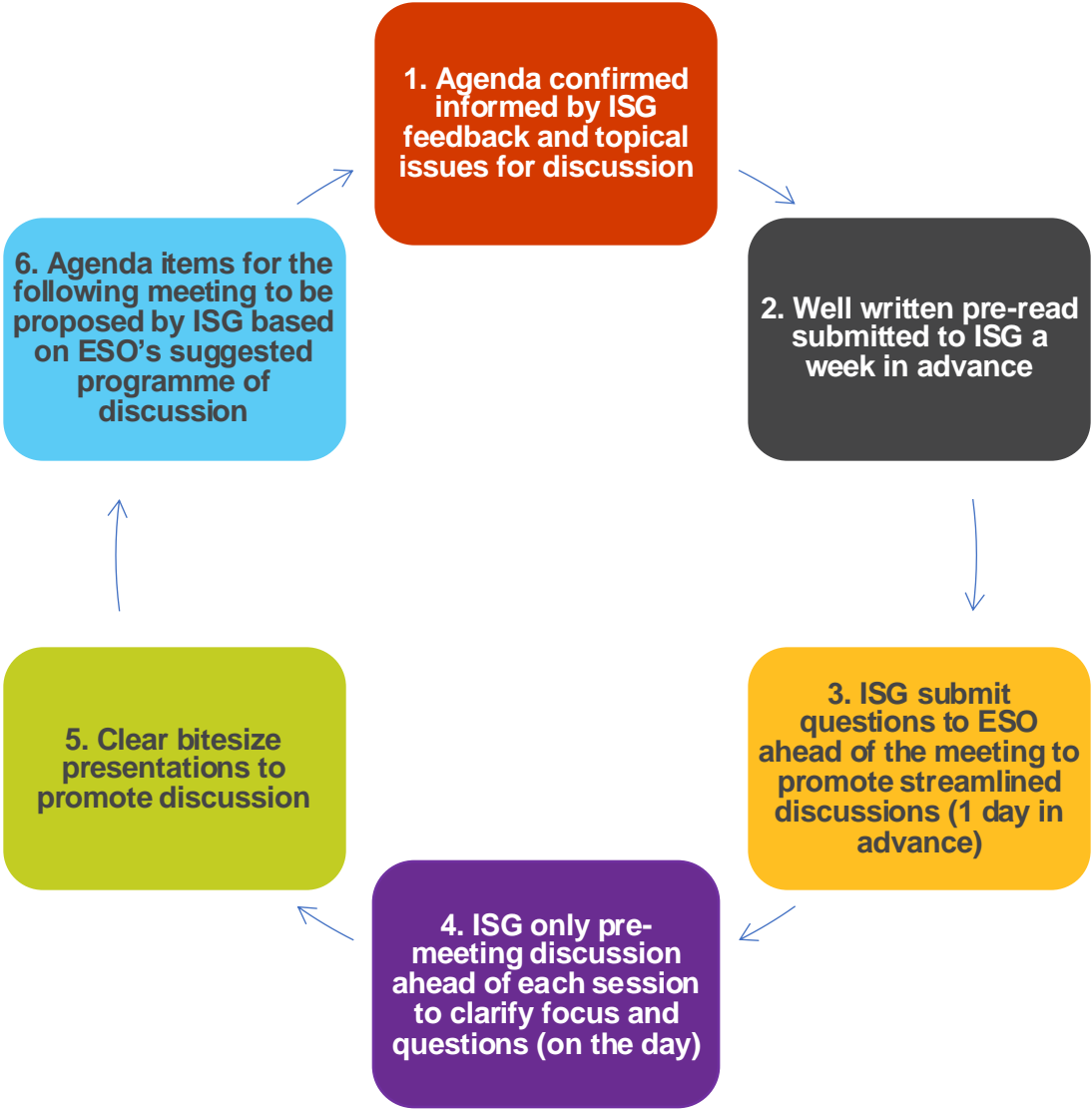
- Bring their expertise, new insights and engagement skills.
- Consider and review all documentation circulated.
- Identify areas of agreement and disagreement, and input into any feedback to Ofgem.
- Provide representation as an individual.
- Sign on to an agreed programme of work / forward agenda for the group. This will be discussed and adjusted with agreement from the group as requirements change or are further understood.
- Be required to formally approve the group's Terms of Reference (i.e. this document).
- Declare any relevant conflicts of interest

Commitment needed

- Members of the group will initially serve from 15 April until the completion of the Day 1 document in July 2024 – members will be invited to review their ongoing membership of the group at this point.
- Members must advise the Chair of any change in their circumstances at the earliest opportunity. The expectation is that all members will make every effort to attend all meetings. Any proposal to extend the commitment of the group will be discussed and agreed by the group.
- As members should act in their capacity as individual, they are not expected to propose delegates / substitutes should they be unable to attend a meeting.
- Meetings will take place approximately every two to three months, and timings for each meeting will be agreed in advance.
- A pre-read pack, requiring up to three hours of reading time, will be circulated to the group at least one week in advance of each meeting.
- Meetings will ordinarily take place at a suitable location in central London and will be arranged by the Technical Secretary. Meetings may occasionally be moved to a different date, held at other locations or take place more frequently, after appropriate consultation with the group.
- To allow flexibility for attendees, all meetings will have an option for hybrid/virtual attendance. Members shall confirm notice of attendance or apologies of absence to the Technical Secretary no less than one week in advance.

Question for discussion: Any there specific areas of the ToR that ISG feel require further debate?

Agreeing our ways of working for future meetings



Q & A





Lunch

**Direction of travel for
regulatory framework
and stakeholder
response to Ofgem FSO
policy consultation**



Background and context – why a new regulatory framework?

Unique opportunity to review the regulatory framework



Our transformation to NESO provides a unique opportunity to review the regulatory framework we operate under, to ensure it sets us up for success to drive net zero and value for consumers.

Need to account for substantial changes to the type of organisation we will be



Our framework needs to evolve to reflect ownership structure, profit status and new roles.

Other approaches must be considered to ensure we remain accountable for cost efficiency and the delivery of consumer value



The mechanisms Ofgem currently use to drive performance and cost efficiency through financial incentives, demonstrably inefficient and wasteful expenditure (DIWE) and enforcement need to evolve as we become a public corporation

Ofgem's proposed direction of travel for the regulatory framework as we become the FSO

What is Ofgem's emerging thinking on the design of an enduring FSO regulatory model?

Strong continued role for Ofgem in approving and challenging NESO spend / value for money.

Robust reputational incentives

Streamlined annual business plans focused on key priorities and major deliverables.

High-level licence requirements to account for Ofgem performance assessment outcomes

An approach to licence enforcement, which creates appropriate incentives / robust reputational consequences.

Platforms for stakeholders and external parties to feedback on performance and shape business plans.

Stakeholder response to Ofgem's FSO policy consultation

In terms of how stakeholders see the regulatory framework changing for NESO, they

- **Recognise the need for change** in the framework to reflect the NESO as a new organisation, but very little support for reducing the level of oversight and scrutiny.
- **Understand the important role the NESO will have in the industry** and that regulation needs to reflect this. Some believe there is a risk Ofgem's proposals may reduce the level of scrutiny too much, too quickly.
- **Consider significant further development work is needed**, through collaboration with wider industry.
- **Want clearer routes to be able to hold the NESO to account.**

Respondents	Stakeholder type
ADE	Trade association for decentralised energy
Aqua Consultants	Engineering, commercial and asset management consultant
Cadent	Gas distribution network
Centrica Group	Energy and services company
Citizens Advice	Consumer body
Dr B Murray	Individual respondent
EDF	Generator and supplier
Energy UK	Energy trade association
MPA	Energy intensive industry trade association
NGT	Gas transmission network
NG Plc	On behalf of NGED, NGET, NGV
Prospect	Energy trade union
REA	Trade association for renewable energy and clean technologies
RSBP	Charitable organisation
RWE	Generator
Scottish Government	Government
Scottish Renewables	Trade association for renewable energy
Scottish Power	Renewable generator and supplier
Sembcorp	Sustainable energy solutions provider
SGN	Gas distribution network
SPEN	Electricity distribution and transmission networks
SSE Group	Generator and supplier, electricity distribution and transmission
Transmission Investments	Independent offshore electricity transmission network
UKPN	Electricity distribution network

Framework development – approach

Table 3: Overview of phased implementation of an enduring FSO regulatory model

Phase	When	Aims
FSO Day 1 (within BP2)	During 2024	<ul style="list-style-type: none">• Prioritisation of essential changes needed to enable the FSO to operate under a not-for-profit regime (e.g. revised funding model, staff incentive requirements, changes to enforcement and disallowance, removal of financial aspects of incentives).• Targeted changes to the framework to remove unnecessary reporting burden and include an assessment of the FSO's performance establishing its new roles, alongside performance on key BP2 commitments.• Apply a proportionate and pragmatic approach to drawing BP2 to a close.
Following BP2	April 2025	<ul style="list-style-type: none">• Wider changes to introduce a regulatory model that is more tailored to the FSO, including a broader change to the performance assessment approach and associated planning and reporting requirements.• Full consistent treatment of new and pre-existing FSO roles.• Ensure FSO is accountable to major RIIIO-2 aims.
Following the end of RIIIO-2	April 2026	<ul style="list-style-type: none">• Potential further changes to reflect lessons learned and factor in any implications from our post RIIIO-2 approach to network price control regulation.• Stable enduring framework, with an established set of FSO longer-term aims covering the post RIIIO-2 period.

- Ofgem set out their intent to approach implementation in a phased manner between Day 1 up to 2026.
- As an organisation we intend to
 - Engage with both Ofgem and the wider stakeholder community around the level of change to our framework, which we believe is in the best interest of consumers
 - Utilise our **Independent Stakeholder Group** to provide feedback on our approach
 - Publish our strategic commitments demonstrating how we will deliver as a NESO from Day 1 of our new organisation
 - Continue to champion the importance of the stakeholder voice in NESO planning and performance activities.

Question for discussion: From an ISG perspective, how can ESO best engage with stakeholders on the NESO future regulatory framework?

**NESO regulatory
commitments Day 1 –
April 2025**



Publication of our regulatory strategic commitments

We will still deliver what we have committed to in our BP2 plan as an ESO, but our scope of delivery changes as we transition to NESO

- As BP2 runs until end March 2025 the ESO commitments still stand on NESO Day 1.
- However, we will take on new activities and roles as we become a NESO.
- Therefore, we want to be able to demonstrate to stakeholders and Ofgem what we will deliver as a **whole NESO** from Day 1 forward.
- We are currently making plans to publish more information on this.
- One of the purposes of establishing our new **Independent Stakeholder Group** is to develop how best to share our NESO-wide commitments from Day 1 of our new organisation.



ESO's Business Plan 2
(2023-25)

NESO

Function

Markets

Reforming our ancillary service and balancing markets

Taking a whole systems view of markets

System Resilience

Coordinating cross-vector energy resilience and emergency management

Security of Supply

Producing medium-to long-term assessments of security of supply across gas and electricity

Systems Operation

Transforming our balancing capabilities

Minimising the costs of balancing the system

Operating the Electricity National Control Centre (ENCC)

Strategic Planning

Taking a strategic, long-term view to network planning

Connections

Delivering longer-term connections reform and shorter-term tactical activities

Energy Insight

Providing independent insights and advice

Data

Ensuring design of digital infrastructure is efficient, effective and sustainable

Commitment area

Measuring success as NESO

Which proposed NESO commitment areas do you think are the highest priority for stakeholders, and what are the key measures for demonstrating success to our stakeholders across them?

Activity

- **Provide your view on the 3 commitment areas that you see as most important for stakeholders (15 mins)**
 - Plot your 3 stickers against the 3 area you see as the most important
 - Are there any activities/functions you think are missing?
 - Group discussion
- **Discuss how NESO could best demonstrate success for the 3 functions that were voted most important for stakeholders (30 mins)**
 - Consider key deliverables/activities, stakeholder-related measures and any other bespoke metrics



Coffee break

Q & A



AOB





**Group closed
session**