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Response to NESO RIIO-2 Business Plan 3 Draft

On behalf of the SSE Group, I appreciate the opportunity to share our views on the RIIO-2 Business Plan 3 Draft setting out NESO's delivery focus for the period between April 2025 and March 2026. We would also like to commend NESO's early engagement with us since its formal transition, in particular in relation to the formation of its Clean Power 2030 advice. We look forward to continuing these engagements and working with NESO as a trusted partner on the shared challenges ahead.

We agree that the business plan contains stretching targets that are needed to achieve the GB clean power ambition, and its successful delivery will require the following key elements: significant industry collaboration, transparency of data, and openness around any risks to delivery. These should be the cornerstone of the business plan.

We note there is a risk the NESO may not be able to scale up its capacity to deliver on its new responsibilities with the excellence that is required to achieve net zero. In addition to our specific feedback to the questions posed (provided in Appendix 1 below), we would also note that the business plan lacks information around the risk of non-delivery as well as any mitigations that have been considered. Again, due to the critical nature of the deliverables, NESO should provide a pragmatic assessment of its objectives providing stakeholders with any potential challenges that might affect the successful delivery of the business plan. This will not only help NESO manage expectations of stakeholders but will also set the tone for much needed collaboration and engagement with the industry. Our recommendation is that NESO provide a risk log/matrix in the business plan to address this gap. The risk log should also set out a hierarchy of the performance package – indicating which objective is most likely to be delivered.

The feedback provided in this response looks to clarify the business plan along with proposals to make the plan more robust, thereby allowing NESO and the industry to make qualitative assessment of NESO's performance both during and at the end of the business plan period.

Yours sincerely,

Folasewa Sulaimon
Regulation Manager

Appendix 1 – Answers to guidance consultation questions

Q1. Do you agree with our proposed package of Performance Objectives? If not, what alternative Performance Objectives should we consider and why?

SSE agrees with the proposed package of Performance Objectives listed in the draft business plan for delivery between April 2025 and March 2026. The package not only reflects the expanded scope and responsibility of NESO but also contains some of the critical deliverables required to achieve the UK's net zero ambitions. The business plan requires significant capacity development from the NESO in a very short time and we a risk that the NESO may not be able to deliver on its new responsibilities with the excellence that is required to achieve net zero. We suggest that the business plan include a risk assessment section setting out any potential risks that might challenge the delivery of the business plans. This will help the frame collaboration between the NESO and stakeholders and also help set industry expectations for NESO's performance.

Specific feedback on each performance objective as well as the relevant deliverables and success factors are provided in Question 3 below.

Q2. Do you agree that BP3 represents a stretching level of ambition and will deliver benefits for consumers? Please provide supporting reasoning and identify any specific changes to this plan that you believe would better meet these objectives.

We agree with NESO's broad classification of benefits that the performance objectives will deliver for consumers, and the need for these to ensure "value to consumers, both current and future". It would be helpful to have the business plan set out the framework for determining how this will be assessed, including the inevitable trade-off between the interests of current consumers or future consumers. This becomes particularly important when demonstrating why bills are lower due to NESO's actions (i.e., are they higher now, but cheaper in the future). We would expect that the business plan should provide direction on this.

Value for Money

We are pleased to see NESO acknowledge that value for money is crucial to the business plan as it ensures that resources are used efficiently and effectively to achieve the best possible outcomes for consumers. This is especially the case now that NESO is a public entity largely funded by consumer payments, meaning the business plan must be as transparent as possible, allowing the industry and consumers to determine if the proposed spending is poised to deliver value. Whilst we appreciate NESO's efforts to provide a breakdown of the planned increase in baseline costs, SSE and the wider industry would appreciate additional context in the business plan to help determine if the costs are efficient.

As an example, we note that £55m is expected to be spent on separation from National Grid plc. Based on the high-level break down provided by NESO, this will among other things, cover the cost of establishing operating models in finance, property, procurement, legal and HR, as well as developing major change capability amongst other things. Given that a lot of resourcing has been

deployed in the past (i.e. BETTA in 2005 and, more recently, NGET/ESO)) to facilitate NESO's separation from National Grid, we would expect that the proposed cost to separate from National Grid plc shared services would be much lower. In so far as substantial costs were required for arrangements to replace shared services the ESO received from National Grid, such costs should have been covered by National Grid prior to the sale of ESO and netted of against the proceeds. We would welcome additional context to better understand the need for these further separation costs.

We would also request a breakdown of the proposed spend for NESO's different roles/activities, such as: code administrator, electricity systems operator, system resilience and as strategic advisor to the government and strategic planner of energy system. This breakdown is useful for stakeholders to compare against other entities performing similar roles.

We recognise that a lot of work would have gone into developing this estimate however providing these details would allow stakeholders to offer suggestions that may be useful in making the planned spend more efficient.

Q3. Have we identified the most important Major Deliverables and relevant Success Measures for each Performance Objective during BP3? Please detail any alternative options we should consider, including anything that you believe we have missed or specific changes to our existing proposals.

See SSE's feedback against the major deliverables and success measures set out against each performance objective below.

Objective	Description
Strategic Whole Energy Plans	<p>a. <u>Publish RESP inputs to ED-3 price control by March 2026.</u></p> <p>It is our view that the proposed timeline for providing input that influences ED-3 price control submission is rather delayed as distribution licensees would have started drafting plans from early 2025 for submission of the first draft in summer 2026. Any input coming from NESO in Q1 2026 will be too late for consideration by licensees. We recommend that an earlier timeline is set for this deliverable. In addition, NESO must prioritize facilitating the preparation of ED-3 submissions through on-going collaboration by supporting licensees with other key considerations for the business plan, e.g. setting out clear pathway expectations for load planning as soon as possible.</p> <p>The success factor for this deliverable also needs to be clarified further as it is not clear how NESO plans to show it has satisfied the requirement to meaningfully engage with stakeholders and show how stakeholder input</p>

Objective	Description
	<p>has been actively considered and addressed by NESO. It is not enough to carry out stakeholder engagement in name, the quality of the engagement must be assessed. To this end, we have made recommendations in Question 4 to discuss expectations around all stakeholder engagement activities required under the business plan.</p> <p>b. <u>Build capability and establish a presence across the RESP regions:</u> This key deliverable and success factor can be framed more clearly. It is not clear what role the additional personnel being hired will be performing. Furthermore, the success factor for this deliverable; key relationships established in each of the RESP regions; should be clarified. To do this, NESO should consider specifying the key stakeholders it plans to engage with alongside specific milestones for said engagement and building its presence across the RESP regions. The business plan points to each RESP reflecting its regional context and local priorities, as such, there may be variations or nuances attached to the milestones for each RESP.</p>
Enhanced Digitalisation and Data sharing	<p><u>Data Sharing Principles</u></p> <p>SSE fully supports the objective to improve digitalisation and data sharing across the industry. We appreciate the point made around developing a comprehensive external data sharing approach which prioritises data accessibility through an open data portal. However, we are of the view that there is a need to substantially improve information asymmetry in the industry by ensuring that NESO's data sharing approach is underpinned by the principle of open access (with restriction, of publication of some data, only by exception, which requires to be justified on a case-by-case basis). This is consistent with the recommendations (endorsed by both DESNZ and Ofgem) of the Energy Data Taskforce in terms of the 'presumption of publication' of all data (to achieve the best network outcome and the lowest cost for consumers). Where information is "commercially sensitive", NESO should, to the extent possible, take steps to anonymise the data to enable distribution. When considering its 'own' data, NESO should be mindful of the Taskforce's statement that "<i>Energy System Data that has value to the wider system and has been generated by monopoly or consumer subsidy should be available for the benefit of the 'system as a whole'.</i>" This improvement in energy data transparency will be crucial to facilitating informed investment decisions, fostering collaboration and will enhance overall market efficiency.</p>

Objective	Description
	<p><u>Standard of Existing Digital Infrastructure</u></p> <p>SSE welcomes the launch of the new NESO website, and the improvements made to the publication tracker to improve the visibility of NESO publications. However, we have identified some instances where publications are not always appearing in this tracker and would welcome improved functionality (e.g., daily publication alerts, mirroring what is available via Ofgem or DESNZ publication trackers). NESO should also be ensuring a single 'diary'/ 'calendar' is maintained of all the meetings, events etc., that it organises or hosts. This will aid transparency and help to avoid diary 'clashes'.</p>
Fit-for-Purpose Markets	<p><u>REMA analysis:</u></p> <p>The success measure for this deliverable; evidence of engagement with a broad range of customers; is vague and should be made more specific by making sure to provide stakeholders with all the data and assumptions supporting any analysis developed around REMA, thus making the collaboration more productive for NESO and relevant stakeholders alike.</p> <p>In addition, as indicated in the response to Question 4, the business plan should include a formal plan for engagements with customers. This includes – identifying the specific stakeholders that will be engaged, the planned approach/timeline for engagements, as well as key KPIs for assessing the quality of engagements with customers. As regards the timeline for engagement, NESO is prone to hosting a series of, for example, one-hour webinars over a week where the notice period (to stakeholders) is very short. This is particularly unhelpful to stakeholders, and we would urge NESO to plan and share detail of these events well in advance.</p> <p><u>Engagement for Whole Energy Coordination:</u></p> <p>Similar to the point made above, this deliverable is vague and does not indicate who the decision makers or stakeholders to be engaged are. In addition, the success measures should be made clear with ways of assessing the quality of the engagements. Further information is set out in the response to Question 4.</p> <p><u>Code Administrator:</u></p> <p>NESO's ability to administer relevant codes in an independent and fair manner is critical to code modification processes. Code managers perform an essential role as code modifications provide stakeholders with the opportunity</p>

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	<p>to propose solutions on how to improve the existing multilateral contracts that the code frameworks represent. Code modifications facilitate short- and long-term policy reform of the energy sector and can be instrumental in laying the groundwork for the delivery of net zero.</p> <p>We have noted recent instances where NESO is undertaking both the policy development and code manager roles (e.g., Connection Reform, TNUoS cap and floor), and this creates a potential ‘conflict of interest’; not least because NESO is generally the ‘counterparty’ to the (codes) ‘contract’ that Users (such as generators, interconnectors and demand) are compelled, by law, to comply with. Notwithstanding the ongoing Energy Code Reform process, which could lead to a revised approach to code modifications being adopted, we consider that NESO should retain an open-minded approach to code processes especially as regards alternate code modification proposals. We consider that it remains essential that NESO and industry participants can continue to collaborate on alternate modification proposals. These offer an opportunity to develop reasonable resolutions to market concerns which is the very crux of the code modification process.</p> <p>In addition, it is important to note that NESO’s role as code administrator involves a lot of stakeholder engagement, as such, adopting some of the proposals made in Question 4 around the approach to stakeholder engagement should be considered to ensure that the code modification process results in valuable results.</p>
Connection Reform	<p><u>Gate 2 offers</u></p> <p>The business plan states that 100% of Gate 2 offers will be made by March 2026 and goes further to state that 97% of the offers will be made by December 2025. We understand that NESO set the target to March 2026 due to concerns about having to rely on third parties such as Transmission Owners (TOs).</p> <p>In light of the urgency and overlapping nature of the TMO4+ process, we propose that the target should be 100% of Gate 2 offers should be made by December 2025. We would argue that TOs are likely to be very proactive in supporting NESO in this process as their ambitious building programmes will only be finalised after the Gate 2 offers are made and accepted by developers.</p> <p><u>New approach for demand connections</u></p> <p>We are aware that the treatment of demand connections under TMO4+ is an area that has exercised the UK Government and NESO for some time. We</p>

Objective	Description
	<p>agree that further work is required on this however NESO must ensure that any reforms do not undermine the signals sent to generation connections in the meantime.</p> <p><u>Consideration for Distribution Licensees</u></p> <p>Given the imperative for network companies to make progress on delivering network capacity, it would be useful for the business plan to set out collaboration with distribution licensees as a deliverable, ensuring that NESO actively engages with them and considers the impact of strategic reforms on ED-3 business planning activities.</p>
Operating the Electricity System	<p><u>Balancing Costs</u></p> <p>One of the key deliverables in the business plan is the delivery of new initiatives from the Balancing Costs Strategy with the success factor being <i>“proven lowering of balancing costs due to the new initiatives”</i>. We would caution against setting the measure of success as simply a reduction in costs as the total cost can be driven by exogenous factors (such as fuel and carbon costs and wind conditions) as well as variable network availability. A better measure would be to demonstrate that costs represent best value (in the relevant context).</p> <p>A key concern for SSE is that NESO tends to take balancing action after gate closure (i.e. via the Balancing Mechanism) rather than seeking to take some action to address anticipated constraints from the day-ahead stage. To address this, we propose that the business plan should be amended to say <i>“demonstrating that balancing costs arise from efficient use of existing tools and any new initiatives”</i>. This measure would incentivise NESO to take a more proactive approach when using its balancing tool kit so that there is increased use of instructions issued before gate closure.</p> <p>In addition, we propose that NESO regularly carry out after-action reviews to assess the balancing tools deployed to ascertain if there might have been opportunities to apply more efficient tools.</p> <p><u>Transparency of Market Actions</u></p> <p>A key concern for many licensees is the low levels of transparency around market actions/decisions taken by NESO. At the moment, market participants receive very limited information around market decisions and the reasoning behind them. Being mindful of the Energy Data Taskforce conclusions (that</p>

Objective	Description
	transparency of energy data leads to a more efficient network and lower cost to consumers) as stakeholders, we would appreciate NESO providing more information around grid management decisions made, particularly as grid operations become more complicated as the system evolves towards decarbonisation. In the business plan, NESO has stated that it will outline a proposed performance improvement measure in the new year but with no set date. It will be useful to specify a timeline in the document.
Separated NESO System	<p>The targets for NESO's separation from National Grid plc – 60% of services to be exited by end of March 2026, appear drawn out especially given that the separation process was not kickstarted in 2024; having initially been put in train, with BETTA, in 2005 and then again, over five years ago, with the separation of 'NGET' and 'ESO'.</p> <p>We suggest that the NESO aspire to complete the separation as quickly as possible to assure the industry of its complete independence from National Grid plc.</p>

Q4. Are there additional measures or steps you would expect to see to demonstrate our success in engaging with stakeholders and ensuring feedback is fully considered during BP3 activities? Please provide specific examples where relevant.

The business plan incorporates stakeholder engagement as a key success measure for various deliverables. It is commendable that NESO continues to recognise the importance of engaging with stakeholders and utilising their feedback. To enhance this further, it is crucial that the business plan establishes a baseline for the quality and standards of all stakeholder engagements to be undertaken by the NESO. This will ensure that the engagement process is productive and facilitates effective collaboration. To this end, we propose that the business plan should include an annex that outlines a framework and underlying principles for stakeholder engagement. This will serve as a benchmark to ensure best practices are consistently adopted.

Specifically, SSE Group proposes that the following principles should, among others, underpin all stakeholder engagement:

- a. Transparent process: The process for engaging with stakeholders should ensure that underlying data, assumptions, modelling methodologies, etc., are published (promptly, well ahead of any meeting(s) to discuss the content) to enable stakeholders to provide informed feedback. Additionally, as is already stated in the business plan, at the conclusion of each work package/delivery of each workstream, NESO should publish all the stakeholder

feedback gathered, stating clearly how it has been considered. This will not only encourage stakeholders to provide feedback but will help stakeholders better understand the outcome/deliverables and provide wider transparency and visibility of stakeholder views. Finally, NESO must ensure that an engagement plan is published to relevant stakeholders outlining the process for engagement including details around timeline, and the intended approach to collecting feedback.

- b. Inclusivity: All NESO engagements with stakeholders by the NESO should be inclusive, ensuring that all material stakeholders are identified and given the opportunity to participate, not just indirectly through their respective trade associations (as is, for example, currently the case for the Strategic Energy Planning Industry Working Group), but also directly, be that on a multilateral or bilateral basis, to ensure that the views and concerns of key market participants are not diluted or overlooked when received by NESO. To assist this, we recommend that the business plan also includes an annex setting out a comprehensive list of the stakeholder/groups relevant to each performance objective/deliverable. In addition, stakeholders must also be given reasonable opportunity to make alternative proposals.

Formalising the principles and framework for stakeholder engagement in the business plan is mutually beneficial to NESO and the industry as it provides the former with a streamlined standard for all engagements, whilst providing the latter group with a reference point for assessing the quality of the stakeholder engagement undertaken by the NESO.