

## NESO's RIIO Business Plan 3 Draft - Energy UK response

10.01.2025

Link to consultation for convenience [NESO Business Plan 2025-6](#)

### **Executive Summary**

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources. The energy sector supports 700,000 jobs in every corner of the country.

Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Energy UK broadly supports the content of NESO's Business Plan 3 (BP3). The main concerns we would raise concern the level of detail in the plan compared to previous business plans, including the specificity of spending plans, especially as NESO is now a public entity. We also believe there are some areas for further ambition in the business plan, including on connections reform and data improvements.

If you would like to discuss this response in further detail with Energy UK and its members, we would welcome further engagement.

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## **Consultation Response**

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

Energy UK broadly agrees with the proposed performance objectives.

The Performance Objectives listed are appropriate, as is the application of three different timeframes (S/ M/ L) to examine the benefits. This should help avoid focusing on short-term measures at the expense of longer-term changes that could benefit billpayers.

The four broad outcomes against which the NESO proposes to measure its performance - lower bills, system security, supporting net zero and improved industry coordination – require further detail. Indeed, there appears to be less detail provided for BP2 vs BP3. Whilst the period covered is shorter, arguably the uplift in efforts required to meet CP30 mission should be matched with detailed objectives and measures. For example, establishing how the first outcome of ‘Lower bills for consumers than would otherwise be the case’ will be measured and how the counterfactual will be determined would be welcome. Wider industry stakeholders should be involved in agreeing on an accurate counterfactual against which the NESO would define ‘lower’ prices.

Furthermore, it should be clarified that improved industry coordination must centre around the coordination of historically disjointed policy processes. This is most notably the case regarding the lack of clarity on how NESO’s workstreams like connections reform and enabling flexibility are interacting with workstreams led by the Government or Ofgem such as the Review of Electricity Market Arrangements (REMA) or network charging reform. Understanding the interaction and coordination of these reforms will be essential for business confidence during 2025 and so must be built into the performance objectives.

It would also be appropriate to work closely with a wide range of technology and service providers across the sector to ensure that ‘fit-for-purpose’ markets deliver cost-effective services for end-consumers now and coordinate with long-term price signals for investment in the wide range of technologies needed to meet CP30.

It is critical to success that the industry be given the ability to hold the NESO to account for delivery across these objectives in a transparent and trusted process.

### **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.**

Energy UK agrees with the level of ambition set out in the business plan. There is not, however, a clear, robust and deliverable approach set out in the business plan for delivery of the plan.

Clean Power 2030 (CP30) represents a significant ramping up of ambition across the GB electricity system. The NESO business plan does not reflect the projected increase in the complexity of demand forecasting, energy system balancing and constraint management.

Energy UK does not believe that the NESO's proposed budget has considered and reflected the additional challenges and the investment required in IT infrastructure and training control room staff. For example, the budget for 'Operating the Electricity System' has not increased and the CP30 budget is only £5 million. It is unclear if NESO is budgeting for a corresponding increased investment in IT systems and dispatch capability in another section, and this must be clarified for Energy UK to support the proposed approach.

**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.**

Energy UK agrees that the most important Major Deliverables and relevant Success Measures have been identified. However, some deliverables and success measures are not specific and therefore would be difficult to measure NESO's performance.

#### Strategic Whole Energy Plans

Energy UK welcomes the identified objectives to enable strategic whole system plans.

We especially welcome the commitment to build the capabilities for the Regional Energy System Planners (RESPs) during 2025. It is essential that clarity over the structure and decision-making powers of actors in the RESPs is clarified as part of this process, and a wide range of stakeholders from across consumer and business groups are involved early.

However, key workstream timelines continue to appear misaligned. The first RESP outputs are due to be completed towards the end of 2025. While this might present sufficient time to feed into RIIO-ED3 in 2028, Gas Distribution Networks (GDNs) will already be formulating their business plans for RIIO-GD3 for a start date in 2026.

The SSEP and CSNP timelines also appear misaligned with the RESPs. The Strategic Spatial Energy Plan (SSEP) is expected to be delivered by the end of 2026 and the CSNP by the end of 2027. Yet the RESP's first output is due at the end of 2025. There is a concern that the RESPs will struggle to meaningfully reflect and inform the SSEP if the SSEP is not delivered in advance.

There is a serious question as to whether the level of detailed data to deliver the RESPs, especially with short timescales, is feasible. Much of the needed data for the successful delivery of RESP will likely not be easily available under the Data Sharing Infrastructure (DSI) until at least 2026 when RESP's first outputs will be produced. Wider alignment with data workstreams and clarification of what actions need to be taken under the wider digitalisation workstream must be set out in the upcoming digitalisation strategy.

### Digitalisation and Data Sharing

Energy UK welcomes NESO's increased focus on energy system digitalisation, including the upcoming Digitalisation Action Plan.

We would note an error in the Business Plan 3 document stating that the NESO will create a sector digitalisation plan by March 2025. It should instead be aiming for March 2026 according to existing documents.

On the costs for the Data Sharing Minimum Viable Product (MVP), which NESO has quoted as £6mn, Energy UK would point to the following information from the [Arup's Digital Spine Feasibility Study](#) to ensure alignment and true cost estimation:

*The MVP implementation of data sharing mechanism, the engine that facilitates seamless data sharing, is estimated to be £10m-£20m. While the steady-state costs would be minimum £18m per year. Therefore, the overall investment for implementing an MVP of an energy sector data sharing infrastructure is projected to be £13m-£29m. While the steady-state costs would be minimum £22m per year.*

Whilst the initial use case may be specific to outage planning, as additional use cases for the DSI emerge, the mechanism is likely to increase in complexity. There is therefore the likelihood of associated cost creep. This is particularly a concern with the development of the consumer consent platform, which will enable consumers to grant and manage access to their data. The costs should be properly integrated as workstreams develop in tandem.

Similarly, additional users on the DSI could add additional strain to the digital infrastructure, making the data exchange less efficient. Care should be taken to ensure fairness if increased demand from non-paying users overwhelms the network's data exchange capacity, potentially excluding fee-paying users from the system.

The success of the DSI is also dependent on clear routes to redress during data breaches, and the ability for industry to engage with the governance mechanism.

There should also be an explicit aim in the business plan for NESO to adopt an open access data sharing approach to reduce information asymmetry in the industry. They should follow the Energy Data Taskforce's recommendation to publish all data, with exceptions only when justified, as this is critical to improving information asymmetry in the industry. NESO should be mindful of the Taskforce's statement that "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'. Where data appears to be commercially sensitive, effort should be made to anonymise the data. This improvement in energy data transparency will be crucial for facilitating informed investment decisions, fostering collaboration, and enhancing overall market efficiency.

#### Operating the Electricity System

The proposed success measures for the Performance Objective for 'Operating the Electricity System' are not SMART, calling instead for improvement on BAU. The NESO and market participants need a clear view of the optimal outcomes for operating a 2030 system with much higher levels of variability and distributed assets. This standard/ target should then inform the intermediary targets for the years leading up to 2030. This approach will help to ensure sufficient ambition so that the NESO's forecasting, and dispatch capabilities are an enabler rather than a blocker.

We welcome NESO's commitment to continue to "transform its balancing capabilities, delivering on (its) industry-agreed roadmap" and the clarity it has provided on deliverables and associated timescales.

NESO should provide more detail on what specific aspects of the [balancing costs strategy](#) it intends to achieve over BP3. The BP3 is light on this detail

The focus on accessible markets and reducing skip rates is welcome. Whilst zero uneconomic skips and truly economically efficient dispatch should be the ultimate goal, a shorter-term goal could be for all technologies (where data allows) to 'level up' to parity with the skip rate of the least skipped asset on the system (currently at ~30% - compared to the most skipped at 72%).

#### Connections Reform

Energy UK supports all the stated objectives relating to connections reform.

The commitment to work with Ofgem and the Government to produce a reformed connection process focussed on demand-side connections has been lacking until now. More detail on the specific outputs related to this workstream are needed.

As part of the objective to begin offering new connection dates, NESO must communicate to projects being brought forward or pushed back/out of the queue what the strategic rationale for the decision is. More precisely, the developers must understand how their project fits into the wider strategic context, whether they see their project accelerated or pushed back. This includes being clear throughout BP3 on how connections reform fits into the wider context of policy reform to key workstreams like the Contracts for Difference (CfD) and Capacity Market (CM) contracts. This alone will help mitigate much of the uncertainty faced by developers and investors.

There is also a need for various shortcomings in the connection reform process to be addressed during the coming business period. For instance, further clarity is required regarding the level of codification of the Connection Methodologies, something many in the industry have called for to improve business confidence. NESO should consider opening and funding a workstream during 2025 to review the performance of connections reform and to commit to producing a list of actions from that investigation to address emerging shortcomings.

Further, we argue that NESO should aim to offer 100% of those seeking Gate 2 connection dates a new agreement by the end of December 2025, not March 2026. We understand that NESO set the target to March 2026 due to concerns about having to rely on third parties such as Transmission Owners. However, in light of the urgency and overlapping nature of the TMO4+ process, we propose that the target should be 100% of Gate 2 offers made by December 2025. We believe 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.

#### Fit-for-purpose markets

Energy UK overall agrees with the stated objectives to ensure fit-for-purpose markets.

NESO's commitment to produce a Low Carbon Flexibility Roadmap alongside the Government and Ofgem in 2025 welcome but is not reflected in the BP3 document. There is a commitment by the NESO to produce a 2030 Delivery Plan but limited information what it will set out and by when. NESO should seek to rectify both these shortcomings.

Regarding REMA, while we welcome NESO's support for the commitment to make a further decision on REMA's direction in 2025, clear coordination is needed regarding the overlapping workstreams, including those led by the Government and Ofgem. This coordination must be signalled clearly to the market to maintain investment confidence in what is increasingly an uncertain environment for the sector.

While Energy UK also welcomes NESO's commitment to produce a Gas Future Markets Plan and establish a steering group and forum focussed on the future of the gas market and coordinating its role with electricity, there remain key policy areas that require attention to make this workstream meaningful. These include early guidance on the role of hydrogen in home and business heating and clarity on a roadmap to develop a reliable supply of low-carbon hydrogen in line with Government targets. NESO should provide early guidance for the Government regarding both.

The development of a whole market energy strategy, with a focus on cross-vector market interactions, is both welcome and essential. This effort must be coordinated with efforts by NESO regarding the whole system plan for infrastructure across energy vectors.

We also welcome NESO's commitment to pursue code reforms relating to connections reform, strategic alignment and transmission charging reform. We stress the need to ensure that decision-making is transparent and routes to recourse for those beholden to the industry codes are seriously considered. Regarding connections code reform, NESO should commit to reviewing the extent to which the Connections Methodologies should be codified during this business period.

We welcome NESO's commitment to transmission charging reform. The need to provide more certainty on future TNUoS charges has never been more important and is critical to facilitate new generation to deliver the CP30 mission.

There are several ways to deliver more certainty. For instance, NESO has developed CUSC modification CMP444 based on Ofgem's TNUoS charging open letter calling for an urgent temporary intervention. Though we have some concerns regarding unintended consequences from this intervention, Energy UK supports the pursuit of improving the certainty of future TNUoS charges. CMP444 is expected to be with Ofgem for a decision before BP3.

Therefore, the NESO should set out clearly what it intends to review and update with respect to the existing charging mechanisms and by when within the BP3 period.

At the same time it is known that network charges are expected to rise markedly in the coming years. If network charging reform is executed or conceived poorly, there could be significant regressive impacts on consumers. At the same time, there is a need to ensure network charging encourages the needed investment GB needs in the system. Therefore, while conducting network charging reform, NESO must explicitly commit to balance the distributional impacts of network charging reform with the need to encourage investment in low carbon technologies.

Energy UK also welcomes the commitment to tender the first Competitively Awarded Transmission Operator (CATO). It is essential that the tendering process itself does not risk adding delays to network deployment and those trying to connect to CATOs should at minimum experience an equivalent (if not superior) level of service experienced with monopoly transmission operators (TOs).

#### Clean Power 2030 Implementation

2025 will be an essential year that will determine the feasibility of CP30 and the NESO role in delivery. It is critical that the NESO articulates to all stakeholders what it intends to deliver to support CP30 in BP3 and the milestones that need to be met in order to meet the aims.

We recognise that the NESO intends to include specific, measurable Major Deliverables and Success Measures as part of its final plan, to be published in February 2025. Energy UK believes that the CP30 performance objective should set out:

- A clear project plan with milestones/ stakeholder touchpoints on how the NESO will develop a comprehensive NESO 2030 Delivery Plan and by when (Mar 26 seems too late).
- A commitment to publishing the 'Routes to Market Review for Demand-Side Flexibility report' by the end of Q2 2025.

NESO's commitment to work with the Government and Ofgem to ensure policy reforms for the CfD and CM mechanisms are implemented in time for the upcoming allocation rounds is welcome. We note that several rounds of amendments are currently in flight / being consulted on in relation to the CM for 2025/26, so it will be especially important for NESO to dedicate sufficient resource to implementing these changes in time and continue its committed improvements to the EMR Portal and other IT systems for the CM and CfD. We urge that NESO help in coordinating these

reforms with other vital policy workstreams like connections reform and ensure the highest level of visibility for stakeholders.

It is essential that, throughout the implementation process for CP30 and wider connections reform, the NESO ensure an adaptable approach to achieving decarbonisation of the power system and not be overly beholden to its existing plans. This means allowing the market to guide key decisions where best suited, especially when concerning key issues that can discourage investment if mishandled. For instance, should the market indicate that NESO's regional energy mix is not best aligned with what investors are interested in, NESO should adapt appropriately, so long as the ultimate goal of CP30 is met.

**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.**

Throughout the draft BP3 document the NESO identify the need to provide, evidence and enhance engagement with key stakeholders. The NESO needs to apply a consistent co-ordinated approach to engaging with stakeholders irrespective of subject matter. The NESO's approach to delivering the multi-faceted Balancing Programme is a great example of a well-coordinated, transparent and agile project where NESO has successfully engaged industry stakeholders and demonstrated improvements which are of importance to industry.

Less successful programmes include the development of the proposed financial instrument under connections reform (which seriously lacked transparency), the very slow progress of network charging reform, and the Constraints Collaboration project which is unclear on what it will deliver and by when and had no consistency in the way it engaged with stakeholders (e.g. meeting formats, intervals of communication, etc.).

There is room for improvement here, especially regarding notice given for workshops and circulating feedback/meeting summaries. Therefore, we propose that the business plan set out a baseline for the quality and standards of all stakeholder engagements undertaken by NESO. This will ensure that the engagement process is productive and facilitates effective collaboration. Our recommendation is that the business plan include an annex outlining a framework and underlying principles for stakeholder engagement.

Further, more transparency is needed on planned expenditures given that NESO is now a public entity, there is a higher expectation around the reporting of how it spends money, especially since it is directly funded by consumer payments. It would be helpful if the business plan also detailed the planned spending for its various roles/activities, such: code administrator/manager, electricity systems operator, system resilience manager, strategic advisor to the government, and strategic planner of the energy system. The high-level breakdown provided does not make this clear. Additionally, it would be useful to get more information about the planned spending for separation from National Grid plc, as we would not expect the cost to be high given that the process of making NESO independent started many years ago under BETTA in 2005 and, more recently, NGET/ESO.

As stated in our answer to question 3, we believe that NESO should aim to offer 100% of those seeking Gate 2 connection dates a new agreement by the end of December 2025, not March 2026. We believe this would be a stretched but feasible level of ambition for the business plan.

Given how ambitious the business is, the business plan should also outline possible challenges/risks to the performance objectives and any mitigation measures in place to address them. This would help manage industry expectations regarding delivery.