

National Energy System Operator Business Independence Statement

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Foreword



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National Energy System Operator

The National Energy System Operator, NESO, is a new independent, public corporation at the centre of the energy system taking a **whole system view** to create a world where everyone has access to **reliable, clean and affordable energy**.

Our work will be the **catalyst for change** across the global community, forging the path to a **sustainable future for everyone**.

Tackling climate change is truly the challenge of our generation; addressing energy security, sustainability and affordability for everyone is at the forefront of the global agenda and drive to meet net zero.

It is our job to enable the whole energy system to transform to meet these challenges and transition to a low-carbon future, embracing new technologies and cleaner generation sources, always with the security of the system and the cost to the consumer in mind.

NESO is responsible for delivering high-voltage electricity around the grid to homes and businesses across Great Britain 24/7, 365 days a year. NESO is founded on the prior capabilities of the Electricity System Operator but has taken on new roles with a whole system perspective across energy vectors.

Independence of NESO

In April 2022 the Department for Energy Security and Net Zero (**DESNZ**) and the Gas and Electricity Markets Authority (**Ofgem**) decided that NESO would be established in legislation with additional roles to drive towards net zero, providing expert and impartial advice to government and Ofgem, adopting a whole systems approach to network planning across fuels and technologies, and further driving competition across the energy sector. NESO took on this role, termed the independent system operator and planner under the Energy Act 2023, in October 2024. NESO's new licences set out its expanded roles.

A prime consideration for the creation of NESO was that we should be free from actual or perceived conflicts of interest from other companies with commercial interests in energy, or related sectors, but also be free from day-to-day operational control from government.

To implement this, NESO was set up as a public corporation owned by the Secretary of State with strong, independent oversight and absolute separation from the wider energy industry. It is essential that robust independence arrangements remain in place to ensure we retain stakeholder and consumer confidence as a trusted and independent voice in the energy sector.

How do we ensure independence is maintained?

This Independence Statement sets out how NESO complies with its independence licence obligations.

The Independence Statement describes how NESO's governance is set up, how conflicts are managed and how we maintain our independence, including in regard to transitional services and other arrangements with our former shareholder (National Grid plc).

Executive summary

The independence statement is a requirement of NESO's licences. It sets out the policies and practices NESO has adopted to ensure that we are compliant with the independence requirements set out in our licences.

NESO governance

NESO's Board has autonomy in decision making on matters related to its licensed duties and the day-to-day operation in accordance with its licence and Framework Document. It is governed by a Non-Executive Chair of the Board, supported by at least three non-executive directors and other NESO executive directors.

The Secretary of State is the single shareholder of NESO. NESO needs to interact and share information with the shareholder so they may execute oversight.

NESO Licences

NESO holds two licences: the Electricity System Operator and the Gas System Planner licences. Licence condition B1 (Independence requirements and compliance obligations) in each licence reflects NESO's governance arrangements and includes expectations and requirements to ensure our independence. More specifically, Part B of this condition requires NESO to produce an Independence Statement which must set out the systems, processes, and other governance arrangements that the licensee has in place to maintain the impartiality of its employees and the independence of the organisation.

Impartiality and Conflict of Interests

Through our core value of "Build Trust", we have committed to integrity and impartiality within the organisation, relevant to all employees. We have a Conflict of Interest (COI) process in place to report and monitor potential and actual COI. This includes conflicts arising from personal and financial relationships, political affiliations and conflicts with service providers. Our Code of Ethics and other policies build on this by setting out how our independence is maintained in relation to shareholdings, gifts and hospitality, competition and political interactions. We also set out considerations relating to strategic partnerships and other arrangements with third parties.

Code of Conduct for information ringfencing

Under NESO licences, we have a code of conduct in place setting out what information we hold related to the performance of our functions that needs to be ringfenced from our stakeholders. This code of conduct is approved by Ofgem and further supports our independence.

Agreements with National Grid

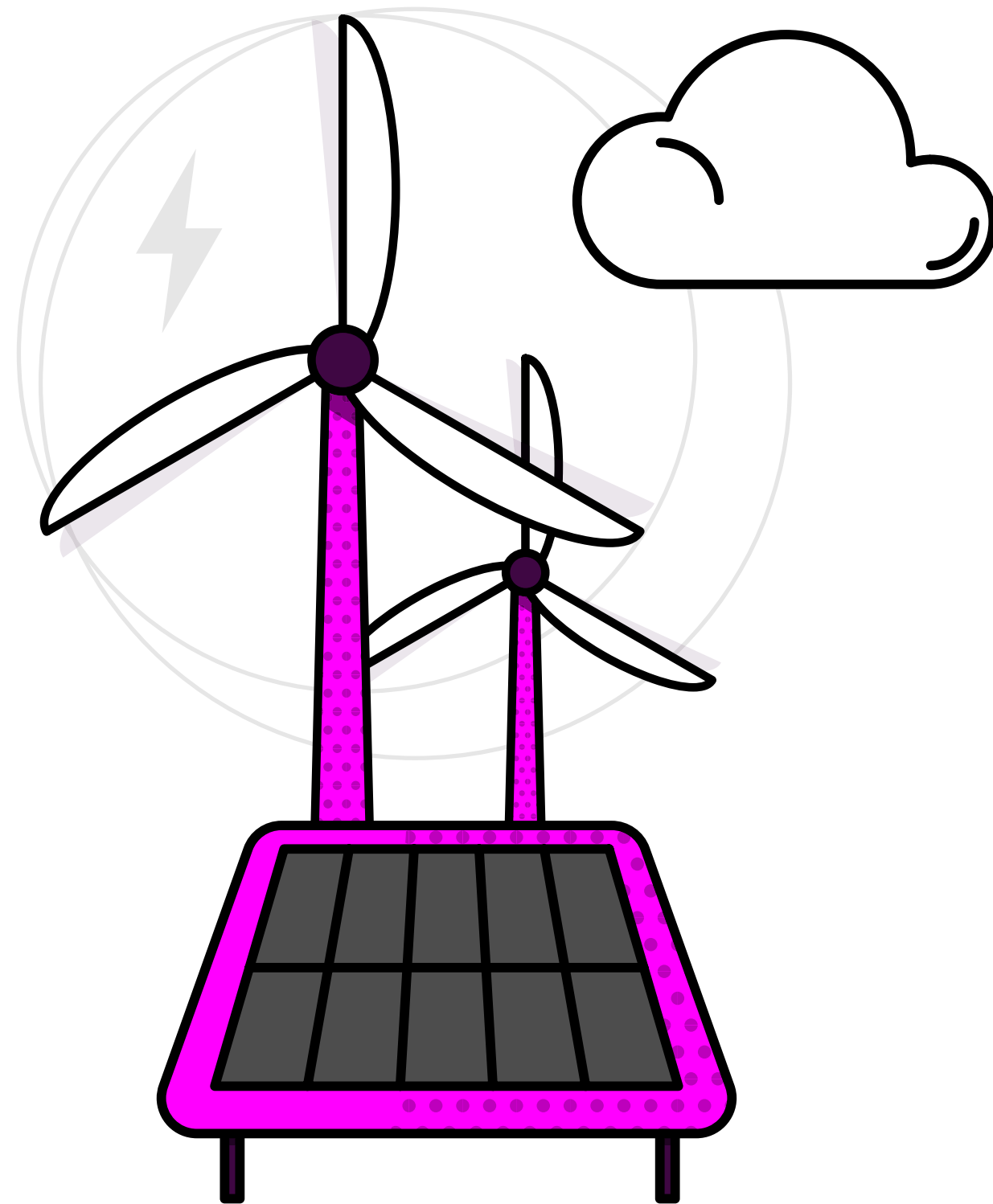
To enable the creation of NESO, the Transitional Services Agreement (**TSA**) and Operational Services Agreement (**OSA**) were put in place with National Grid to continue to supply critical services to NESO and remove risk from day 1 separation. This statement provides an overview of the TSA and OSA services and arrangements in place to ensure independence is maintained. It also provides NESO's high level strategy for exiting services provided under the TSA.

Compliance Officer

In line with our licence, NESO has appointed a Compliance Officer to report on its independence framework. They report to the Director of Legal and Regulation.

Compliance is reported to the Executive Committee and Audit and Risk Committee (ARC) which is a sub-committee of NESO Board. ARC is chaired by a NED.

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01

Introduction

Introduction

What is this statement?

This statement is a requirement of NESO's two licences (the electricity system operator licence and the gas system planner licence). It sets out the practices, procedures, and systems which NESO has put in place to ensure that NESO is compliant with the independence requirements set out in condition B1 of our licences.

In particular our licences require us to:

- put in place and maintain such systems, processes and other governance arrangements that are necessary to maintain our independence from particular business interests (called "Potential Conflict Parties" in the licences)
- ensure that we do not become a party to any arrangements that compromise, or could reasonably be seen as compromising, that independence,
- use best endeavours to avoid any perceived or real conflicts of interest relating to such Potential Conflict Parties.

Our licences also provide requirements relating to the management of our Transitional Service Agreement and Operational Services Agreement.

The aim is to make this statement as directive and readable as possible, so that our independence arrangements are clear, open and transparent to our customers, stakeholders and the regulator.

This statement is approved by Ofgem. It will be reviewed on at least, an annual basis.

NESO's statutory role

As the designated independent system operator and planner for Great Britain under the Energy Act 2023, we have duties and powers set out in that Act, as well as in our two licences. Our independence is embedded in law. Our primary statutory duty is to carry out our role in the way we consider best calculated to promote three objectives (net zero, security of supply and economy and efficiency).

NESO's compliance culture

NESO is built on our previous experience as the electricity system operator (ESO). We have a unique position as the independent system operator and planner, as such we operate under strict regulatory and legal rules. A strong compliance culture is therefore firmly embedded in the organisation, with robust compliance controls in place for our licence obligations.

In addition, all employees are expected to comply with the NESO Code of Ethics, and complete mandatory computer-based training in modules of fraud and bribery, ethics and data management.

NESO's values

Our core company values of 'accelerate progress', 'be curious', 'create belonging' and 'build trust' guide all employees' behaviour and we take pride in the organisation's reputation for working responsibly with customers, colleagues and consumers. Our 'build trust' value is particularly relevant to our independence.

02

NESO Corporate Governance

NESO Corporate Governance

B.1.21

...the licensee must submit to the Authority the Independence Statement, which must set out the systems, processes, and other governance arrangements that the licensee has in place to maintain the impartiality and integrity of the actions of its employees and the independence of the licensee.

Summary

NESO is a public corporation, and its Board has autonomy in decision making on matters related to its licensed duties and the day-to-day operation of NESO in accordance with its licences and framework document. It is governed by its Board of directors with at least three Non-Executive Directors (NEDs) one of which, is appointed by Secretary of State.

NESO's Executive Team has delegated authority from NESO Board, creating an operating model, capable of providing additional value to consumers through delivering Whole System thinking.

Compliance theme

Corporate governance is the system by which a company is directed and controlled. For NESO, this relates to the arrangements of NESO Board, the supporting committees, and their terms of reference and how they interact with the NESO business. Clear and transparent governance arrangements for NESO is in place and demonstrate the independence of the newly formed organisation.

Compliance design

The NESO Shareholder

The Secretary of State is the single shareholder of NESO. The Shareholder is committed to giving the Board the freedom to operate NESO independently of government, in line with the spirit of our licence and framework document. Decisions on the day-to-day management of NESO will be taken by the Board in accordance with their statutory, regulatory, common law and fiduciary duties.

The Shareholder does have specific 'shareholder reserved matters' which are outlined in our framework document. As well as this, at the reasonable request of the Shareholder, the directors of the Board shall:

- meet the Shareholder or its representatives to discuss the affairs of NESO
- provide such information in relation to the affairs of NESO as set out in the framework document.

The NESO Board and its committees

NESO is governed by its own board and various committees to the board. The board has autonomy from the shareholder in decision making on matters, in line with its terms of reference.

The NESO Board is made up of:

- A non-executive Chair
- At least 3 non-executive directors
- One non-executive director, appointed by Secretary of State, referred to as 'shareholder director'
- Executive directors

As directed by our licences and our framework document there is specific governance in place for the appointment of non-executive directors and specific limitations to any secondary appointments. The profiles of all NESO Directors can be found on the NESO website. The Board of directors are duty bound to act in the best interests of NESO. The NEDs bring independent challenge to NESO decision making.

In addition, NESO has an Audit & Risk Committee, Health, Safety and Wellbeing Committee and Nominations Committee. All are chaired by a NED and report to NESO Board. It is intended that NESO Board will have regular interaction with the regulator through bi-annual meetings to foster a relationship of openness and transparency.

NESO Governance

From a governance perspective, the NESO Executive Team has delegated authority from the NESO Board. The NESO Executive Team is responsible for directing the affairs of the NESO business spanning across their operational design, including, legal, strategy, operations, and finance. The NESO Board has sub-committees including the Audit and Risk Committee.

The NESO Executive Committee reports matter into the Board in accordance with its terms of reference and delegations of authority. The Operations Committee reports into the Executive Committee in accordance with its terms of reference and delegations of authority.

NESO Annual Report and Accounts provide further detail on the NESO governance structure.



03

Impartiality and Conflict of Interests

Impartiality and Conflict of Interests

B.1.3

The licensee must put in place and maintain such systems, processes and other governance arrangements that are necessary to maintain its independence from Potential Conflict Parties and must ensure that it does not become a party to any arrangements that compromise, or could reasonably be seen as compromising, that independence. This should include, but not be limited to, arrangements that support the impartiality and integrity of the actions of individual employees.

B.1.4

The licensee must use best endeavours to avoid any perceived or real conflicts of interest relating to any Potential Conflict Parties.

Summary

As an independent and expert organisation at the centre of Great Britain's energy system, it is crucial that stakeholders can trust that our organisation is independent from outside influences, and that we are able to make impartial and unbiased decisions. Consistently with our primary duty under the Energy Act 2023, we must act in the manner we consider best calculated to promote our objectives. We must also avoid actions or arrangements which might lead others to reasonably question our independence.

Our independence is embedded within our core values and the strategic priorities which will form the focus of our new organisation in its first years. It is also embedded within further systems, policies and processes set out below. These cover both the overall independence of NESO and also how we ensure the impartiality and integrity of our employees.

Our values and strategic priorities

The independence of NESO is embedded in our organisation through our core value of "Build Trust". We set this out in more detail as:

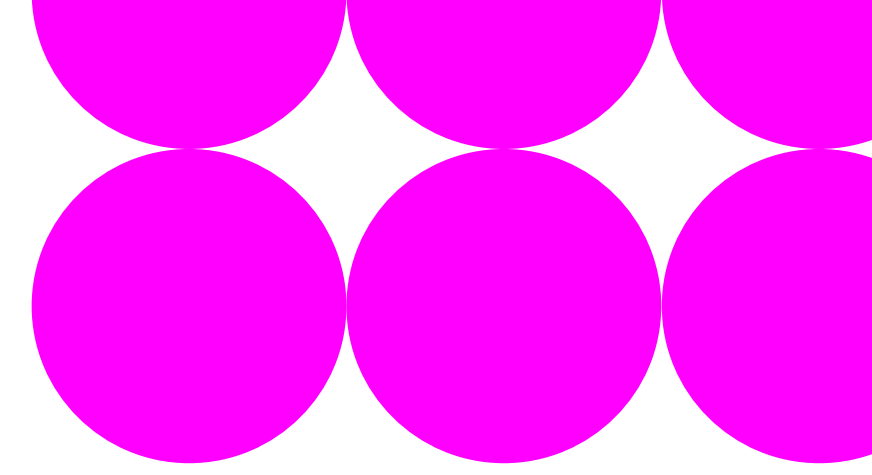
"We build trust when we listen to and understand the needs of our colleagues and customers, are transparent with our actions and deliver on our commitments."

The behaviours that we set out to best demonstrate this value are:

- acting with integrity and taking pride in delivering on our commitments.
- being transparent with our thinking and the decisions we make.

Ensuring that the organisation maintains its independence and ability to make decisions impartially is an important part of acting with integrity and building trust.

In line with the NESO Code of Ethics, all employees are expected to demonstrate this value.



In addition to our core values, we have identified six strategic priorities that will guide our efforts through to 2026. One of our strategic priorities is “Customer Centricity” explained below:

“We will understand and balance the different needs of our customers to form meaningful partnerships.

We are committed to being a progressive and purpose-driven organisation, focused on delivering better, balanced outcomes at pace. We are proud of the central role we play in energy in Great Britain, knowing that by working alongside our customers, we can achieve more together.

We will focus on understanding the needs of our customers and our impact on them, recognising that our decisions have consequences both in real time and in the future. We will engage with customers to share ideas and innovate, working together to deliver for Great Britain. We will invest in our relationships and create simpler experiences for customers, supported by clear standards of service, communication and action.

As one connected organisation, we will show up openly and consistently, ensuring our actions and decisions are seen as informed, considered and balanced. We are committed to having the best interests of the whole system and the whole of Great Britain in mind.”

Our strategic priority of “Customer Centricity” further sets out our commitment to independence and fulfilling our role impartially and in a balanced way.

Relationships with third party organisations

Our licence acknowledges that the energy sector is an interconnected sector where different organisations have their own important roles to play. NESO will remain part of the industry with relationships and agreements in place with industry participants, including continuing to participate in the industry codes. As a whole system organisation with new responsibilities in the gas sector and a new gas system planner licence, NESO will also develop new relationships.

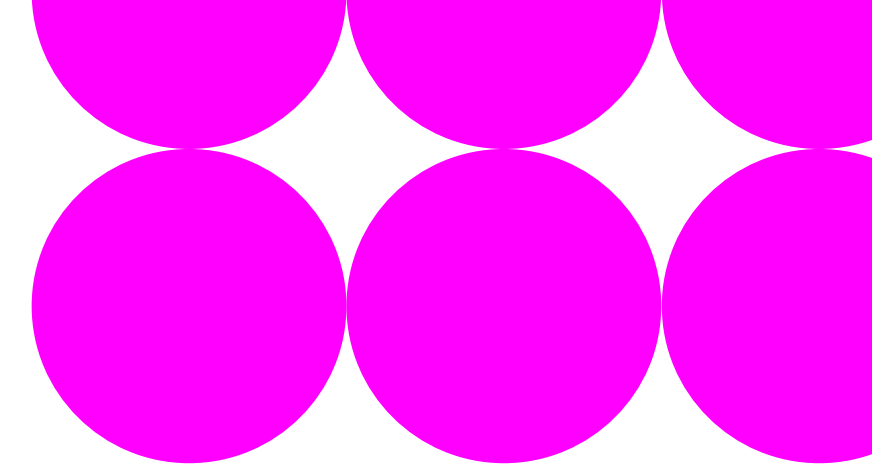
Our licences are clear that these relationships are permitted, and that NESO can engage in partnership projects or otherwise cooperate with parts of industry and other organisations where it is consistent with our duties and licence conditions.

Considering our need to maintain our independence, before entering into any strategic partnership or other cooperation arrangement with a Potential Conflict Party, we will consider and only proceed where we are comfortable that:

- The partnership/arrangement is consistent with our duties and licence conditions, in particular serving a clear purpose which aligns with our primary duty under the Energy Act 2023.
- We are clear that there is a justification for entering into the partnership/arrangement with the relevant party and that it is not compromising our independence or could reasonably be seen as compromising our independence. When the party is one of a number of similar parties, we should consider whether a similar arrangement should be open to all of them.
- The details of the arrangement itself would not compromise, or reasonably be seen as compromising, our independence. For example, we should not enter into any arrangement where a party can give a view on our behalf, or which prevents NESO from coming to its own view on a particular matter in an impartial way.

Although our licence independence requirements do not generally relate to our relationship with public bodies, they do encompass our relationships with any publicly owned regulated energy businesses.





Competition

The NESO Code of Ethics contains an established competition policy with responsibilities set out for all employees. This aligns with our independence requirements, by requiring that we should always act fairly and in a non-discriminatory manner and not create any unfair commercial advantage or disadvantage.

Political Interactions and lobbying

The NESO Code of Ethics sets out how we must uphold our independence in any political interactions.

Conflicts of interest

At NESO, we take our responsibilities for achieving the highest standards of ethical behaviour very seriously and we believe in promoting a culture of openness and integrity. We have a zero-tolerance approach to unethical behaviour and will always operate fairly and transparently.

Our Conflicts of Interest policy provides a framework for dealing with any actual or perceived conflicts of interest. It provides guidance for identifying, monitoring, and managing potential conflicts of interest that could arise between employees, customers, suppliers and other stakeholders. Our Conflict of Interest policy relates to financial interests, competition, external directorships, second jobs and outside activities, internal personal relationships and Energy related Shareholdings.

Shareholding

Our Share Ownership and Dealing Policy applies to all employees, from our Board Members to Directors, Contractors, permanent and temporary staff who work for NESO. While the rules differ for different status of employment and levels of seniority, all employees (including the Board, permanent and temporary staff – e.g. contractors) must abide by the rules relevant to them to the extent applicable.

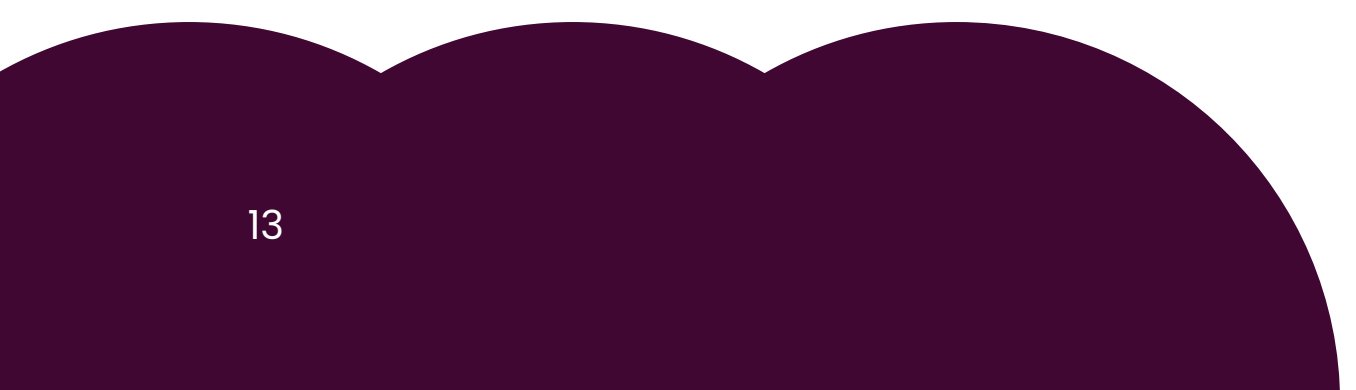
Gifts and hospitality

The NESO Gifts and Hospitality Policy sets out our policy on when we will accept gifts and hospitality. A key principle is that we must not allow our decisions to be influenced, or appear to be influenced, by gifts or hospitality.

Before offering or accepting gifts or hospitality, we will ask ourselves these important questions:

- Am I serving a legitimate business purpose?
- What would our customers think?
- What would our stakeholders think?
- Is the hospitality or gift proportionate to the business purpose?

Any gifts or hospitality that has been offered, accepted or declined will be logged, regardless of value.



03

NESO Information Code of Conduct

NESO Information Code of Conduct

B7.8

The licensee must establish and maintain a code of conduct governing the identification, disclosure and use of confidential data and information...

In its role, NESO will create and receive confidential data and information that should be ringfenced from third parties other than NESO's agents, contractors and advisors. This includes data and information which is market sensitive or related to national security, in the delivery of the obligations under condition C6 (Licensee's obligations regarding critical national infrastructure) and condition C7 (Energy resilience and resilience reporting).

NESO Licence Condition B7 (Information ringfencing obligations) sets out provisions related to information ringfencing requirements, including protecting CNI, energy resilience and resilience reporting, and market sensitive data. Condition B7 also contains a specific obligation to establish and maintain a code of conduct governing the identification, disclosure and use of such data.

This code is designed to mitigate the risk of:

- Illegitimate sharing of confidential data and information with any external parties.
- Ineffective handling, storage and processing of confidential data or information.
- Use of confidential data or information for unauthorised purposes.
- Data or information access to threat actors that could be sensitive for national security.



05

Agreements with National Grid

Agreements with National Grid

BI.24.

The licensee must ... ensure that the Independence Statement also sets out:

- (a) a list of services which fall under the definitions of Transitional Services and Operational Services;
- (b) details of the Transitional Services Agreement and Operational Services Agreement under which the Transitional Services and Operational Services are (and will be) provided and an explanation of how they ensure that the licensee is able to meet its Independence Requirements;
- (c) how the licensee will meet its Independence Requirements and obligations under this condition in the treatment of Transitional Services and Operational Services, including proposals as to how it intends to operate without the Transitional Services Agreement by the time that agreement expires;
- (d) a strategy to transfer to the licensee, or otherwise provide for the long-term outsourcing, of any Transitional Services to services that are not provided by members of National Grid Plc or its Affiliates or Related Undertakings, including:
 - (i) an approach to transferring Transitional Services to the licensee that ensures economy and efficiency in terms of the combination of cost and quality;
 - (ii) a clear timeline and milestones to complete transfer to the licensee or outsourcing (without the Transitional Services Agreement) of services comprising Transitional Services, with due regard to the licensee's Independence Requirements; and
 - (iii) protection of business continuity for the licensee at all times to fully exercise its ISOP Business and comply with its licence obligations and all relevant requirements (having the meaning given to that term in the Electricity Act 1989);
- (e) how the licensee will meet its Independence Requirements in relation to any work with a Potential Conflict Party to deliver FSO Transition Activities, including with respect to any contractual agreements established in accordance with paragraph F10.2 of condition F10 (ISOP implementation funding); and
- (f) such other information as reasonably requested by the Authority in relation to the licensee's Independence Requirements and obligations under this condition.

Summary

NESO has undergone significant transformation to establish an independent organisation under new ownership, supported by services under the TSA and the OSA.

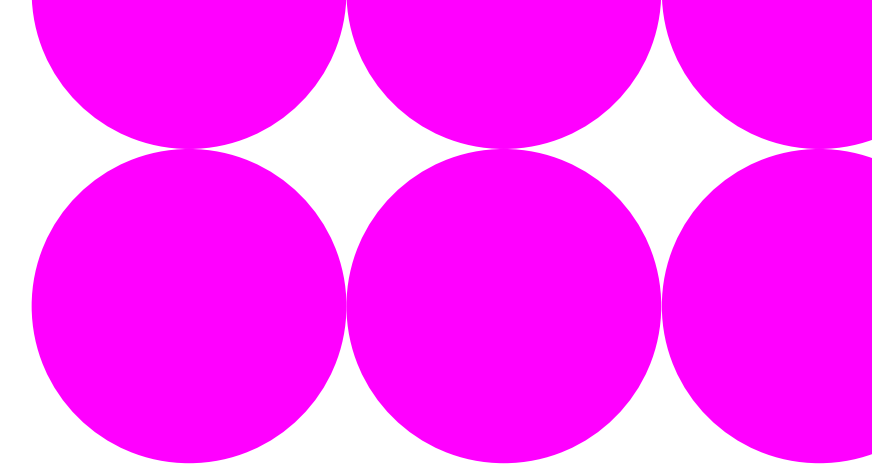
The TSA (with National Grid UK Ltd) is predominantly for IT and other back-office services of the type that any organisation needs, such as finance and HR, where it has not yet been possible or efficient to set up independent capability.

The OSA (with National Grid Electricity Transmission plc (NGET)) covers critical national infrastructure (CNI) telecommunications, data connectivity and data centre services related to the electricity transmission network, and Optel related services. These are industry services specific to the regulated roles that NESO and NGET play in the GB energy sector.

The TSA in particular is transitional by nature and detailed planning is already underway to transfer the services away from National Grid.

These agreements have been designed to enable and support NESO's independence, in particular through the nature of the services involved, the detail of the agreements themselves and the nature of the relationship between NESO and National Grid as our service provider.





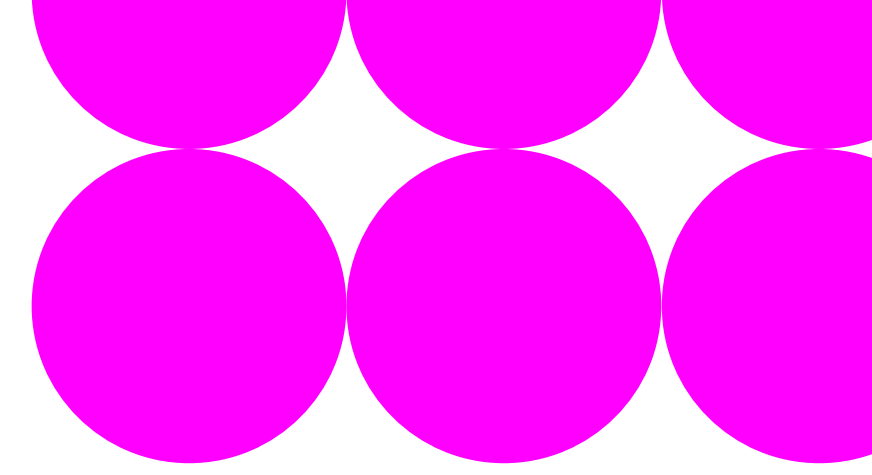
List of services under TSA and OSA Arrangements

The IT Service-related TSA services are listed in the table below:

Ref	TSA Name	Short Description
TSA-IT-002	Commercial Services	Supply of vendor/ contract management and contract handover services to support the management of contracts related to the provision of TSA services.
TSA-IT-003	Application licences, support & maintenance (non-CNI)	IT application licences and maintenance support for non-CNI applications.
TSA-IT-004	Application & hosting (non-CNI)	Operate, manage and support the non-CNI computing hardware, operating systems, storage and back-up, and environment management within all data centres as well as current cloud solutions used by NESO.

TSA-IT-005	Infrastructure processes, procedures and services	Provision/use of existing WAN, LAN, telephony (including mobile), network management and network security services.
TSA-IT-006	IT Service Management Processes and Procedures	Service desk provision including incident, problem and change management.
TSA-IT-007	Digital Workplace Services, Processes and Procedures	Support of non-CNI end user devices (office and field force), productivity tools, printing and user access (Active Directory), and including but not limited to, Virtual Desktops, Video Conferencing, collaboration tools, desktop, laptops and hardware.
TSA-IT-009	Cyber Security	Protection of IT assets and networks used by NESO within National Grid environments.
TSA-IT-010	Physical Security	Provision of site and personal security services including event and building security: <ul style="list-style-type: none"> • Provision of physical and personal security services. • Provisions for SCC Physical Security services including alarm monitoring and response, incident management. • Asset maintenance and fault response (FFT), System maintenance and fault response (System Engineers).



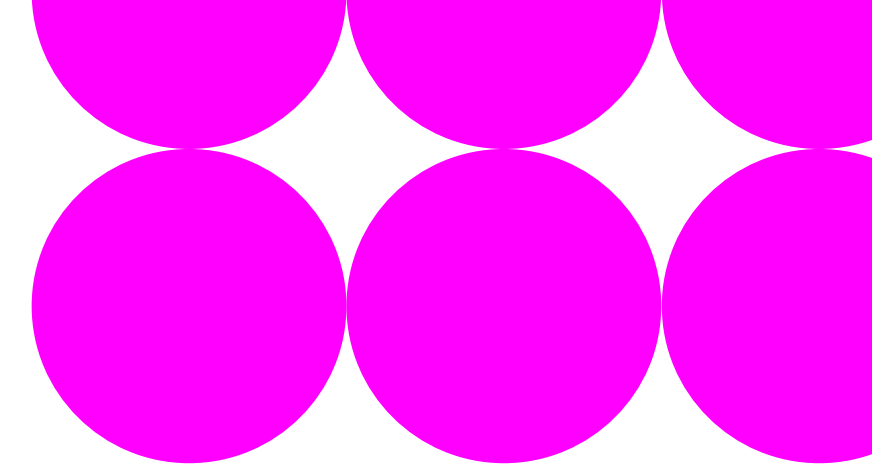


TSA-IT-011	(PSR001) - Additional Project Support	Provision of support for additional projects required to support separation and additional knowledge transfer as required where that support would not otherwise be available.
TSA-IT-012	Shared Investment Portfolio Projects	Provision of support for project and programme delivery capability for the agreed set of shared regulatory investment projects already in flight.
TSA-IT-013	Pass-through third-party Costs relating to NESO	Pass through of service-related costs such as airtime, physical security request costs, and background checks.
TSA-IT-015	Risk and Compliance	Monitoring and management of Technology risk and compliance within the environments that NG plc is using to provide services to NESO under TSA, as well as provision of vendor risk assurance services where relevant for services provided under the TSA.

The Finance and People Service TSA services are set out in the table below:

Ref	TSA Name	Short Description
TSA-BUS-8	People Services	Provision of people related services such as payroll, onboarding, right to work validation and the HR contact centre.
TSA-BUS-9	System Admin Support Coupa and Concur	Technical (non-process) support for cloud-based business support applications including expense management, travel management and indirect procurement software.
TSA-BUS-10	Master Data Management	An on-request service for the creation, maintenance, and governance of finance-related master data within SAP S4.
TSA-BUS-11	Accounting Services	Ad-hoc call down support for general accounting services and month end journal preparation.
TSA-BUS-15	RPA	Assistance with monitoring and repairing existing bot automations within the NESO estate supporting business processes.
TSA-P&C-14	MyHub System Admin Support	Support for the logically separated MyHub system including but not limited to release testing, configuration testing, management of annual performance forms.



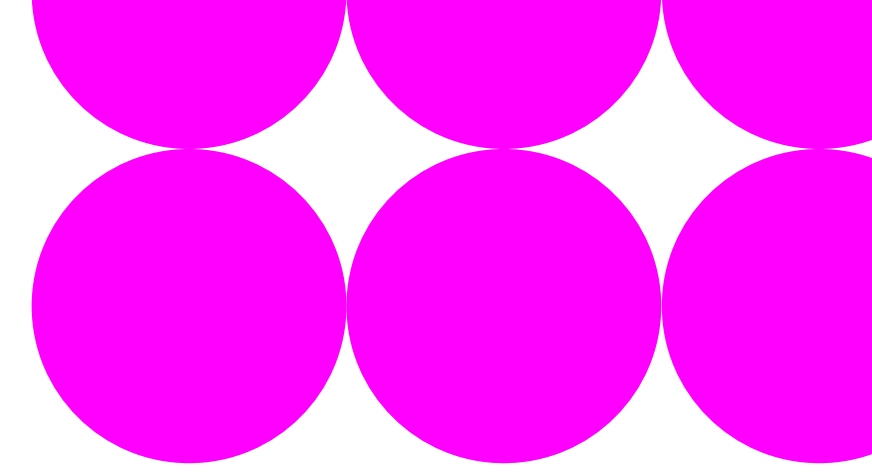


The Operational Services (NGET to NESO) in the OSA are set out in the table below:

Ref	OSA Name	Short Description
OSA-IT-008	CNI Hosting	Operation, management and support of the CNI hosting and network.
OSA-IT-014	Core Optel Connections	Provision of Operational Telecoms services.
OSA-PSR-002	Additional project support for Separation and other essential PSR Project requests	Provision of support for additional projects required to support separation and additional knowledge transfer as required where that support would not otherwise be available.
OSA-COR-002	OSA COR Request Support Service	Provision of access to Third Party Suppliers under the Commercial Order Request (COR) process for technical support services or technical and delivery resource augmentation.
GSA2 2.4	Meter Operating Agreement (MOA) Service	Provision of servicing to code 1-5 metering systems and offshore metering systems using a sufficiently regulated Meter Operating Agent.

GSA2 2.5	Contingency and Evacuation Arrangements	Readiness of property facilities & physical access at the Service Provider's Transmission Network Control Centre (TNCC) in case of evacuation.
OSA-IT-012	Shared regulatory Investment Projects	Provision of project and programme delivery capability or execute via its existing programme delivery, engineering, and infrastructure teams on shared regulatory investment projects.
OSA-IT-013	On Demand Pass Through Costs relating to Services provided to the Service Recipient	On Demand Pass Through Costs relating to Services provided to the Service Recipient.





The Reverse Operational Services (NESO to NGET) in the OSA are set out in the table below:

Ref	rOSA Name	Short Description
OSA-rCNI-001	CNI Network	On novation of the network service contract, the Service NGET was providing for CNI Networks transitions to NESO, who will provide the CNI Network Service to NGET.
OSA-rCHT-001	System Health Team	Provision of Critical National Infrastructure (CNI) System Health Team (CHT) Services to NGET's Transmission Network Control Centre (TNCC) & support of CNI Privileged Access Workstation (PAW) device administration, Provision of physical device support (TNCC), site access management (Warwick), videowall assistance (TNCC) & any data backup solution support (Warwick).
OSA-rIEMS-001	IEMS	Infrastructure support (e.g. monitoring and support of Integrated Electricity Management System (IEMS) servers and workstations, File Transfer), Application Support Network support, Operational Change Management, Database and Displays, Data Historian.

OSA-rPSR-003	Additional project support for Separation and other essential PSR Project requests	Provision of PSR support for additional projects required to support separation and additional knowledge transfer as required where that support would not otherwise be available.
OSA-rCOR-003	OSA COR Request Support Service	Provision of access to Third Party Suppliers under the Commercial Order Request (COR) process for technical support services or technical and delivery resource augmentation.
OSA-rGSA-001	Contingency and Evacuation Arrangements	Contingency and Evacuation Arrangements Provision of building infrastructure (Control 2).

Details of the TSA and OSA arrangements

The TSA and OSA are detailed legal agreements which have been entered into as part of the transfer scheme made by the Secretary of State which transferred the NESO organisation into public ownership.

The TSA and OSA arrangements are carefully monitored and governed, to ensure that the NESO can continue to deliver existing licence commitments whilst it establishes its own capabilities to exit arrangements with National Grid at appropriate times.

The arrangements contain clearly outlined processes, charges and governance, which are managed by the NESO TSA Office. The TSA Office acts as the agreed initial single point of contact between both parties for the TSA and OSA, working together with its counterpart in the NG TSA Office to ensure the arrangements run efficiently, to the agreed plan, stay within budget, and meet legal requirements.



Meeting Independence Requirements

The TSA and OSA enable NESO to meet our independence requirements, whilst enabling us to consider our long-term ambitions. This is based on the nature of the services, the nature of the arrangements themselves and the nature of the relationships that will underpin the services.

It has not yet been possible or efficient to set up NESO with no IT or other back-office services being taken from National Grid and the services will support NESO as it performs its roles and guide NESO on its capabilities in these areas. However, the TSA services do not in any way inhibit NESO from making its own independent decisions in performing its role in the industry. National Grid's role as service provider will not include advising NESO on making its industry decisions as the independent system operator and planner.

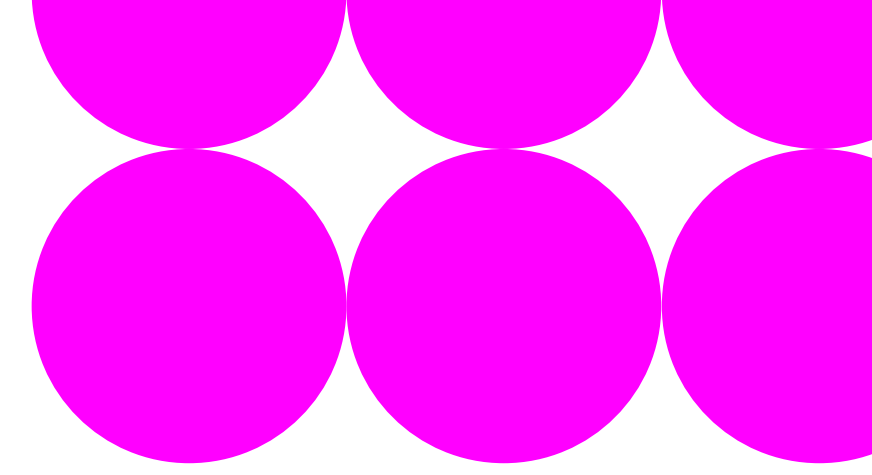
The OSA services are specific industry services provided between NESO and NGET, where no other provider could efficiently provide the services at this time. Again, nothing in these services would compromise NESO performing its role independently

The TSA and OSA arrangements themselves support NESO meeting our independence requirements in the following ways:

- **Acknowledging independence** – The arrangements expressly acknowledge the need for us to comply with our independence requirements.
- **Governance** – The arrangements have clearly outlined governance which has been embedded into the NESO via the NESO TSA Office. This provides a mechanism for the workings of the arrangements. Further detail is set out below.

- **Service delivery** – Services are delivered in the same way as with any 3rd party arrangement, including monitoring contractually agreed KPIs. NESO can request service improvement plans from NG should they fail to meet KPIs over a repeated period.
- **Systems and processes** – Systems and processes have been assessed and decisions made on Day 1 and Day 2 requirements and the level of transformation needed to exit TSA's.
- **Controls** – Strict control measures such as data segregation, role based-access controls and limiting systems access are in place to appropriately control the sharing of any NESO confidential information with NG.
- **People** – NESO have already established required headcount to create its own enabling functions (Finance, HR, Procurement), along with supplementing DD&T resources to provide the requisite level of capability to support the NESO business.
- **Contracts** – Underpinned by its sourcing strategy, NESO will continue to enter into its own contracts independent of National Grid through the separation and this is permitted in stages (subject to appropriate bundling).

Finally, while we will work closely and collaboratively with our National Grid partners as the services have been delivered, the relationships underpinning the TSA and OSA have been set up as arm's length service provider relationships, with the NESO TSA office created as a new team. Our enduring service relationship with National Grid has been founded on the need for us to meet our independence requirements.



Governance of the Services

To ensure that the TSAs and OSAs are effectively managed, and independence is maintained, a governance model is implemented that sets out the structure for both the processes, strategic planning, personnel required and decision-making oversight.

Forum	High level description
TSA / OSA Governance Board	Enabling overall relationship health, setting strategic direction, ensuring exit planning, and implementation of the Exit Plan remains on track, Service oversight.
TSA / OSA Change Approval Board	Reviewing and providing decision-making for TSA/OSA Change Requests and tracking the progress of Change Requests.
TSA Project Review Board	Reviewing and providing decision-making for Projects Requests and Project Service Requests and tracking the progress of PSR Requests.

Transitioning away from the arrangements

Strategy

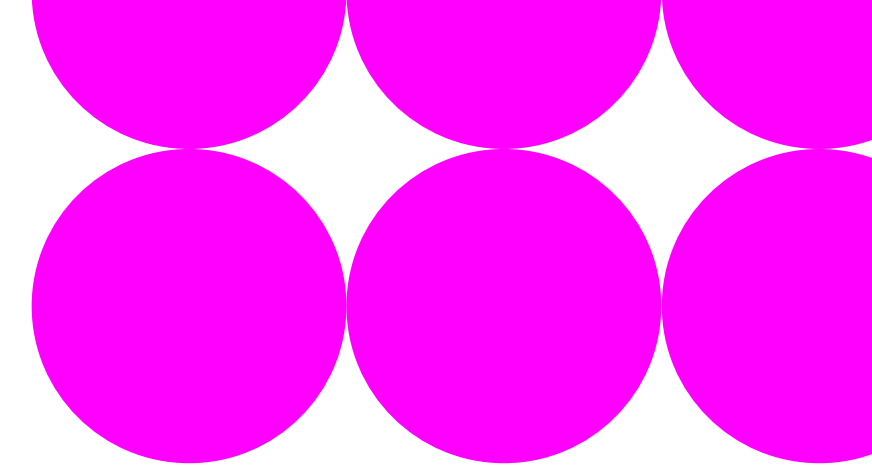
In developing the transition plan, NESO is guided by the following principles:

- Flexibility to exit arrangements at the right time for the business, in a controlled manner.
- A flexible and agile delivery model with embedded DevOps ways of working.
- Retain and develop key strategic capabilities inhouse, whilst leveraging a hybrid outsource model where appropriate for efficiency and / or scale.
- An innovative and creative culture that actively challenges the status quo to adopt right sized technology and services based on business need and our appetite for risk.
- A digital first approach, focusing on simplification and automation which mitigates costs increases and risk.
- Investment in differentiating technology areas e.g. Cloud, CNI, Customer interaction and engagement, Insights & Analytics, Future Technology.

Approach

NESO will continue to work closely with NG to develop the detailed transition plan. The priority is maintaining security and safety of operations throughout the transition, while minimizing the impact on delivery of our RII0-2 price control commitments and managing associated risks. Focus is on transitioning efficiently to full control of technology environments, reducing costs by leveraging strategic suppliers, and optimizing resource use. The goal is to establish a well-sized, efficient organisation that balances capability, control, and cost-effectiveness.





Timelines

The TSA and OSA transition arrangements follow differing timelines, as outlined below.

TSA

NESO has developed an initial separation plan which enables it to exit TSA services efficiently and securely from NG, with the intention of exiting TSAs within the period of 24 months, as well as achieving its transformation objectives, whilst minimising any impacts to our RIIO-2 commitments during the transition.

As per the contractual timelines, the TSA Exit Plan will be provided in draft form by NESO within 60 days, and then baselined and agreed with NG. This is expected to conclude during January 2025.

Under the initial separation plan NESO expects to exit TSAs in advance of the 24-month end period ending.

OSA

The OSA has a different planning timescale to the TSA. For most of the services, the steps required are broadly as per the TSA, except that each Exit Plan is targeted to be developed within twelve (12) months of the Commencement Date, as opposed to 100 days.

The progress of the exit planning will be governed by the TSA and OSA Governance Board and Transition management office (TMO) that will provide NESO with oversight & balance of RIIO-2 commitments, which will ensure robust tracking and monitoring of dependencies and exit plan milestones.

Business Continuity

NESO will ensure business continuity during this transition period by implementing a phased transition plan that prioritizes critical functions. This will involve setting up independent systems and processes well in advance of the TSA exit, conducting thorough testing, and training employees to manage new operations. Close collaboration with NG plc during this period will minimize disruptions with contingency plans in place to mitigate risks.

FSO Transition Activities

As well as the TSA and OSA detailed above, there are agreements in place with National Grid to enable it to recover efficient costs incurred in activities to separate out the NESO organisation from National Grid Group which are not covered by other arrangements. NESO is required to have these arrangements in place under condition F10 of our electricity system operator licence and Ofgem and DESNZ have been heavily involved in the setting up of the arrangements. The arrangements were set up to remain in place after the transfer of the NESO organisation out of National Grid Group. The TSAs and OSAs provide arrangements for the capture of additional and or omitted services should these be required.

These are unique agreements, which in their design respect NESO's independence. Appropriate oversight of Ofgem and DESNZ is embedded in the relevant processes to support this. As with the TSA and the OSA, management of these agreements will be taken on by the NESO TSA office, facilitating an appropriate relationship which will align with our independence requirements. The NESO TSA office will liaise with other parts of NESO as appropriate to ensure that we can facilitate our role under the contract and meet our regulatory requirements.



06

Appointment of a Compliance Officer and compliance reporting

Appointment of a Compliance Officer and compliance reporting

B1.32 The licensee must, following consultation with the Authority, appoint a Compliance Officer for the purpose of monitoring and facilitating the licensee's compliance with the Independence Requirements and other obligations under this condition.

B1.34 The licensee must ensure that the Compliance Officer: (a) is provided with such staff, premises, equipment, facilities and other resources; and (b) has such access to the licensee's premises, systems, information and documentation, as, in each case, the Compliance Officer might reasonably require for the fulfilment of the duties and tasks assigned under this condition.

B1.35 The licensee must ensure that the Compliance Officer is not engaged in the management or operation of any ISOP Affiliate or ISOP Related Undertaking, or of any Potential Conflict Parties.

B1.36 The licensee must ensure that the Compliance Officer is sufficiently independent to carry out the duties and tasks under paragraph B1.38.

B1.39 As soon as is reasonably practicable and in any event before the period of 90 days beginning with the date of issue of each annual report of the Compliance Officer under paragraph B1.38(h), the licensee must produce, in a form approved by the Authority, the Compliance Report that sets out the licensee's:

- (a) compliance with the Independence Requirements and obligations under this condition during the period since the last Compliance Report; and
- (b) implementation of the practices, procedures and systems adopted in accordance with the Independence Statement.

B1.40 The Compliance Report must:

- (a) detail the activities of the Compliance Officer during the relevant period covered by the report under paragraph B1.38(h);
- (b) report on the impartiality of the licensee's employees and the independence of the licensee, including any perceived or real conflicts of interest with Potential Conflict Parties and the steps taken to mitigate these conflicts;
- (c) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the Independence Statement; and
- (d) set out the details of any investigations conducted by the Compliance Officer, including:
 - (i) the number, type and source of the complaints or representations on which such investigations were based;
 - (ii) the outcome of such investigations; and
 - (iii) any remedial action taken by the licensee following such investigations.

B1.41 The licensee must, as soon as reasonably practicable, and in any event before the end of the period of 120 days beginning with the issue of each annual report of the Compliance Officer under paragraph B1.38(h), submit to the Authority a copy of the Compliance Report produced in accordance with paragraph B1.39 and publish a copy of it on its website.

Summary

NESO has appointed an independent Compliance Officer. The Compliance Officer is not involved in the management or operation of the system operator functions. They report to the Director of Legal and Regulation. The Compliance Officer provides compliance reports to the Audit and Risk Committee, including compliance with Condition B1.

Compliance Officer

NESO has appointed a competent person to take on the role of the Compliance Officer to facilitate NESO compliance with its licence conditions.



National Energy System Operator

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Warwick

Warwickshire

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