

Ofgem FSO Programme Closure Report

November 2024

Public

Contents

Introduction

We are pleased to present the Future System Operator (FSO) day 1 report as required by our electricity system operator licence (condition F10, Part C).

This report includes an update on the outcomes delivered and the final costs for the Transition activities carried out before 1st October 2024 for the creation of NESO.

Main sections

1. Executive Summary
2. Outcomes and Deliverables Achieved
3. Programme Costs
4. Conclusion
5. Annex: Programme Outcomes

Executive Summary

Outcomes and Deliverables Achieved

Outcomes Achieved

To deliver the large-scale transformation, we tracked against key outcomes that ensured the successful launch of NESO on Day 1. As of October 1st, 2024, the transition from ESO to NESO was executed, with all programme outcomes delivered. This includes the achievement of critical milestones across operational, regulatory, and stakeholder engagement fronts, positioning NESO for continued success. See Annex 1 and 2 for more detail on the outcomes.



Successful technology enablement of deal close and foundation services

The successful provision of;

- ✓ technology systems
- ✓ services and tools
- ✓ processes
- ✓ organisation structure
- ✓ governance



Safe and efficient transfer of people and processes into NESO from NG group

- ✓ People transferred from NG plc into established structures
- ✓ Financial processes and controls that allow NESO to function on Day 1 established
- ✓ TSAs in place which provide safe and secure services to NESO from NG plc
- ✓ NESO property established to agreed branding, people, and technical requirements



Establishment of the new organisation and new obligations

- ✓ New licence and code arrangements implemented
- ✓ New industry role obligations and ambition delivered
- ✓ Purpose, Vision, and Values embedded in the people, culture, and external narrative
- ✓ A Day 1 Operating Model developed
- ✓ A clear roadmap and transformation plan established



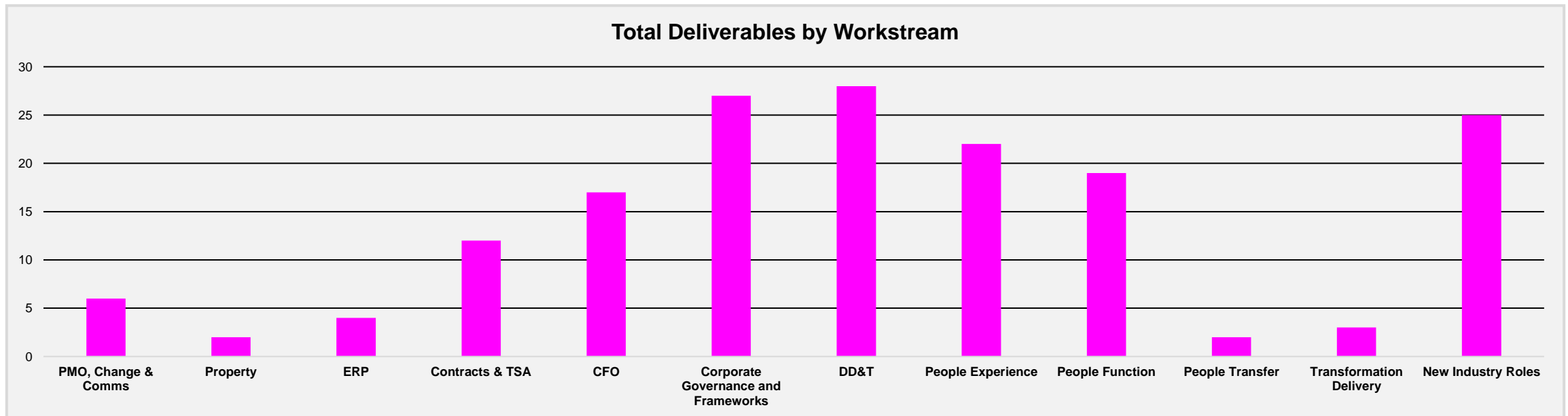
To ensure our people have the best possible experience of NESO being established

- ✓ Employees engaged, and have a positive journey to Day 1
- ✓ Developed and recruited the right people capabilities
- ✓ Created an attractive Employee Value Proposition
- ✓ Evolved our culture to one that drives the right outcomes
- ✓ Established a Diversity Equity Inclusion and Belonging strategy

Deliverables Summary

Since the FSO Programme was established, we set out a transformative roadmap delivering the creation of NESO. To achieve this, 167 deliverables were identified as critical for separation. Working closely with Ofgem, DESNZ and National Grid, deliverables were tracked through robust governance structures. The RII02 Business plan outlined delivery by or in 2024, this was achieved successfully as we officially launched in October 2024.

As of 1st October 2024, 100% of the deliverables are complete. As the Programme has evolved, each deliverable has been carefully managed with proposed changes going through governance procedures and gaining Executive sign-off where required. In turn, all risks have been mitigated and all deliverables have been achieved. Although the 167 deliverables were not all equal in effort or cost, the chart below is indicative of the key areas of change achieved. *Key deliverables are outlined on the next slide.*



Key Deliverables Achieved

The ESO's original business plan submission provided an overview of the key deliverables that the ESO would have to undertake to become NESO. For continuity, the deliverable categories in this document remain consistent with the original BP2 submission.

#	Deliverables	Delivered by 1 st October 2024	Status
A1	Operating Model – back office and existing business	<i>Operating model design across core operating model elements were developed for each function, including organisation design, governance structure, and process maps and change impact assessments to Level 2 detail.</i>	COMPLETE
A2	Operating Model – new industry roles	<i>Detailed design for new industry roles across key operating model elements including processes, organisation design, governance, and location complete with implementation and handover to the business complete.</i>	COMPLETE
B	Organisation blueprint	<i>High level organisational blueprint has been developed including; defined purpose, direction on future state culture, vision and values, and branding strategy for the future organisation.</i>	COMPLETE
C1	Framework agreement	<i>Framework Agreement developed with DESNZ and final sign-offs from both parties complete.</i>	COMPLETE
C2	Licence and code change proposal	<i>New licence and code arrangements agreed with Ofgem and implemented as required.</i>	COMPLETE
C3	Corporate and organisational governance	<i>Corporate and organisational governance for NESO agreed with DESNZ and fed into the signed Framework Agreement.</i>	COMPLETE
D	Transition Plan by function	<i>A series of functional transition plans for Day 1 and end state transition planning have been developed by each function, and an aggregated critical path plan created which was completed</i>	COMPLETE
E	Internal and external comms and engagement	<i>Comms and engagement strategy was developed and implemented providing key internal and external stakeholders with the engagement required for the Day 1 NESO launch.</i>	COMPLETE
F	TSAs/LTAs, reverse TSA/LTAs agreed with National Grid	<i>All TSAs, rTSAs, LTAs and Leases agreed and signed with National Grid. A TSA Handbook has been created to support the TSA office in running processes and associated governance.</i>	COMPLETE
G	Agreed contract dispositions for Day 1	<i>Dispositions for all contracts with external vendors agreed and treatment complete for IT and Non-IT contracts. This includes all relevant / dedicated / shared contracts (under TSA).</i>	COMPLETE
H	Cost to achieve	<i>Through continuous discussions with business functions and National Grid, the transformation was delivered within the agreed CAP of £88m (24/25 prices) submitted in August 2024.</i>	COMPLETE

Programme Costs

Efficiency & Economy Cost Measures

During each phase of the FSO Programme, a range of measures were implemented to ensure that costs remained both economic and efficient while still achieving the programme's strategic objectives. By integrating cost-control mechanisms featured below into decision-making and continuously monitoring financial performance, the programme successfully ensured delivery on time, to budget and managed uncertainty and additional scope within that budget.

Key Measures

BP2 Annex Submission and Combined Indicative Cost document

In April 2022, the BP2 Annex Submission was developed as a robust regulatory submission to Ofgem and BEIS. An indicative cost plan for all ESO elements undergoing transformation was outlined. During the Detailed Design phase, this was built upon to produce a Combined Indicative Cost document, providing transparency and comfort to both ESO and Ofgem.

Budgetary controls and governance through Ofgem's Capital Allowance budget (CAP)

Ofgem's CAP budgets for NESO ensured accountability and economic efficiency during the transition. The funding structure and financial model operated on an 'actual basis', ensuring consumers were not negatively impacted. From this, NESO developed contingency plans to create buffers for unforeseen costs. Governance provided effective oversight throughout the duration of the Programme.

Cost-Benefit Analysis

Cost management was a key component of the Detailed Design phase. A detailed cost benefit analysis and maturity assessment was undertaken for each core capability identified as part of the business architecture mapping process. Through this, the Programme identified gaps in current maturity vs the target maturity required to deliver RII0-2 business plan. Robust and cost-effective solutions were then implemented, maximising benefits for consumers.

Agile Methodologies and Resource Optimisation

The FSO Programme has maintained an agile approach to project planning and resourcing. Emphasis was placed on leveraging permanent internal FTEs to ensure sustainable Run the Business capabilities and reducing reliance on external parties, increasing cost efficiency. Outsourced support was continually reviewed based on programme needs, with timely roll-off and reallocation where required.

Cost Descriptions (1 of 2)

The ESO's BP2 (blueprint) submission provided an indicative plan for the transformational activities the ESO would have to undertake to become NESO. The activities the ESO planned to undertake were categorised into the broad categories below. For continuity, the descriptions of the activities undertaken and the cost categories in this document remain consistent with the original BP2 submission.

Category	Sub Cost Headings	Description
People	Recruitment	Cost to recruit new hires externally through agencies
	People Transformation	Cost to design and implement New Talent Scheme
	Training / Onboarding	Onboarding the whole of ESO into NESO
	Other People	Other People includes the following: Parallel run: costs to de-risk the back-office transition to NESO, hiring critical roles pre-Day 1 Payroll MSP: setting up and migration of data to the new payroll managed service provider Retention Costs: retention costs of key and critical roles de-risking the transition Redundancy Costs: redundancy is a placeholder for the risk NESO holds by NG plc transferring capability
Systems & Data	Direct Applications	Costs to migrate direct applications from National Grid Infrastructure onto NESO infrastructure
	Cyber Security	Costs to set up the hybrid Cyber Security strategy
	Platforms & Infrastructure	Cost to set up the platforms and infrastructure required for NESO
	Unstructured Data	Creation of infrastructure to receive the unstructured data received from National Grid
	Finance ERP & Connected Apps	Costs for ESO to support NG to logically and physically separate ERP (S4HANA) and connected applications
	Dual Running	Costs for the simultaneous running, for the duration of the implementation period, of the existing services alongside the implementation services and/or managed services to be delivered in order to remove the need to consume the existing services

Cost Descriptions (2 of 2)

The ESO's BP2 (blueprint) submission provided an indicative plan for the transformational activities the ESO would have to undertake to become NESO. The activities the ESO planned to undertake were categorised into the broad categories below. For continuity, the descriptions of the activities undertaken and the cost categories in this document remain consistent with the original BP2 submission.

Category	Sub Cost Headings	Description
Assets	Contingency Control Centre	New contingency control centre to replace the use of the TNCC
	Warwick Office Fit-Out	The costs to fit out the new Warwick based office
	London Office Fit-Out	The costs to fit out the new London based office
	Other Assets	Other Assets includes the following: Compulsory Permanent Transfer (CPT): the provision to compensate disturbance to employees in the event of transfer to a new office location, as per the National Grid policy Rental Costs: dual rental costs of Faraday House and the new Warwick office, during refurbishment
Contracts	Contracts	Contract costs include the following: Contracts (Transaction Legal Support): the cost to ensure contracts are set up for NESO, including the legal costs required for this and for other transaction legal support Branding: the cost to rebrand and socialise the new brand of NESO
Transaction / Legal	Transaction / Legal	Transaction legal (Framework legal): the legal costs required in relation to primary/secondary legislation, governance framework and licence & code support
Transition & Transformation Management	Internal ESO Costs	Costs of the internal ESO programme team; Programme Management, Recruitment, Governance, Licence and Code Changes, Commercial (TSAs, Contracting & Procurement), Property, IT transition leadership, Tax and Treasury, Organisational Design, Purpose, Vision and Values and Employee Value Proposition.
	External Partner / Specialist Costs	Cost of the external supplier programme team and additional specialist support

Indicative CTA vs Actual

All cost areas have been benchmarked against the high and low ranges agreed with Ofgem in the March 2023 submission and the final CAP set by Ofgem in September 2024, with material changes highlighted below. Further information on the cost change drivers and benefits realised underpinning this are referenced in the following slides. Any small differences and zeros in totals are due to rounding.

	24/25 Prices (£'m)				18/19 Prices (£'m)			
	Actual	Low	High	CAP	Actual	Low	High	CAP
People	5	9	11	5	4	7	9	4
Systems & Data	34	31	36	33	27	26	29	26
Assets	4	1	2	6	3	3	3	5
Contracts	4	3	4	4	3	3	3	3
Transaction / Legal	0	0	0	0	0	0	0	0
Transition & Transformation Management	39	35	38	39	32	31	31	31
GRAND TOTAL	86	79	92	88	68	68	74	70

Overview of main cost change drivers:

- **People: £6m underspend due to strong talent retention** allowing for new scope on organisational design, reward framework, pension scheme and EVP.
- **Systems & Data: £2m underspend driven by a decision to rephase the dual running** until Day 2 (TSA exit date). As systems logically but not physically separated pre day1. Dual running will now occur when we build our own ERP platform to ensure safe/secure transition.
- **Asset: £1m additional cost driven by additional spend on property refurbishment** to accommodate increased FTEs and to enhance the Employee Value Proposition (EVP). Work has improved the working space, enabling collaborative ways of working and will benefit growth, attraction and retention of talent.
- **PMO: £1m additional cost as a result of revised Day 1 date** and the additional external partner support required.

Detailed CTA

The following table breaks down the actual CTA costs by year, shows residual CTA forecast between day1 and April 25 and rationale for key variances.

24/25 Prices (£'m)		FY23 Actuals	FY24 Actuals	FY25 Pre-1 Oct Actuals	Total spend to 1 Oct	Post 1 Oct Forecast	Total	Under/(over) spend	Variance Rationale
People	Recruitment	0	0.4	0.2	0.6	0	0.6	2.3	Successfully executed people recruitment strategy leveraging internal hiring teams, reducing spend on external recruitment agencies.
	People Transformation	-	-	0	0	0	0	0.3	Original budget was required for the design and establishment of New Talent schemes. Existing schemes have been enhanced which has resulted in a lower cost than budgeted.
	Training / Onboarding	-	0.4	0.2	0.6	0	0.6	0.3	Retaining talent has resulted in lower training and onboarding costs due to lower levels of external recruitment.
	Other People	0.3	1.6	1.7	3.7	1	5	3.6	Low dual run cost as FSO programme employees transitioned into BAU roles.
	Total People	0.3	2	2	5	1	6	6.5	
Systems & Data	Direct Applications	-	1	4	5	0	5	(3.8)	Rebranding costs/effort for DD&T applications, including third-party systems exceeded forecasts.
	Cyber Security	-	1	1	2	0	2	(0.5)	Due to development of a broader cyber security strategy.
	Platforms & Infrastructure	-	11	8	19	0	19	(2.9)	Advanced platform and infrastructure delivery pre-Day 1 and higher than forecasted cost of separation infrastructure and cyber needs.
	Unstructured Data	-	0	1	1	0	1	0	No material variance.
	Finance ERP & Connected Apps	-	2	3	5	0	5	2.9	Due to Day 1 moving and TSA exit implications.
	Dual Running	-	0	1	1	0	1	6.9	Underspend driven by a decision to rephase the dual running until Day 2 (TSA exit date). As systems logically but not physically separated pre day1. Dual running will now occur when we build our own ERP platform to ensure safe/secure transition.
	Total Systems & Data	0	16	18	34	0	34	2.5	-
Assets	Contingency Control Centre	0	0	1	1	0	1	(1)	Not forecasted until Day 2 but work on introducing the new Contingency Control Centre has been brought forward from FY25, due to the implementation timeline.
	Warwick Office Fit-Out	-	-	3	3	4	7	(2.7)	Increased spending at Warwick Office to enhance the employee value proposition.
	London Office Fit-Out	-	-	0	0	1	1	1	Moved to complete post Day 1.
	Other Assets	-	-	0	0	0	0	0	No material variance.
	Total Assets	0	0	4	4	5	9	(2.7)	-
Contracts	Total Contracts	0	1	3	4	0.5	4.5	0.6	Branding underspend but will be in line with submission once final Day 1 deliverables of rebranding office spaces/systems is complete.
Transaction / Legal	Total Transaction / Legal	0	0.3	0.1	0.4	0.1	0.5	0	No material variance.
Transition & Transformation Management	Internal ESO Costs	4	8	4	16	0	16	1.7	Due to cost-effective internal program team resourcing leveraging permanent employees with the right capabilities.
	External Partner / Specialist Costs	6	11	6	23	0	23	(2.8)	Additional cost on external partner due to Day 1 moving.
	Transition & Transformation Mgmt.	10	19	10	39	0	39	(1.1)	-
GRAND TOTAL		11	39	36	86	7	92		-

Residual Day 1 CTA

As shown on the detailed CTA table on the previous page, there are a number of residual CTA activities that will be completed between day 1 and April 2025. These items were not critical to day 1 go live. This cost will be managed with the same rigour as the pre day 1 CTA, although completion has been moved to BAU functions for efficiency.

In the ESO request to Ofgem to increase the CAP in August 2024, these items were highlighted as taking place beyond day 1 although not included in the cap as the licence term relates to FSO transition activity carried out before 1st October 2024

24/25 Prices (£'m)	Post 1 Oct Forecast	Variance Rationale	Forecast Completion
Other People	1	Creation and set up of NESO DB Pension scheme	April 2025
Warwick Office Fit-Out	4	Due to agreement with National Grid to lease Warwick (Faraday House) until a minimum 2029, NESO have commenced a full fit out of newly acquired floorplate (extension to Faraday house). This will accommodate increased FTEs and enhance the Employee Value Proposition (EVP). Work will enable collaborative ways of working and will benefit growth, attraction and retention of talent	January 2025
London Office Fit-Out	1	Moved to complete post Day 1. New London office space to be leased and fit-out/branded	April 2025
Contracts	0.5	Branding underspend but will be in line with submission once final Day 1 deliverables of rebranding office spaces/systems is complete.	December 2024
Total Transaction / Legal	0.1	Finalisation and implementation of new legal framework	November 2024
	7		

Change Driver 1: People

We have successfully implemented our people strategy with significant cost efficiencies and additional scope delivered. Internal recruitment teams enabled us to secure the necessary capabilities and talent for the enabling functions and new roles, minimising the need for external agencies. Our strong Employee Value Proposition (EVP) enabled us to retain our current talent reducing training and onboarding spend.

Key considerations

Recruitment £2m underspent

Our internal recruitment teams helped us secure the required talent and capabilities for the enabling functions and new roles, reducing the reliance on external agencies.

Retention and redundancies £2.7m underspent

We worked closely with NG to ensure transferring employees moved at the right time and with the right skills. We retained our talent through our attractive EVP, transformative culture and successful employee retention incentives reducing possible retention and redundancy spend.

Dual running £2.6m underspent

To minimise Dual running, we were able to hire and utilise resource in FSO programme roles that would later transition into enduring business roles. This enabled becoming operationally separate before Day 1 and reduced dual run cost.

People transformation, training & onboarding £1.1m underspent

Existing Talent schemes were enhanced rather than establishing new schemes, in addition to retaining talent, which resulted in lower training and onboarding costs.

Additional scope delivered

This additional budget enabled the programme to deliver additional scope across a number of areas including;

- **Organisational design** £0.9m - used with Kornferry in setting up NESO as a fit for purpose organisation
- **New reward framework** £0.3m – spent driving our crucial Employee Value Proposition which helped retain staff and reduce the need for recruitment agencies
- **DB Pension scheme** £0.5m – this was an unknown activity when the blueprint was created

Forecast March 2023 (high range)

£11m



Actuals November 2024

£5m

Change Driver 2: Systems & Data

Systems and data have operationally separated and cutover successfully. Direct Apps were rebranded with NESO branding and other Platforms & Infrastructure were set up ahead of schedule, enabling safe separation. Due to logical separation of ERP & Connected Apps rather than physical, forecast dual running was not incurred. Future dual running will remain dependent on Day 2 solution to be developed in FY25 and FY26.

Key considerations

Finance ERP and connected Apps £2.9m underspent

Day 1 logical separation of the ERP went ahead successfully, however the Day 1 date moving and ongoing TSA exit decisions have limited required spend.

Dual Run £6.9m underspent

As the application and contract landscape developed, unforeseen TSA exit dependencies and the Day 1 date move have allowed us to rephase costs into Day 2, causing lower dual run costs than planned.

Direct Apps £3.8m additional cost

Rebranding third party apps in line with our purpose, vision and values to enhance employee experience and align with our new brand required higher spend than initially expected.

Platforms & Infrastructure £2.9m additional cost

Setting up NESO on standalone platforms to facilitate physical separation and safe exit of TSAs was brought forwards to before Day 1, incurring third party spend earlier than initially budgeted.

Additional scope delivered

Whilst some additional costs were required, the savings unlocked from areas of underspend enabled the programme to deliver additional scope across a few areas including;

- **Developing a broader cyber security strategy** £0.5m in order to future proof the organisation
- **Developing Gas IT Tools for a new role** £0.7m which was previously assumed would be transferred to NESO

Forecast March 2023 (high range)

£36 m



Actuals November 2024

£34 m

Change Driver 3: PMO & Assets

Our robust PMO strategy and external partnerships enabled the successful transition, with cost-effective internal resourcing absorbing some additional costs. The Office design and rebranding was required to ensure workspace fit for our increased headcount and collaborative ways of working. In addition, the Contingency Control Centre work has been brought forward to support the business in taking on new roles.

Key considerations

Internal ESO costs £1.7m underspent

We resourced permanent internal FTEs to secure knowledge retention and Run the Business capabilities, reducing reliance on external parties and absorbing additional costs from property and external partners.

External partner £2.8m additional cost

External partnerships were extended in line with Day 1 moving to provide strategic advice and change management support, making the transition smoother and more successful.

Contingency Control Centre £0.7m additional cost

Work was brought forward from FY25 to provide sufficient time for scoping discussions with Ofgem, ensuring an efficient implementation timeline.

Warwick Office £2.7m additional cost

The property strategy evolved to accommodate increased FTEs and to enhance the Employee Value Proposition (EVP). Work has improved the working space, enabling collaborative ways of working and will benefit growth, attraction and retention of talent.

Additional scope delivered

Additional spend was committed to enable the programme to deliver additional scope across a number of areas including;

- **Warwick office refurbishment:** £0.7m moved to complete post Day in rephasing
- **London office fit out** £1m moved to complete post Day 1
- **Physical security** £0.2m as part of a holistic approach to securing the business

Forecast March 2023 (high range)

£40 m



Actuals November 2024

£43 m

Indicative iRTB vs Actual

This section reflects an updated incremental run cost for NESO to operate as a standalone business outside of National Grid. In March 2023, costs were presented in a range to reflect the level of uncertainty at this stage of the programme. These forecast costs were based on 2026/27 ESO incremental RTB. The consequential cost of TSAs and LTAs were not reflected at this stage.

Run costs have developed further as more information has become available, the TSAs and LTAs have been negotiated, suppliers renegotiated their contracts, and we have received understanding of funding and Treasury requirements. Any small differences or zeros in the totals below are due to rounding.

	24/25 Prices (£'m)				18/19 Prices (£'m)			
	Actual	FY24 Low	FY24 High	CAP	Actual	Low	High	CAP
Whole System	7	5	9	13	6	4	7	10
DD&T (IT Function)	0	-	-	-	0	0	0	-
Other Functions	7	0	0	8	5	0	0	7
GRAND TOTAL	14	5	9	22	11	4	7	17

Overview of main cost change drivers:

- **Other functions: additional £7m cost reflects ESO becoming operationally separate earlier** on 1 May 24 rather than Day 1. Therefore, iRTB spend was incurred earlier than expected. This de-risked the cutover of the ERP system, ensuring early life support was available before Day 1.
- **Whole System: £2m underspend due to Day 1 moving to October 2024** and fewer resources required by the new industry role teams before Day 1, which were dependent on the licence to go-live.

Detailed iRTB

The following table shows a detailed breakdown of the actual iRTB costs by year accompanied by rationale for key variances.

		Actual Cost						
		FY23	FY24	FY25	FY26	Total	Under/(over) spend	Variance Rationale
Whole System	Contingency Control Centre						2	Variance not broken down by individual role due to differences between initial blueprint and Day 1 team structures. This cost was incurred due to capability build of new roles. There were overall fewer resources required by the new industry role teams before Day 1 as these roles were dependent on the licence to go-live.
	Office of Energy Resilience	-	0	1		1		
	Whole Energy / Gas Market Strategy	-	0	1		1		
	Procurement Body – Early Competition	-	0	1		1		
	Whole Energy / Gas Network Systems Planning	-	1	1		2		
	Advisory Roles	-	0	1		2		
	Other Whole System	-	0	0		0		
	Total Whole System	-	2	5		7		
DD&T (IT Function)	Total DD&T (IT Function)*	-	-	-	-	-	-	-
Other Functions	Corporate Affairs / Corporate Audit	-	-	1		1	(1)	All additional costs were incurred due to ESO becoming operationally separate on 1 May 24 rather than Day 1.
	Legal	-	-	1		1	(1)	
	HR	-	-	3		3	(3)	
	Property Management	-	-	0		0		
	Finance	-	-	2		2	(2)	
	Total Other Functions	-	-	7		7	(7)	
GRAND TOTAL		-	2	12		14		

*DD&T iRTB costs to be reported under TSAs

Change Driver 1: Day 0 & Day 1

RTB spend incurred earlier than expected due to the time-lag between operational separation on Day 0 and Day 1. ERP cutover was successfully de-risked by implementing essential Early Life Support on Day 0 on 1st May 2024. Dual running of Enabling functions ensured safe transition until Day 1, with cost absorption through reduced recruitment for Whole System roles and delayed DD&T activities.

Key considerations

Whole System roles £3m underspent

The capability build of new roles required less headcount than originally forecasted, incurring reduced spend and enabling cost savings.

Enabling functions £7m additional costs

As operational separation took place on 1st May as opposed to Day 1, spend incurred earlier from the dual running of RTB roles and programme, which was essential for the transition between Day 0 and 1.

ERP cutover and Early Life Support

As part of enabling functions additional costs, ERP cutover and ELS costs were incurred from Day 0 to de-risk the cutover period and to ensure early life support could be available and complete before Day 1.

DD&T £0m spend

DD&T activities (eg stand up of NESO ERP solution) are due to be completed post Day 1, incurring no cost in FY24.

Key benefits of the approach

The accelerated ERP cutover enabled the programme to deliver additional benefits across a few areas including;

- **Reducing operational risks** through increased ELS which resulted in no system failures or data losses occurring
- **Operational continuity** via increased support from Enabling functions, maintaining BAU activities across cutover

Forecast March 2023 (high range)

£9 m



Actuals November 2024

£13 m

Conclusion

Conclusion

As of 1st October 2024, the FSO Programme successfully delivered the launch of NESO. The successful transition from the Electricity System Operator (ESO) to the National Energy System Operator (NESO) on 1st October 2024 marks a pivotal achievement in Britain's energy evolution. Through close collaboration with key stakeholders and careful management of costs and timelines, the FSO Programme has established NESO as an independent, whole-system operator equipped with the capabilities, governance, and infrastructure needed for long-term success.



In close partnership with Ofgem, DESNZ, and National Grid, the FSO Programme successfully completed the transition within the required legislative timelines and budget. We achieved our original goals and managed costs effectively throughout the process. This success was driven by three key outcomes:

- Establishing NESO as an independent system operator and planner by designing and implementing new roles, processes, and systems, while building the necessary capabilities.
- Creating a strong organisational governance framework with new licences, codes, and regulatory structures to ensure NESO's long-term success.
- Developing NESO as a fully independent entity, complete with its own support services, smooth transfer of personnel from National Grid, Transitional Service Agreements (TSAs) in place and safe and secure system cutover.

We are proud to have successfully delivered this monumental transformation, positioning NESO to play a pivotal role in shaping Great Britain's energy future, ensuring a secure, sustainable, and resilient system that meets our long-term needs and supports our journey to net-zero.

Annex

Programme Outcomes (1/2)

Below is a more detailed view of the FSO Programme outcomes required to ensure the successful Day 1 launch of NESO. As of October 1st, 2024, all program outcomes have been delivered and ESO has successfully transitioned to become NESO.

Programme outcome	Workstream outcome	Definition of success
Successful technology enablement of deal close and foundation services	Day 1: The successful provision of technology systems, services and tools defined and classified with associated processes, organisation structure and governance in readiness	<ul style="list-style-type: none"> • NESO new technologies in place for day 1 • Day 1 readiness criteria met • TSA schedules agreed and ongoing mechanism for monitoring established • Day 1 contracts in place • Day 1 operating model in place
The safe and efficient transfer of people and processes into NESO from National Grid group	People transferred from NG plc into established structures	<ul style="list-style-type: none"> • Op Model elements defined and implemented • Day 1 people transfer into NESO • Onboarding, training, and knowledge transfer complete
	Financial processes and controls that allow NESO to function on Day 1	<ul style="list-style-type: none"> • Op Model elements defined and implemented • Funding mechanism / working capital, cash forecasting, banking relationship in place • Financial assets and liabilities separated • Tax function capability and VAT registration set up • External audit arrangements in place • Dedicated insurance in place • ESO pensions in place
	TSA's in place which provide safe and secure services to NESO from NG plc	<ul style="list-style-type: none"> • ESO services provided through TSA's and LTAs • Office of TSA's operational ahead of Day 1 • MSPs and new contracts in place • Day 1 contracts novated
	NESO property established to agreed branding, people, and technical requirements	<ul style="list-style-type: none"> • Required property and facilities in place

Programme Outcomes (2/2)

Programme outcome	Workstream outcome	Definition of success
Establishment of the new organisation	New licence and code arrangements to enable NESO to operate as it needs	<ul style="list-style-type: none"> • Legislation defined • Governance Framework defined • Licence and Codes defined
	Delivery of new industry role obligations and ambition for Day 1	• Capability for Office of Energy Resilience, Advisory, Gas Market, Networks, Strategic Planning, and Whole System defined and delivered
	Purpose, Vision, and Values embedded in the people, culture, and external narrative	• Purpose, Vision, and Values defined
	A Day 1 Operating Model, reflecting the capabilities and ambition to deliver future strategy	<ul style="list-style-type: none"> • Op Model elements defined and implemented • New internal governance forums established around the CEO-2 structure
	A clear roadmap and transformation plan, with Executive and business ownership, to take the Day 1 NESO to reach its full ambition	<ul style="list-style-type: none"> • North Star / Org Blueprint defined (Transformation Roadmap) • Strategic engagement delivered • New NESO statement/artefact delivered • Branding live
To make sure our people have the best possible experience of NESO being established	All the various impacted employee populations are fully engaged, and have a positive journey through to Day 1	<ul style="list-style-type: none"> • Purpose, Vision, and Values live and adopted, following promotion across internal and external channels • Colleagues are aware, engaged and excited about our journey to NESO
	Develop and recruit the right people capabilities to enable NESO to reach its potential, including through our New Talent schemes	<ul style="list-style-type: none"> • Design NESO New Talent schemes and recruit for 2024 intake • Framework for capabilities, i.e., knowledge and skills to assess and develop people against is created and live • Upskill our people against our new “people capabilities” framework • Critical roles recruitment complete for all functions
	Develop an Employee Value Proposition (EVP) that attracts and retains great people	• EVP designed and implemented
	Evolve our culture to one that drives the right outcomes and helps our people feel that they belong here	• Culture definition created, and implementation plan live
	Establish a Diversity Equity Inclusion and Belonging (DEIB) strategy that meets the requirements of a public corporation and the needs of our people	• DEIB Strategy designed and implemented