



Making a positive difference
for energy consumers

Direct Dial: 020 7901 7000

Email: nesoregulation@ofgem.gov.uk

Date: 1 April 2025

Dear Stakeholders,

Decision and Direction on the NESO Performance Arrangements Governance Document and NESO Licence Expectations Document for the RIIO-2 Business Plan 3 period

This letter explains our¹ decision for two documents that support the implementation of National Energy System Operator (NESO)'s regulatory framework for the RIIO-2 Business Plan 3 (BP3) period:

- the NESO Performance Arrangements Governance Document (PAGD);² and
- the NESO Licence Expectations Document.³

Annex 1 of this letter also contains a Direction under the relevant conditions of NESO's licences to issue the NESO PAGD and NESO Licence Expectations Document.

¹ References to the "Authority", "Ofgem", "we", "us" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

² Established under Part B of Condition G2 of both NESO's ESO & GSP Licences.

³ Established under Part F of Condition C1 of NESO's [ESO licence](#) and Part E of Condition C1 of its [GSP licence](#).

Background

NESO was introduced on 1 October 2024 as an expert, impartial body with key responsibilities across both electricity and gas systems. It has objectives related to driving progress towards net zero while maintaining energy security and minimising costs for consumers. NESO is an independent, not-for-profit public corporation, licensed and regulated by Ofgem.

The design of NESO's regulatory framework is critical in supporting NESO's performance against its statutory duties and delivering outcomes in the interest of consumers. We are introducing changes to NESO's regulatory framework in phases. NESO will soon commence the BP3 period, which runs from 1 April 2025 to 31 March 2026, and is the last period of its RIIO-2 price control. This is our second phase of implementing changes to the regulatory framework for NESO.⁴

In November 2024, we published our [decision on the performance incentives framework for NESO for the BP3 period](#). This included our decision on the key features of the business plan process, performance assessment approach, cost regulation and stakeholder feedback mechanisms. We decided to introduce a revised performance incentives framework from the one that applied to NESO during the RIIO-2 Business Plan 2 (BP2) period. The BP3 framework focusses on NESO's delivery of key objectives and major priorities and is underpinned by the introduction of new Performance Objectives. The changes are aimed to ensure our regulatory assessments are targeted at the issues which matter most and have most impact on outcomes for the energy sector and consumers.

NESO's PAGD and Licence Expectations Document are established under NESO's licences and provide further details on NESO's regulatory framework. The NESO PAGD sets out the detailed processes for assessing NESO's performance and its detailed reporting requirements. The NESO Licence Expectations Document provides further explanation of the behaviours we expect from NESO in relation to some of its licence obligations.

In February 2025, we consulted on these two documents⁵. Following our consultation, we are now publishing the final versions of both the NESO PAGD and the NESO Licence Expectations Document, which will apply from 1 April 2025 (the start of BP3 period).

⁴ For more information on our phased implementation approach please see: [Policy direction for the Future System Operator's regulatory framework](#) (Pages 22-23) and [Future System Operator - Second Policy Consultation and Update](#) (Pages 51)

⁵ [NESO regulatory framework: Associated Documents for the BP3 period](#)

Summary of Responses

We received six consultation responses to our February 2025 consultation. We have published these responses on our website, alongside this letter. The responses included a mixture of general comments about NESO's regulation and specific comments on the Associated Documents (ADs). Overall, there was majority support for the general approach taken to these documents, however, stakeholders raised a number of specific issues for us to consider. A summary of the key feedback themes for each document is below.

NESO PAGD feedback

Some stakeholders expressed a view that it is important that a more holistic and less granular approach to performance assessment does not come at the expense of lower overall scrutiny of NESO's performance.

Generally, there was a spectrum of views on performance reporting requirements, with most stakeholders tending to favour more frequent reporting from NESO but another stakeholder considering that the arrangements had not been streamlined enough. Stakeholders also reiterated the importance of stakeholder input and feedback being a prominent feature of NESO's regulatory framework and the performance assessment process. Some stakeholders noted their support for the continuation of the independent Performance Panel but noted that its membership should be reflective of the breadth of NESO's stakeholders.

NESO Licence Expectations Document feedback

A number of stakeholders suggested additions to the NESO Licence Expectations Document, for example to expand on expectations around how NESO should deliver its new roles. Some stakeholders wanted further clarification and details on individual policy areas and processes such as connections, Regional Energy Strategic Planning (RESP) and the development of the Centralised Strategic Network Planning (CSNP). Others highlighted specific expectations where language could be clarified, including to better distinguish between gas and electricity expectations. A number of these comments focussed on Chapter 10 of the NESO Licence Expectations Document, which covers expectations related to strategic energy system planning. Beyond the specific comments, overall, there was support for the document being restructured by themes rather than by three roles.

Ofgem Decision

Following our consideration of the stakeholder feedback, we have not made major changes to the documents from the versions in our February consultation or changed any key policy positions. However, we have made various targeted changes to improve the clarity of the documents (as summarised below). These changes are shown in tracked versions of the documents. Both tracked and clean versions are published on our webpage, alongside this letter. We have also provided responses to individual comments in a 'Response Log' published alongside this letter.

We considered that some comments were out of the scope of this consultation as they went beyond the detailed implementation of our previous BP3 framework decision. We will take these comments into consideration for the design of the enduring arrangements for NESO's regulation beyond BP3.

NESO PAGD

Overall, we believe the arrangements in the PAGD will effectively deliver our previous November decision on NESO's performance incentives framework for BP3. We consider that they will deliver a robust performance assessment process which provides us with the flexibility to tailor our level of scrutiny according to NESO's performance and any emerging risks. We have considered the stakeholder feedback on reporting content and frequency and believe that the proposed requirements are appropriate and proportionate. Based on the feedback from stakeholders, we have also decided to retain the requirement for a biannual stakeholder survey.

We agree that stakeholder feedback and input should be a key component of NESO's regulation. We have made changes to the assessment methodology to clarify that stakeholder feedback will be a material factor in our assessment of the quality of delivery of many of NESO's Performance Objectives. In line with our November decision, we are maintaining the existing broad stakeholder mechanisms that existed previously over RIIO-2, whilst we carry out a more fundamental review of arrangements. We will further consider the points raised about the breadth of stakeholder representation on the Performance Panel for BP3 and we consider that any changes can be achieved outside of the specific NESO PAGD requirements.

We have made some changes to the NESO PAGD document to clarify certain processes and requirements. For instance, we have made changes to better reflect how we may set performance expectations through the BP3 Determinations in practice, and to clarify how these expectations feed into our overall performance assessment.

We have also made changes to the End of Year Review to provide more flexibility around the end of scheme timeline and to potentially enable this process to conclude sooner. This will enable better coordination and compatibility with NESO's staff remuneration process.

Licence Expectations Document

We have made a number of specific changes throughout the document to respond to feedback, clarify text and improve readability. Given the focus of stakeholder comments and queries on strategic energy planning expectations, we have rationalised Chapter 10, to remove unnecessary complexity, be clearer on the scope of this section, and to better highlight the interaction between different planning processes.

We consider that several of the comments received are out of scope of this specific consultation. In our BP3 framework decision in November 2024, we noted that we would only be making targeted changes to the expectations in the BP2 version of the Licence Expectations Document. This is because of the limited time to consider and substantially amend the expectations prior to BP3 and considering our intention to carry out a more fundamental review of the licence obligations and guidance effective from April 2026. In line with our consultation position and previous BP3 framework decision, we have focussed on key necessary updates (for example where previous expectations are materially unclear, inaccurate or out of date) and housekeeping / clarificatory changes. We are not at this point trying to materially change expectations or establish additional detailed guidance on newer obligations and activities. Also, through this document, we are not aiming to create any new policy on how NESO should carry out its roles or clarify positions in other wider ongoing policy consultations.

Next steps

We thank stakeholders for their feedback and continued interest on NESO's performance and regulatory arrangements. We will continue to consider the issues raised through this consultation as part of our wider development of the enduring regulatory framework design for NESO from 1 April 2026 (when RIIO-2 BP3 ends). We plan to engage further with stakeholders on NESO's enduring regulation this spring. We have also recently published our Draft Determinations on NESO's Business Plan for BP3 and aim to produce our Final Determinations in Q2 2025.

This letter constitutes notice of the reasons for issuing the Directions in Annex 1 pursuant to section 38A of the Gas Act 1986 and section 49A of the Electricity Act 1989.

If you have any questions on the contents of this letter, please contact us at nesoregulation@ofgem.gov.uk.

Yours faithfully,

David Beaumont

Head of NESO Framework Development

Energy Systems Management & Security

Signed for and on behalf of the Gas and Electricity Markets Authority

Annexure 1

To:

National Energy System Operator Limited

Directions under Part B of Conditions G2 (Performance reports and assessment) of the Electricity System Operator Licence and Gas System Planner Licence to issue the NESO Performance Arrangements Governance Document; and Part F of Condition C1 (General obligations on ISOP's activities) of the Electricity System Operator Licence and Part E of Condition C1 (General obligations on ISOP's activities) of the Gas System Planner Licence.

1. The company to which these directions are addressed is the holder of an Electricity System Operator Licence ("ESO Licence") treated as granted under Section 6(1)(da) of the Electricity Act 1989 and a Gas System Planner Licence ("GSP Licence") granted under Section 7AA of the Gas Act 1986.
2. The Gas and Electricity Markets Authority ("the Authority") issues these directions under Conditions G2.7 (Performance reports and assessment) of the ESO Licence and GSP Licence to issue the NESO Performance Arrangements Governance Document; and Part F of Condition C1.9 (General obligations on ISOP's activities) of the ESO Licence and Part E of Condition C1.7 (General obligations on ISOP's activities) of the GSP Licence.
3. On 4 February 2025, the Authority published the text of the proposed NESO Performance Arrangements Governance Document and NESO Licence Expectations Document on the Authority's Website⁶ and requested that any representations were made by 5 March 2025.
4. We have received six responses to our consultation, which we have carefully considered. We have published these non-confidential responses on our website. We have considered the responses and have made wording changes to both the documents to make them clearer in terms of NESO's performance arrangements and licence expectations. Our response to the consultation is set out in the decision letter to which the Direction is annexed and the associated 'Response Log to Consultation Responses', which are published on our website.

⁶ [NESO regulatory framework: Associated Documents for the BP3 period](#)

5. In order to address the issues raised in the consultation response, it is necessary to make some alterations to the proposed text of the NESO Performance Arrangements Governance Document and NESO Licence Expectations Document. We have set out these alterations in the respective documents and published both tracked changes and clean versions of the documents alongside these directions.
6. The reason for these directions is to issue and put into effect the NESO Performance Arrangements Governance Document and NESO Licence Expectations Document. These are published on our website on 1 April 2025 and provide further details on NESO's performance reporting and monitoring requirements; NESO's performance assessment process; and our expectations on some of NESO's licence obligations.
7. These directions and the letter to which they are annexed is our notice of the reasons for our decision pursuant to section 49A of the Electricity Act 1989 and section 38A of the Gas Act 1986.
8. Now the Authority, pursuant to Condition G2.7 (Performance reports and assessment) of the ESO Licence and GSP Licence hereby directs that the NESO Performance Arrangements Governance Document, published on our website on 1 April 2025, is issued and will have effect from 1 April 2025.
9. Now the Authority, pursuant to Condition C1.9 (General obligations on ISOP's activities) of the ESO Licence and Condition C1.7 (General obligations on ISOP's activities) of the GSP Licence hereby directs that the NESO Licence Expectations Document, published on our website on 1 April 2025, is issued and will have effect from 1 April 2025.

David Beaumont

Head of NESO Framework Development

Energy Systems Management & Security

Signed for and on behalf of the Gas and Electricity Markets Authority

1 April 2025