

Guidance

NESO Performance Arrangements Governance Document

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This Governance Document sets out the detailed arrangements for National Energy System Operator (NESO)'s performance incentives for the Business Plan 3 (BP3) assessment period.¹ This includes the process and methodology for assessing NESO's performance and the associated reporting requirements. BP3 runs from 1 April 2025 up to 31 March 2026, and is the last year of the RIIO-2 price control period.

This Governance Document is issued by Direction pursuant to Part B of Conditions G2 (Performance reports and assessment) of the Electricity System Operator Licence and Gas System Planner Licence.

¹ For the previous Governance Document and previous document version history, see: [The NESO Performance Arrangements Governance Document](#)

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Version History

Versions applicable to NESO

Version	Summary of the document	Publication date	Release date
1.0	Changes to reflect the designation of NESO as the ISOP, including changes to ESO's roles and organisational design.	12 September 2024	From Day 1 of NESO
2.1	Changes to align with NESO's third business plan cycle (BP3) in the RIIO-2 price control.	1 April 2025	1 April 2025

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1. Introduction

This chapter sets out the background to National Energy System Operator's Performance Arrangements, the purpose of this Governance Document, and its status from a compliance perspective.

- 1.1 National Energy System Operator (NESO) is an expert, impartial body that has 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. It performs a number of important functions from the real time operation of the electricity system, through to energy market development, managing electricity system connections and leading on strategic energy network planning.
- 1.2 NESO is a non-profit, Government-owned public corporation, licenced and regulated by Ofgem. We² regulate NESO to help ensure its actions align with consumers' interests. This Governance Document explains the processes and requirements involved in NESO's performance incentives, including the methodology used to assess NESO's performance, and the performance reporting requirements placed on NESO.
- 1.3 In November 2024, we decided on the framework for NESO's performance incentives for the Business Plan 3 (BP3) period. For more details on the overall framework, including changes from the previous Business Plan 2 (BP2) framework, please see our [decision document](#). BP3 runs from 1 April 2025 until 31 March 2026 and is the last year of the RIIO-2 price control. We are currently reviewing the approach that should apply to NESO after RIIO-2 ends.
- 1.4 This NESO Performance Arrangements Governance Document is issued by Direction by the Authority under Part B of Condition G2 (Performance reports and assessment) of NESO's Electricity System Operator and Gas System Planner licences. As set out in paragraph G2.9 of those licences the Authority may make appropriate provision about or impose requirements in the NESO Performance Arrangements Governance Document, which may include, but will not be limited to:

² The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day-to-day work. In this Decision letter, 'we', 'Ofgem', and 'Authority' are often used interchangeably.

- reports NESO must publish on its website to demonstrate its performance;
- the process and procedures that will be in place for any assessment of the performance of NESO by the Authority;
- the requirements NESO must fulfil as part of any assessment process;
- how any assessment of the performance of NESO will be published by the Authority;
- requirements in relation to NESO gathering feedback from its stakeholders; and
- any other matters relating to the regulation, governance, or administration of NESO's regulatory performance incentives.

1.5 This document may be revised and reissued in accordance with Conditions G2.10 and G2.11 of NESO's licences.

Compliance

- 1.6 Where provisions of this Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the Governance Document were part of Condition G2 of NESO's Electricity System Operator and Gas System Planner licences. However, we have also attempted to make this document accessible and informative to a range of stakeholders.
- 1.7 For the avoidance of doubt, this document is subordinate to the licences. This document does not change any definition or obligations contained within the licences and in the event of any ambiguity over the Governance Document, the licences will take precedence.
- 1.8 The contents of this Governance Document do not alter or supplement NESO's compliance with its wider obligations under legislation, its licences or industry codes.

2. The NESO Performance Arrangements process

This chapter provides an overview of the NESO Performance Arrangements. It provides guidance on the processes, procedures and timings involved in this assessment period.

Overview of the NESO Performance Arrangements

- 2.1 The NESO Performance Arrangements are a set of processes and requirements designed to create accountability and incentives on NESO to deliver excellent performance for the energy sector and consumers. The framework involves an evaluation of how well NESO has delivered its key Business Plan aims and overall value for money for consumers. This is supported by regular reporting by NESO on its progress against its Business Plan and performance.
- 2.2 A key input to the BP3 assessment framework is NESO's Performance Objectives. The Performance Objectives are the key objectives that NESO plans to achieve by the end of BP3. The Performance Objectives each have associated Success Measures, which should provide clarity what successful delivery of a Performance Objective looks like and how this will be measured.
- 2.3 NESO has engaged with its stakeholders and published a Business Plan before the start of the BP3 assessment period.³ This outlines NESO's proposed Performance Objectives, Major Deliverables,⁴ Success Measures and costs from 1 April 2025 to 31 March 2026.
- 2.4 Ofgem will make a final determination on NESO's BP3 submission in Q2 2025. This will include an assessment of NESO's Performance Objectives and a review of its demonstration of value for money.⁵ This determination will provide Ofgem's position on NESO's Business Plan that will be a key input to our evaluation of NESO's performance over BP3. The determinations will utilise the PAGD framework to build further guidance on reporting requirements.
- 2.5 NESO will produce reports throughout BP3 which will help inform our ongoing assessment of NESO's performance. At the end of the BP3 period, we will conduct a final assessment and grade NESO's performance, supported by a recommendation from the NESO Performance Panel. This is a panel formed of

³ In line with its requirements under condition G1 of NESO's ESO and GSP Licences.

⁴ For BP3, NESO has integrated all its Major Deliverables within its Success Measures.

⁵ For more details please see Chapter 4 of the NESO Business Plan Guidance Document published on 22 August 2024 for more details: [Business Plan Guidance document](#)

independent experts and stakeholder representatives, with an independent chair.

- 2.6 The Performance Panel and Ofgem's reports will be published on our website to create clear reputational incentives on NESO. In line with NESO's licences requirements,⁶ this final report and assessment will also need to be taken into consideration by NESO when deciding on senior staff remuneration.

Within-year processes

NESO performance reporting and Ofgem monitoring

- 2.7 Ofgem will monitor NESO's progress against its BP3 Performance Objectives and demonstration of value for money throughout the BP3 period. To support this, and to create transparency for stakeholders, NESO must publish on its website regular reports (in line with the reporting frequency requirements in Chapter 4).
- 2.8 NESO will meet with Ofgem on a monthly basis to discuss the contents of these performance reports and Ofgem will provide feedback where possible.
- 2.9 In addition, we have put the Cost Monitoring Framework (CMF) in place to monitor the delivery and value for money of NESO's IT investments and its exit from the Transitional Services Agreement with National Grid plc. This framework may also be used to monitor certain non-IT costs where necessary. We will confirm the full scope of the CMF for BP3, including the extent to which it may apply to non-IT costs, as part of our BP3 determinations.
- 2.10 NESO will meet with Ofgem under the CMF on a quarterly basis and Ofgem will aim to provide feedback where possible.

Stakeholder feedback and engagement

- 2.11 As required under Condition G2.4 of NESO's licences, NESO must put in place arrangements that enable stakeholders to provide regular and coordinated feedback on the licensee's performance.
- 2.12 NESO should therefore put in place arrangements that enable the collection of feedback throughout the BP3 period. Whilst this should enable stakeholders to provide feedback on any relevant areas of NESO's performance, NESO must also

⁶ In line with conditions F7.5(d) in the [ESO licence](#) and F5.5(d) in the [GSP licence](#).

ensure it is specifically collecting feedback which may be required to demonstrate the achievement of a Success Measure for a Performance Objective.

- 2.13 NESO must also take steps to understand the feedback and provide transparency to stakeholders on how any key themes of feedback are being addressed. This could include, for example, NESO holding sessions with stakeholders to discuss feedback received (including through the Stakeholder Satisfaction Survey) and providing updates on the actions being taken in response.

End of year process

The End of Year Review

- 2.14 By 18 May 2026, NESO will publish on its website a report containing final evidence of its performance over the performance year, known as the End of Year Report. Ofgem will also issue a call for evidence for stakeholder input on NESO's performance.
- 2.15 There will then be an appropriate period for stakeholders, the Performance Panel and Ofgem to review the final report. During this time, the Performance Panel and Ofgem may seek further clarifications from NESO around its End of Year Report (for example, if there are any unclear or ambiguous points). NESO should respond to these questions promptly and in line with the general standards at the end of Chapter 4.
- 2.16 At an appropriate point towards or after the end of the BP3 period (and no later than mid-June 2026), NESO is required to hold an event/meeting to discuss stakeholders' perspectives on NESO's performance over BP3. NESO has discretion on the structure of the event, but it must achieve the following objectives:
- Be open to a broad and diverse range of stakeholders;
 - Be arranged sufficiently far in advance so it can facilitate a good level of attendance;
 - Include an overview by NESO of the key themes of feedback collected throughout the year (for example, through NESO's Stakeholder Survey) and an explanation of the actions taken by NESO in response to this feedback;

- Facilitate discussion with stakeholders and provide an opportunity for questions.
- 2.17 The Performance Panel and Ofgem must be invited to this event and NESO should take reasonable steps to ensure Performance Panel members are available.
- 2.18 The Performance Panel will consider all evidence presented and conduct an assessment of NESO's performance in line with the methodology in Chapter 3. Any notable differences between the members' views will be reflected in the commentary of the Performance Panel's performance reports and taken into account in Ofgem's assessment. This report will be published on the Ofgem website.

Ofgem's final performance assessment

- 2.19 We will conduct an assessment on NESO's performance using the methodology in Chapter 3. This will consider the Performance Panel's recommendations, as well as any other evidence received or collected through the year and End of Year process, including any further representations made by NESO or stakeholders. The chair of the Performance Panel will provide input to, and be engaged in, our assessment.
- 2.20 In advance of our assessment being finalised, we will provide NESO with an explanation of our assessment, including an explanation of where we plan to materially deviate from the Performance Panel's views. Where feasible under performance assessment, we may give NESO a further opportunity to provide any additional evidence on its performance in areas of deviation.
- 2.21 We will produce a final Performance Assessment Report by 31 August 2026, following the end of the assessment period, or such later date that we consider appropriate. This report will be published on our website.

3. NESO Performance Assessment

The purpose of this chapter is to set out guidance for how NESO's performance will be evaluated by Ofgem for the BP3 period.

Summary of performance assessment approach

- 3.1 There will be two parts to our overall assessment of NESO's performance for the BP3 period:
 - Part 1: NESO's achievement of business plan aims
 - Part 2: NESO's delivery of value for money
- 3.2 Part 1 of the assessment will focus on how well NESO has delivered its Performance Objectives (including any related performance expectations set by Ofgem through the BP3 determinations). This includes our consideration of the extent to which NESO has achieved the Success Measures associated with its Performance Objectives, as well as any other information gained through monitoring or reporting that is relevant to NESO's achievement of its BP3 aims and/or Ofgem's expectations in the BP3 determinations.
- 3.3 Part 2 of the assessment will consider NESO's delivery of value for money for energy consumers. This will be informed by NESO's regular reporting on its expenditure and the associated justifications provided (including information collected through the CMF). It will also consider how well NESO has responded to any key areas of feedback on value for money Ofgem provides in our BP3 determinations.
- 3.4 For each part of the assessment, we will provide a 'Below / Meets / Exceeds Expectations' grading.
- 3.5 We will then combine these, together with any other relevant information, into an overall assessment of NESO's performance for BP3 which will also result in an overall 'Below / Meets / Exceeds Expectations' grading. We will publish our conclusions in the Performance Assessment Report.
- 3.6 The following parts describe the method Ofgem will follow to conduct this assessment and distinguish between grades. We have also set out the approach the Performance Panel should follow when making its performance recommendations to Ofgem, and explained how Ofgem will take these recommendations into account.

Part 1: NESO's achievement of business plan aims

- 3.7 We will grade NESO's performance according to the following guidance:
- Exceeds Expectations: NESO has shown strong overall performance delivering its Performance Objectives, with Success Measures and other relevant information indicating that NESO's overall BP3 ambitions and any performance expectations set through the BP3 determinations, have been achieved to a high standard. For example, NESO has demonstrably achieved all or most its Performance Objectives, with examples of successful/strong performance against these objectives clearly outweighing examples of unsuccessful/inadequate performance.
 - Meets Expectations: NESO has shown satisfactory overall performance delivering its Performance Objectives, with Success Measures and other relevant information indicating that NESO's overall BP3 ambitions and any performance expectations set through the BP3 determinations have been achieved to an adequate standard. For example, NESO has had mixed performance achieving its Performance Objectives, with examples of successful/strong performance and areas of unsuccessful/inadequate performance against these objectives broadly balancing each other out.
 - Below Expectations: NESO has shown poor overall performance delivering its Performance Objectives, with Success Measures and other relevant information indicating that NESO's overall BP3 ambitions and any performance expectations set through the business plan determinations have not been achieved to an adequate standard. For example, NESO has demonstrably failed to achieve all or most of its Performance Objectives, with examples of unsuccessful/inadequate performance against these objectives clearly outweighing examples of successful/strong performance.
- 3.8 There is no explicit weighting associated with the evaluation of each of the Performance Objectives, Success Measures, or any other factor used when assessing NESO's achievement of business plan aims. This recognises that not all factors may be of equal importance/impact and that there will be a degree of overlap between the Performance Objectives and Success Measures in practice.
- 3.9 The different components will instead be considered holistically to assess NESO's performance. We will apply discretion to consider the relative strength of performance in different areas when forming an overall view. For example, exceptional performance against one Performance Objective, which has led to significant benefits for industry/consumers, could be weighted more strongly

than adequate or inadequate performance against multiple other Performance Objectives. Similarly, performance which has had a very detrimental impact on industry/consumers could be weighted more strongly than good performance against multiple other Performance Objectives.

- 3.10 In instances where there are competing positive and negative areas of performance, we will use our expertise and informed judgement to evaluate where the overall balance of performance lies. For example, this may include consideration of the level of confidence in the evidence provided by NESO against a Success Measures (for example, how robust a certain mitigating factor is) or whether specific areas of performance are more consequential for consumers than others.

Other relevant information

- 3.11 Whilst we consider that our assessment will predominantly focus on NESO's Performance Objectives and its evidence against the Success Measures, there may be other information that we consider to be relevant to our assessment of NESO's performance over BP3. This includes, but is not limited to:
- Additional stakeholder feedback: in addition to the specific stakeholder feedback associated with reporting on Success Measures, we will consider any broader feedback received during BP3. This will include the results of NESO's Stakeholder Survey, responses to our Call for Evidence, and the Performance Panel's report. This feedback will be a material factor in our consideration of the quality of delivery of NESO's commitments and aims. We will also consider how NESO has responded to key themes of feedback provided over the year and the context for this feedback (for example, the extent to which feedback is driven by NESO's performance, or whether there are mitigating factors).
 - Demonstration of Ofgem's BP3 expectations: through the BP3 determinations process we may set additional performance expectations related to the achievement of the Performance Objectives or Success Measures. Where there are any differences between NESO's Performance Objectives / Success Measures and our expectations in the BP3 determinations, our BP3 determinations expectations will take precedence for our assessment.
 - Supplementary reporting: for BP3, we may require NESO to publish regular reports on certain areas of its activities in addition to reporting against the Performance Objectives and Success Measures (such as the Reported Metrics

outlined in Chapter 4). Whilst the default position is that this supplementary reporting would not be a key factor of our assessment, if trends or themes emerge that we consider have a material impact on industry or consumer outcomes, they may become a more prominent feature of our assessment.

- New, emerging or unforeseen developments: there may be developments that occur throughout the year that were not foreseen when the Performance Objectives were set. This could include new important activities, priorities or factors that were not listed as Success Measures or Major Deliverables, but which we consider have a material impact on NESO's achievement of its BP3 aims, nonetheless. It could also include developments that mean previous Success Measures or Major Deliverables are no longer key contributors to the achievement of a Performance Objective.

3.12 We will use our monthly meetings with NESO to provide ongoing feedback and highlight any areas of performance which we consider could become a material part of our End of Year assessment. This would include any material performance areas that are not covered by the original Success Measures or the performance expectations set as part of the BP3 determinations. Equally, NESO should use these opportunities to highlight any relevant development or changes.

Part 2: NESO's delivery of value for money

3.13 We will grade NESO's performance according to the following guidance:

Exceeds Expectations: NESO has clearly demonstrated that it has sought to strike the optimal balance between maximising benefits delivered from its activities whilst minimising costs. This includes but is not limited to:

- Clear evidence that NESO is operating to the highest standards, following best industry practice in planning and delivery, and taking all reasonable steps to maximise the value of its delivery through ongoing improvement.
- NESO has clearly responded to all areas of ex-ante feedback on value for money Ofgem provides in the BP3 determinations.
- NESO provides a high level of transparency over its expenditure and proactively provides information needed to demonstrate value for money.

- Changes from forecast expenditure throughout the year are clearly explained and justified, with the consumer value of deviations clearly demonstrated.
 - Very limited / immaterial examples throughout the year of expenditure that could have achieved better value.
- Meets Expectations: NESO has demonstrated that it has sought to strike a reasonable balance between maximising benefits delivered from its activities whilst minimising costs. This includes but is not limited to:
 - Evidence that NESO is adopting good industry practice in planning and delivery and taking reasonable steps to ensure the overall value of its delivery through ongoing improvement.
 - NESO has adequately responded to the key areas of ex-ante feedback on value for money Ofgem provides in the BP3 determinations.
 - NESO is transparent over its expenditure and there are limited examples of Ofgem requiring further information due to a lack of explanation / justification.
 - Changes from forecasts expenditure throughout the year are adequately explained and justified, with the consumer value of deviations adequately demonstrated.
 - Few examples throughout the year of expenditure that could have achieved better value.
- Below Expectations: NESO has failed to demonstrate that it has sought a reasonable balance between maximising benefits delivered from its activities whilst minimising costs. This includes but is not limited to:
 - Inadequate evidence that NESO is adopting good industry practice in planning and delivery and taking reasonable steps to ensure the overall value of its delivery through ongoing improvement.
 - NESO has inadequately responded to the key areas of ex-ante feedback on value for money Ofgem provides in the BP3 determinations.
 - NESO is not transparent over its expenditure and there are frequent examples of Ofgem requiring further information due to a lack of explanation / justification.
 - Changes from forecast expenditure throughout the year are inadequately explained and justified, with the consumer value for money deviations inadequately demonstrated.

- Multiple and material examples throughout the year of expenditure that could have achieved better value.

Further guidance

- 3.14 Whilst our assessment will focus on actions and decisions taken by NESO within BP3, delivering value of money for consumers requires an effective balance of nearer and longer term spend. For example, reducing expenditure on certain activities or investments during the BP3 period may not deliver value for money if the lifetime costs of an activity or investment is subsequently higher. NESO should also consider the relative impacts and benefits across the energy sector when considering value for money.
- 3.15 Good industry practice will differ across activities or types of activity. For example, where best practice is referenced for IT investment delivery, NESO is expected to be able to provide evidence of the referenced best practice and performance in line with that. For NESO's non-IT activities, best practice is likely to be more general and include, but not be limited to, demonstration of:
- consideration and assessment of a wide range of options for delivering a desired outcome, with clear rationale for the choices made;
 - consideration of monetised and non-monetised consumer benefit; and
 - consideration of the distribution of the benefits/costs across different groups/stakeholders/participants.
- 3.16 We will consider the context for costs provided by NESO. Our assessment will consider, but will not be limited to, criteria such as:⁷
- Business suitability – spend is necessary and has been appropriately prioritised against other activities;
 - Resilience and adaptability – future uncertainty has been appropriately considered;
 - Ongoing efficiency – value is managed throughout the life of the work; and
 - Governance, including delivery and management of risk – spend is controlled, risks are managed, and robust oversight and accountability is maintained.

⁷ Specific technical criteria may also be considered where appropriate. For example, for IT investments it may be suitable to consider aspects such as the foundational capability of those investments.

- 3.17 For the avoidance of doubt, unless specified otherwise in the BP3 determinations, NESO's forecast costs have not been determined by Ofgem to be an efficient benchmark or budget. Similarly, our assessment will not automatically deem any overspend or underspend against the Business Plan forecasts as demonstration of poor or good value for money. In the assessment of value for money we will consider the relevant context, quality of the rationale and evidence provided for the deviation, NESO's outturn delivery of its Performance Objectives, and Cost Monitoring Framework and IT delivery.
- 3.18 Our Value for Money assessment will be cross-cutting across NESO's Business Plan. Our Performance Assessment Report will focus on the major areas that have driven our assessment of NESO's delivery of value for money overall grade.

Performance Panel assessment

- 3.19 The Performance Panel will carry out an assessment of NESO's performance as part of the End of Year Review and provide a recommendation to Ofgem.
- 3.20 At a minimum, the Performance Panel's assessment should provide its view whether NESO has overall fallen below, met or exceeded expectations in the delivery of its Performance Objectives. This assessment should include consideration of NESO's performance against the Success Measures and Ofgem's expectations in the business plan determinations; the views from NESO's stakeholders; and any other factors that the Performance Panel consider of material relevance. The Performance Panel should draw out within its recommendations the specific reasons why it has reached these overall conclusions and should specify the activities or areas of performance that materially impacted these conclusions. The Performance Panel may choose to indicate where performance was borderline between two categories or scores.
- 3.21 The Performance Panel may also choose to follow the full assessment and grading approach outlined in the previous sections of the chapter. However, we also recognise that the Performance Panel may not have the same degree of visibility of some aspects of NESO performance as Ofgem (such as detailed value for money discussions under the Cost Monitoring Framework). The Performance Panel may therefore also choose, if it considers this to be appropriate, to carry out a more strategic and targeted assessment and recommendation (whilst still following the minimum guidance in paragraph 3.20). The Performance Panel should state the approach taken in its report.

- 3.22 We will consider the Performance Panel’s recommendations when forming our final conclusions in relation to NESO’s performance.
- 3.23 If there is a significant deviation between our assessment and the Performance Panel’s report, then we may consider whether this is justified by NESO’s performance, evidence collected throughout the assessment period and any changing situations or context.

Overall NESO Performance Assessment

- 3.24 Once we have assessed the two parts of NESO’s performance, together with any other relevant information, we will then proceed to determine an overall assessment and grade.
- 3.25 In practice, NESO’s possible performance falls on a spectrum rather than into three distinct categories. It may not always be the case that a grade was clear cut and there could be instances where we consider performance is borderline between two grades.
- 3.26 When combining the two parts of the assessment into one overall assessment grade, we will consider the relative strength of performance in each part, including whether the grades were clear cut or borderline. As an example, NESO could exceed expectations in one part of the assessment and fall below expectations in the other, and still receive an exceeds expectations grading overall - if the performance associated with the exceeds grading was very strong and the performance associated with the below grading was only marginal.

Performance Assessment Report

- 3.27 Following our assessment, we will record our conclusions in a report which will be published on our website.
- 3.28 Our report will provide transparency on the key factors that have led to our gradings for NESO, including any areas where there has been particularly strong or inadequate performance. This could include highlighting any Performance Objectives or areas of expenditure that we have weighted strongly in our overall assessment.
- 3.29 This report will be the key reputational incentive on NESO. It will also provide a definitive and final Ofgem position on NESO’s performance that should be taken

into consideration by NESO for its senior management performance related remuneration, in line with its licence requirements.⁸

⁸ In line with Condition F7.5 on NESO's [ESO licence](#) and F5.5 of NESO's [GSP licence](#).

4. NESO performance reporting requirements

This chapter outlines the reporting requirements on NESO as part of the NESO Performance Arrangements and provides guidance on what these reports should contain.

Summary of reporting schedule

- 4.1 As outlined in Chapter 2, there are a number of reporting requirements on NESO as part of the NESO Performance Arrangements. An overview of the reporting requirements for the BP3 period is outlined below. The subsequent sections then expand on the specific content required in these reports.
- 4.2 Monthly reporting:
- Content required: Reported Metrics⁹
 - Dates required by:¹⁰ 25 April 2025, 27 May 2025, 24 June 2025, 23 July 2025, 26 August 2025, 23 September 2025, 23 October 2025, 25 November 2025, 23 December 2025, 26 January 2026, 24 February 2026, 24 March 2026
- 4.3 Quarterly reporting:
- Content required: Reported Metrics, Performance Objectives Progress Reports, CMF Reporting
 - Dates required by: 23 July 2025, 23 October 2025, 26 January 2026
- 4.4 Six-monthly reporting:
- Content required: All monthly and quarterly reporting content, Value for Money Reporting, Stakeholder Survey Reports
 - Date required by: 23 October 2025
- 4.5 End of Year reporting:
- Content required: End of Year Report
 - Date required by: 16 May 2026

⁹ In BP2, these quantitative measures were referred to as Performance Measures (including Performance Metrics and Regularly Reported Evidence). However, for BP3 we have re-termed Performance Measures to Reported Metrics to reflect the change in the evaluation methodology and adoption of Success Measures.

¹⁰ With the exception of May 2026, the 'required by' date is the 17th working day of the following month the report is in relation to. These are calculated based on the [UK bank holidays for England and Wales](#).

- 4.6 These reports must be published on NESO’s website, by the dates identified above, with the exception of reporting under the Cost Monitoring Framework. Where there is any confidential or commercially sensitive information, this should be redacted from any published documents.

Reported Metrics

- 4.7 NESO is required to regularly report on certain Reported Metrics. In some cases, these may be associated with the achievement of a Success Measure. In other cases, they are separate requirements which are designed to support NESO’s accountability to stakeholders and apply reputational incentives which are supplementary to our public performance assessment.
- 4.8 Requirements related to Reported Metrics may require NESO to provide outturn metric performance data and supporting rationale to explain data trends.
- 4.9 The full list of Reported Metrics for BP3, their timings, specific requirements, and methodologies will be confirmed in our BP3 Final Determinations in Q2 2025.

Performance Objectives Progress Reports

- 4.10 NESO is required to provide quarterly updates on its Performance Objectives. These updates should outline for each of the Performance Objectives the progress made achieving that Performance Objective, including evidence in relation to the Success Measures and where relevant in relation to Ofgem’s expectations in the business plan determinations. It should also provide an update on progress against the Major Deliverables. In any cases where there is conflict between the Performance Objectives / Success Measures and Ofgem’s BP3 determinations expectations, addressing Ofgem’s BP3 determinations expectations should take precedent.
- 4.11 To support this requirement, Ofgem will issue the BP3 Performance Tracker. The BP3 Performance Tracker will set out the specific information that NESO should provide to fulfil its reporting requirements in this area. This will increase clarity and transparency for stakeholders and Ofgem, and provide an effective monitoring tool for NESO’s Performance Objectives and Success Measures. Following our BP3 Determinations, we will publish the final version of the BP3 Performance Tracker template on our website.

- 4.12 NESO should provide a summary narrative on progress against the Performance Objectives as part of its quarterly reporting (in addition to the information required in the BP3 Performance Tracker).
- 4.13 For the avoidance of doubt, NESO is not restricted by these requirements and may choose to provide additional narrative on its progress if it considers this beneficial. For example, NESO may wish to highlight any particular successes or challenges that it would like to provide transparency on to Ofgem and stakeholders at the monthly stage, in advance of a quarterly report.
- 4.14 We expect NESO to remain flexible and adaptable throughout BP3 and respond to changing situations. NESO may deviate from its BP3 plan where it identifies opportunities for greater consumer benefits. Equally, if a commitment in the plan turns out not to be in consumers' best interests, then NESO should change its approach and explain why.
- 4.15 We do not expect the Business Plan document or Ofgem's BP3 Determinations on Performance Objectives and Success Measures be revised once published. We expect any changing context and changes from the plan to be explained through the reporting in the quarterly reports.

Cost Monitoring Framework (CMF) reporting

- 4.16 We will continue to use the Cost Monitoring Framework for BP3, which sets out a detailed framework for monitoring NESO's progress and expenditure on IT, with our approach being largely similar to BP2. We will continue to monitor costs at a similar level of granularity while avoiding duplication under current reporting. Alongside IT monitoring, we will also monitor the progress made by NESO towards exiting the Transitional Service Agreement¹¹ with National Grid plc and the value for money delivered in this area.
- 4.17 The CMF may also include reporting on non-IT costs if there are areas where we require additional scrutiny and transparency. The full scope of the CMF will be considered as part of our BP3 determinations, following our review on NESO's proposed costs for BP3.

¹¹ The Transitional Services Agreement (TSA) is a time limited contract between NESO and National Grid plc for the provision of certain business services, such as IT. During the period of the TSA, we expect NESO to develop standalone services and capabilities so that it is no longer reliant on National Grid plc.

- 4.18 NESO is required to provide quarterly reports as part of the Cost Monitoring Framework. NESO's quarterly updates should provide clarity on the progress, governance and cost of NESO's IT portfolio and individual IT investments, as well as its progress and expenditure on its exit from the TSA. It may be necessary for NESO to provide information relating to non-IT costs if and when requested by Ofgem. In addition, the quarterly updates will provide an opportunity for NESO to offer additional evidence to address any concerns we have raised as part of our ex-ante value for money review in the BP3 determinations.
- 4.19 A working paper between NESO and Ofgem was established ahead of the first Cost Monitoring Framework quarterly report for BP2. This set out the guiding principles of the Cost Monitoring Framework and included details such as: the agreed structure of the reports, the information required on a quarterly basis to facilitate effective monitoring, and the manner of ongoing engagement with Ofgem and with industry. We intend to continue to use and iterate this working paper to support an effective CMF process. We consider it appropriate to use a working paper to set detailed expectations as this enables a more dynamic and agile monitoring process.
- 4.20 NESO is not required to publish the Cost Monitoring Framework quarterly reports submitted to Ofgem. However, NESO should publish updates on its IT investments and IT portfolio, including any significant deviations from planned costs. NESO should also engage with stakeholders regularly to ensure industry members are kept aware of NESO's progress and any notable developments.

Value for Money Reporting

- 4.21 In addition to the information provided to Ofgem via the CMF, NESO must produce a public report every six months, demonstrating its overall delivery of value for money. This should include as a minimum:
- NESO's latest forecast for its total expenditure over BP3 and how that compares to its original BP3 forecasts;
 - A clear explanation for any material deviations from the original BP3 forecasts, including which areas of activity have driven these changes; and
 - Evidence to demonstrate how NESO is meeting the guidance on value for money assessment in chapter 3 (including an update on how NESO is responding to any key feedback in the BP3 determinations).

- 4.22 Further details on the reporting requirements for Value for Money Reporting may be confirmed through our Final Determinations, alongside our consideration of the scope and detail of the requirements for CMF for BP3.

Stakeholder Satisfaction Survey

- 4.23 NESO is required to commission a Stakeholder Satisfaction Survey from an independent, reputable market research company. This will measure stakeholders' overall satisfaction on NESO's performance and the reasons behind this.
- 4.24 The survey must meet the following requirements:
- It must be designed with the aim of maximising engagement from a diverse range of stakeholders;
 - It must be targeted at senior managers, decision makers and experts, who have had material interactions with NESO;
 - It must include an initial question which asks for respondents' overall view on whether NESO's performance over the preceding six-months has fallen below, met or exceeded their expectations.
 - It must ask a secondary question designed to understand the key reasons for the respondent's answer to the first question.
- 4.25 The exact survey participants will be determined by NESO through its stakeholder contacts database. NESO must maintain up to date contact details of its stakeholders.
- 4.26 The key aspects of the Stakeholder Satisfaction Survey, including the specific questions asked, research methods, types of participants, and the methodology used to summarise survey result, must be approved by Ofgem. NESO must submit its proposal for approval no later than three months before the submission of the six-month report.
- 4.27 NESO must publish the results from its Stakeholder Satisfaction Survey as part of its six-month and End of Year reports. NESO must also provide an anonymised summary of the key themes of feedback provided.
- 4.28 We expect the surveys to be designed such that key drivers and themes of feedback are recorded and can be tracked over the course of the Business Plan.

End of Year Report

- 4.29 NESO must submit and publish an End of Year Report showing its overall performance over the BP3 period. This should include all aspects required as part of the six-month report and it should look back over the full BP3 period.
- 4.30 The End of Year Report must provide a final summary of the extent to which NESO has achieved its Performance Objectives and Success Measures, and where relevant, Ofgem's expectations in the BP3 determinations. This should clearly highlight which aspects have been successfully delivered and any areas where there has only been partial achievement or delivery, and the reasons for this. It must also provide a summary of NESO's delivery of value for money over the BP3 period and the actions taken throughout the year to respond to feedback.
- 4.31 The report should also provide updated Stakeholder Satisfaction Survey results and clearly show any differences in results from the survey undertaken at the six-month stage. The report should include a summary of how NESO has responded to the feedback collected through this survey and throughout BP3.

General standards of conduct on reporting

General requirements for reports required in this chapter

- 4.32 The reports outlined in this chapter should be consistent in their structure to allow comparison and read across from the Business Plan (where applicable) to the within-scheme reports and End of Year Report. This is to ensure that stakeholders, the Performance Panel, and Ofgem can clearly track, review, and assess NESO's performance throughout the assessment period. NESO should take into account any feedback on the content or structure of the reports.
- 4.33 NESO must ensure, to the best of its knowledge, that the information provided in respect of the reports in this chapter is accurate and correct. Where NESO identifies that the information provided is not accurate or correct, NESO must notify Ofgem and publish or resubmit corrected information as soon practicably possible, unless otherwise agreed with Ofgem.

General requirements for all reporting by NESO

- 4.34 This Governance Document also sets out general standards of conduct that should apply to all reporting performed by NESO. These are that NESO must ensure that:
- All reports are accessible and easy to understand, and give prominence to the most pertinent information;
 - All key public reports are easy to find and access on NESO's website;
 - All reports provide a fair and complete picture of NESO's performance, including both areas of out- and underperformance;
 - Due care and attention are taken to ensuring that information provided in any reports is, to the best of NESO's knowledge at the time of submission, accurate and complete;
 - Where NESO identifies that inaccurate information is being reported, the Authority must be notified and corrections are made to the report as soon as practically possible, unless otherwise agreed with Ofgem;
 - Where material amendments are made to any information provided in a report, these amendments are clearly communicated to stakeholders and the Authority and are clearly identified in the reports; and
 - It takes on board the Authority's and/or relevant stakeholders' feedback on the reports and factors this into the development of future versions (or provides a reasonable explanation for why feedback cannot be included).
- 4.35 Where NESO provides estimates of delivered or forecast benefits in its report, it must in all cases:
- Include a transparent methodology showing how these benefits are calculated, including the inputs used and assumptions made;
 - Clearly set out the period over which the benefits have accrued or will accrue; and
 - Where NESO has reported material quantitative benefits due to balancing cost savings within BP3, this should be clearly cross-referenced with any reporting specifically on NESO's balancing cost performance (for example, a relevant Success Measure or Reported Metric on balancing costs).

Appendix 1 – Glossary of terms

Glossary of key terms used in the NESO Performance Arrangements Governance Document

Assessment period

The period over which NESO's performance will be assessed for Ofgem's End of Year Review. For BP3, this is 1 April 2025 to 31 March 2026.

BP3

NESO's third Business Plan cycle in which it will operate under the RII0-2 price control framework, which starts on 1 April 2025 and ends on 31 March 2026.

BP3 Performance Tracker

A tracker which contains the specific information that NESO should provide to fulfil its reporting requirements for its Performance Objective progress updates. This tracker will be published by NESO on its website.

Business Plan

A plan established and published under Part A of condition G1 (Business Plan) of the [Electricity System Operator](#) licence and/or [Gas System Planner licence](#).

Cost Monitoring Framework (CMF)

A framework used to monitor the delivery and value for money of NESO's IT investments, its exit from the Transitional Services Agreement with National Grid plc, and where necessary, certain non-IT costs.

Electricity System Operator (ESO) licence

A licence granted or treated as granted under section 6(1)(da) of the Electricity Act 1989.

End of Year Report

A report produced and published by NESO containing the final evidence of its performance over the performance year.

End of Year Review

The review process at the end of the Business Plan cycle for which Ofgem will carry out its assessment of NESO's performance. For BP3, this will be from 16 May 2026 to 31 August 2026.

Gas System Planner (GSP) licence

A licence granted or treated as granted under section 7AA of the Gas Act 1986.

Major Deliverables

Specific, measurable and timebound outputs that are key to achieving the Performance Objectives. In most cases, we would expect delivery of these Major Deliverables to be relevant to contributing to Success Measure(s).

NESO Performance Arrangements

A set of processes and requirements designed to create accountability and incentives on NESO to deliver excellent performance for the energy sector and consumers.

Performance Assessment Report

A published report by Ofgem at the end of the Business Plan cycle that contains its conclusions on NESO's performance for that period.

Performance Objective

A key objective that NESO plans to achieve by the end of BP3. These will be developed and proposed by NESO as part of its RIIO-2 Business Plan 3 and agreed with the Authority through our business plan determinations. Each Performance Objective should have a set of clearly defined Success Measures.

Performance Panel

A mix of independent experts and industry representatives that are responsible for reviewing NESO's plans and performance, and performing an End of Year evaluation of NESO's performance.

Reported metrics

Additional reporting requirements that support NESO's accountability to stakeholders and apply reputational incentives which are supplementary to our public performance assessment.

RIIO-2 period

RIIO-2 is the price control period starting from 1 April 2021 and ending on 31 March 2026.

Stakeholder Satisfaction Survey

A survey conducted by a recognised expert survey provider for NESO to receive feedback on its activities from its stakeholders.

Success Measure

Evidence demonstrating how well a Performance Objective has been achieved.

Transitional Services Agreement (TSA)

The agreement of that name entered into pursuant to the Independent System Operator and Planner Transfer Scheme made pursuant to paragraph 1 of Schedule 9 of the Energy Act 2023.