

Consultation

Business Plan 3 Draft Determinations – National Energy System Operator

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Response deadline:	30 April 2025
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Team:	NESO Regulation
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Email:	NESORegulation@Ofgem.gov.uk
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We are consulting on Ofgem’s Draft Determination on National Energy System Operator’s (NESO) Business Plan 3. We would like views from people with an interest in any of NESO’s activities. We particularly welcome responses from consumer groups and industry trade bodies. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Our aim for the RII0-2 price controls is to ensure energy consumers across Great Britain get better value, better quality of service and environmentally sustainable outcomes from their networks.

NESO submitted its third Business Plan, covering the period 1 April 2025 – 31 March 2026 on 3 February 2025. This document sets out our Draft Determinations for consultation. Following consideration of the responses, we will make our Final Determinations as soon as practical.

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1. Introduction

- 1.1 On 1 October 2024 National Grid Electricity System Operator (the ESO) became NESO. NESO is Great Britain's independent system operator and planner. It is a government-owned public corporation licenced and regulated by Ofgem. As an expert, impartial body, NESO has key responsibilities across both electricity and gas systems. It has new duties and objectives related to driving progress towards net zero while maintaining energy security and minimising costs for consumers.
- 1.2 NESO continues to deliver the roles and responsibilities carried out previously by the ESO in addition to new and enhanced responsibilities. These include providing expert advice to Ofgem and Government, supporting energy system resilience, driving the coordinated development of the whole energy system, and taking on longer-term planning, forecasting and market strategy activities in respect of gas.
- 1.3 We¹ continue to regulate NESO, ensuring its actions align with consumers' interests. We previously set the key aspects of the ESO's RIIO-2 framework for a five-year period in our [RIIO-2 Final Determinations](#) in December 2020, and these continue to be relevant to NESO. Business Plan 3 (BP3) is NESO's third and final RIIO-2 Business Plan. BP3 is a continuation of Business Plan 1 (BP1) and Business Plan 2 (BP2) and runs from 1 April 2025 until 31 March 2026.
- 1.4 To reflect the changes in NESO's ownership and roles we have set a revised [performance incentives framework](#) that focuses on NESO's delivery of key objectives and major priorities for the BP3 period. These changes aim to ensure our regulatory assessments target the issues which matter most and have greatest impact on outcomes for the energy sector and consumers. Separately, we are reviewing the regulatory approach that should apply to NESO after BP3.

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem", "the Authority," "we" and "us" are used interchangeably in this letter.

- 1.5 This document outlines our assessment of BP3. The purpose of our assessment is:
- to provide assurance that NESO has appropriately set its priorities in line with its statutory duties and consumer and stakeholder needs;
 - to provide assurance that NESO’s planned spend provides consumers with value for money; and
 - to set expectations for NESO performance.
- 1.6 The rest of this document is structured as follows:
- **Section 2** provides a summary of NESO’s incentives framework for BP3.
 - **Section 3** considers the alignment of NESO’s BP3 Strategic Aims with the priorities outlined in the Government’s Strategy and Policy Statement and NESO’s licence obligations.
 - **Section 4** outlines our draft assessment of NESO’s BP3 Performance Objectives, both in the round and individually.
 - **Section 5** outlines our draft considerations related to the value for money NESO has evidenced.
 - **Section 6** provides our draft reporting requirements for NESO during the BP3 period.
 - **Section 7** outlines our standard consultation and feedback process.
 - **Appendix 1** provides an alternative view of NESO BP3 costs based on additional information provided after publication of the BP3 document.
 - **Appendix 2** provides information on privacy in relation to consultation responses.

Next Steps

- 1.7 Following publication of this consultation, we will review all responses and publish our BP3 Final Determinations as soon as practical.

2. NESO's BP3 Incentives Framework

Section summary

This section provides key information on NESO's incentives framework for BP3.

Scheme Design

- 2.1 Ofgem consulted and then made our decision on the [National Energy System Operator's performance incentives framework for BP3](#) in November 2024. This document sets out our decision on the performance incentives framework for NESO, for the Business Plan period commencing 1 April 2025 and ending 31 March 2026. This includes the key features of our performance assessment methodology, the Business Plan requirements and assessment approach, our approach to cost regulation, and the role of stakeholders and external scrutiny.
- 2.2 We consulted on changes in our approach to the BP3 incentives framework in November 2024. The specifics of this approach can be found in the [Performance Assessment Guidance Document](#).
- 2.3 There are two parts to our overall assessment of NESO's performance for BP3:
 - NESO's achievement of its Business Plan aims through delivering the Performance Objectives, supported by accompanying Success Measures and other relevant information; and
 - NESO's delivery of value for money.
- 2.4 At the end of the incentive scheme, the Performance Panel (the Panel) will evaluate NESO's performance and provide a recommendation to Ofgem. At a minimum, the Panel will assess whether NESO has overall met, exceeded or fallen below expectations in the delivery of its Performance Objectives.
- 2.5 Ofgem will carefully consider the Panel's recommendations, as well as all other available evidence, to determine an overall assessment of NESO's performance.

Evaluation criteria

- 2.6 Our BP3 evaluation will focus on NESO's delivery of its Performance Objectives and the value for money delivered. Whilst we expect NESO's Performance Objectives should capture key areas of performance over BP3, we recognise they are not intended to be fully comprehensive and that NESO's role and the environment it operates in is dynamic. Therefore, we will consider other important areas of NESO's performance that may emerge during BP3 or NESO's response to changing priorities throughout BP3.

3. Inputs to NESO's BP3 Plan

Section summary

This section outlines the requirements and commitments NESO have made for delivery within the BP3 period. We discuss alignment of NESO's Strategic Aims with the Strategic Priorities of the Strategy and Policy Statement and NESO's licence obligations.

Questions

Q1. Do you agree with our proposal that the Business Plan reflects Government priorities from the Strategy and Policy Statement for energy policy in Great Britain, is built on the Electricity System Operator's original RIIO-2 ambitions and reflects wider stakeholder priorities?

- 3.1 NESO's successful delivery of BP3 can unlock substantial benefits for consumers. NESO activities should help to shape the best pathways to a Net Zero energy system whilst keeping the system operating securely and economically and establishing NESO's position as an independent organisation.
- 3.2 As part of BP3, NESO will continue to deliver the existing commitments made in BP2. We agree with this approach, as we believe that the ESO's original ambitions from BP1 and BP2 are still important and relevant to NESO's BP3. We intend to hold NESO to these ambitions and have considered them as part of our assessment of NESO's plan.
- 3.3 NESO have committed to the following strategic priorities for BP3:
- Clean Power
 - Decarbonised Energy
 - Consumer Value
 - Customer Centricity
 - Digital Mindset
 - People Value
- 3.4 NESO has shown how its Strategic Aims (which NESO refer to as strategic priorities) have evolved over the RIIO-2 period, expanding on the original priorities but maintaining a core focus around a system that can operate on fully zero carbon generation and provide value to customers and consumers, and doing so by being a high-performing, people and digital-focussed business.
- 3.5 We agree that these Strategic Aims represent a suitable focus for NESO and align with the Strategic Priorities of the Strategy and Policy Statement (SPS)

which requires enablement of clean energy infrastructure, energy security and consumer protection, and an energy system that is fit for the future. In future business plans we believe NESO could show more clearly how its strategic priorities guided the identification and definition of its Performance Objectives.

Licence obligations and statutory duties

- 3.6 NESO's Business Plan should be developed with regard to NESO's licence obligations, as well as having regard to matters covered by its duties under the [Energy Act 2023](#) and to the SPS. NESO's Business Plan should represent an expansion on its minimum licence obligations, showing how NESO will deliver ambitious outcomes. Overall, we believe NESO achieved this.
- 3.7 We will continually monitor NESO's compliance with its licence obligations, in line with the supporting guidance we have set out in the [2025-2026 NESO Licence Expectations document](#). We will also consider how NESO discharges its licence obligations as part of our assessment of performance at the end of BP3. In doing so, we will assess activities beyond those set out in NESO's BP3 plan given that the plan is not, and is not intended to be, a comprehensive record of all NESO activities and obligations.
- 3.8 If NESO does not meet its licence obligations, it may be found to be non-compliant following any enforcement action the Authority determines to undertake.

4. Ofgem assessment of BP3 Performance Objectives

Section summary

This section outlines our draft assessment of NESO's BP3 Performance Objectives. We cover each of the eight Performance Objectives set by NESO and the Success Measures proposed by NESO to underpin the Performance Objectives.

Questions

- Q2. Do you agree with our proposal that the Performance Objectives comprise an ambitious one-year plan and sufficiently cover the key outcomes for the energy system and consumers during BP3? Are there additional key areas or outcomes that NESO should focus on for BP3?
- Q3. Do you agree with our proposals for the individual Performance Objectives (and supporting Success Measures) as set out in this section? Are there any missing or incomplete Success Measures which Ofgem should set additional expectations for?

Performance Objectives

- 4.1 The key outcomes NESO should deliver in BP3 are defined by NESO's Performance Objectives. A full explanation of NESO's Performance Objectives can be found in [NESO's BP3 documents](#).
- 4.2 NESO's Performance Objectives should set ambitious outcomes that NESO intends to deliver over BP3. They are not intended to cover the entirety of NESO's activity over BP3, but should reflect NESO's organisational priorities, which should be aligned with the priorities of government (via the SPS) and wider industry (established through consultation with its stakeholders).
- 4.3 Each Performance Objective is supported by Success Measures which should help to indicate how NESO expects to attain the outcome set within by the Performance Objective.

Overall View of NESO's Performance Objectives

- 4.4 NESO proposed eight Performance Objectives for the BP3 period. Each of these Performance Objectives are reviewed individually in this section. These Performance Objectives are:
- Strategic Whole Energy Plans
 - Enhanced Sector Digitalisation and Data Sharing
 - Operating the Electricity System

- Connections Reform
- Fit-for-Purpose Markets
- Secure and Resilient Energy Systems
- Clean Power 2030 Implementation
- Separated NESO Systems Processes and Services

- 4.5 We consider that NESO's eight BP3 Performance Objectives cover an appropriate range of key activities, and they collectively represent an ambitious plan, which should deliver material consumer benefits. This view on benefits relates to the ambition and focus of NESO's activities, and not the value for money of its approach to delivery, which is assessed separately (see Section 5 – Value for money of this document). We consider that there are no major outcomes that NESO should deliver in BP3 which are not covered by a Performance Objective.
- 4.6 While not all equal, we agree that the Performance Objectives are all sufficient in size and importance to merit definition and monitoring of progress and performance. We understand that NESO has not expressed any order of preference or priority in setting the Performance Objectives, and we agree with this approach.
- 4.7 We note that several of NESO's Success Measures across the Performance Objectives refer to the delivery of an activity (sometimes by a set date), but without a specific measure of the quality of that delivery. For clarity, our assessment of NESO's BP3 performance will consider the quality of the delivery of these activities rather than simply whether an activity has been delivered. NESO should be able to evidence this, for example, by providing wider context where delivery facilitates the achievement of a larger outcome or a milestone in a multi-year process, referring to industry or key stakeholder feedback and/or potentially benchmarked against previous similar outputs, where relevant, with repeatable activities showing how continuous improvement has led to increased quality or benefit.
- 4.8 We will use stakeholder feedback as a key measure of the quality of NESO's achievement of all the Performance Objectives.

Strategic Whole Energy Plans

- 4.9 NESO set out the following Performance Objective for Strategic Whole Energy Plans:

NESO will establish the capabilities, foundations and methodologies needed to deliver national and regional strategic whole energy plans.

Performance Objective

- 4.10 This Performance Objective covers new work which NESO, as the Independent System Operator and Planner, is required to undertake, expanding on its previous planning role. It therefore represents a key focus of NESO under its licence and aligns with government and industry priorities.
- 4.11 We agree that this Performance Objective reflects an ambitious and relevant outcome which, if achieved well, will provide value by optimising the delivery of clean, affordable and secure energy across Great Britain and put NESO in a strong position to continue to contribute significantly to this aim.
- 4.12 NESO needs to build on its existing electricity system planning capability to become a trusted body in delivering whole system plans which incorporate gas and electricity distribution considerations. Outputs need to be able to be used reliably for decision making and industry planning. The outcome set by this Performance Objective will indicate whether that has occurred.
- 4.13 We expect that NESO will establish the necessary capabilities, foundations and methodologies such that onshore and offshore plans work together efficiently.

Success Measures

- 4.14 We consider that the Success Measures associated with this Performance Objective appropriately reflect activities that NESO will conduct in this area and are therefore relevant.
- 4.15 We support delivery of the tCSNP² Refresh publication as a Success Measure. We expect that this publication sets clear signals for industry investment (including by clearly explaining modelling assumptions) and does not require further refresh.

² The second transitional Centralised Strategic Network Plan (tCSNP) recommended further network reinforcements needed beyond 2030 to support the transition to Net Zero. The tCSNP Refresh is an opportunity to provide greater confidence in the optimal network design for the future.

- 4.16 In addition to the Success Measures listed by NESO under this Performance Objective, we note that NESO has indicated (through Appendix 1 of its BP3 plan) that the review of the Security and Quality of Supply Standard (SQSS) is a relevant Strategic Energy Planning activity. We agree that this is relevant in establishing the foundations needed to deliver strategic energy plans and therefore expect NESO to evidence that delivery has been achieved in line with the plan set out at the start of RIIO-2.
- 4.17 We note that the timings listed for the activities within the Success Measures reflect those set out in NESO's licence. These dates should be seen as a baseline expectation of performance. We accept that many of these activities are new to NESO and industry, so delivery in line with these timelines may still represent strong performance if done well. NESO could exceed our expectations if it can show further consideration of optimising these timelines, which may allow for the benefits to be accessed earlier, or for greater synergies with other activities to access additional benefits.

Enhanced Sector Digitalisation and Data Sharing

- 4.18 NESO set out the following Performance Objective for Enhanced Sector Digitalisation and Data Sharing:

NESO will work with the sector to develop an aligned and interoperable digital ecosystem that enables industry digitalisation collaboration utilising innovation, underpinned by transparent data sharing and access.

Performance Objective

- 4.19 NESO plays a pivotal role in bringing transparency to data across the energy system and with the increases in the scope of NESO's role, this is only going to become more central. This Performance Objective continues NESO's work from RIIO-2. It represents a key focus of NESO under its licence and aligns with government and industry priorities.
- 4.20 It is not sufficiently clear from NESO's Performance Objective as drafted how NESO will work with the sector to develop this digital ecosystem. We expect that in successfully delivering this Performance Objective, NESO should be recognised as a digital leader that has collaborated with the sector to define digitalisation priorities and for NESO to clearly articulate what it envisages its role in this digital ecosystem to be.
- 4.21 Should NESO meet our expectation of being recognised as a digital leader in this space, this Performance Objective would reflect an ambitious and relevant outcome. If achieved well, this will provide value and put NESO in a strong position to continue to drive collaborative digitalisation of the whole energy system.

Success Measures

- 4.22 We consider that the Success Measures associated with this Performance Objective appropriately reflects activities that NESO will conduct in this area and are therefore relevant.
- 4.23 Where NESO state that they will establish the organisational function and capabilities required to deliver the role of interim data sharing infrastructure coordinator, we expect this to be in line with Ofgem's decision on Governance of the Data Sharing Infrastructure which will be published on our website.
- 4.24 Whilst we find that the Success Measures are all relevant, we consider that for this Performance Objective to fully cover the scope of work to meet our expectations, NESO should ensure that it continues to deliver improvements in line with data best practice and ensure that its own DD&T actively accelerates

wider sector digitalisation. We expect NESO to receive good feedback on accessibility of data from users.

Operating the Electricity System

- 4.25 NESO set out the following Performance Objective for Operating the Electricity System:

NESO will transparently operate a safe, reliable and efficient system throughout BP3, while continuing to transform the capabilities of our people, processes and systems to enable secure zero-carbon operation of the system by the end of 2025.

Performance Objective

- 4.26 NESO operates the GB energy system, and maintaining safe, reliable, efficient supply is crucial in the value delivered by NESO. We agree that NESO should continue to progress its RIIO-2 aim to have in place all the tools it needs to operate a secure zero-carbon system. We consider that this represents continuing ambition and ensures that GB is on a pathway to a fully clean power system in future.
- 4.27 We therefore agree that NESO's Performance Objective reflects an ambitious and relevant outcome.

Success Measures

- 4.28 We agree that most of the Success Measures NESO has set out for this Performance Objective are relevant to the activity. When viewed comprehensively, the Success Measures reflect a suitable level of ambition. However, we note that a minority of the Success Measures are critical to this conclusion.
- 4.29 Some Success Measures within this Performance Objective do not clearly articulate what success looks like in meeting the overall Performance Objective. Therefore, the ambition of these is hard to measure up front.
- 4.30 Further developing and implementing initiatives from the Balancing Cost Strategy, continuous improvement to forecasting, transformation of people, processes and systems within NESO and reducing skip rates are all important activities. However, NESO's plan does not provide sufficient clarity on the levels of performance needed within BP3 to deliver the overall Performance Objective. As the success of these activities is not easily measurable without a clear goal, NESO will need to demonstrate ambition through its performance.
- 4.31 Some Success Measures related to this Performance Objective link back to Metrics utilised in the BP2 Incentives Scheme. Where these Metrics are referred to in BP3, NESO should follow the Reporting Requirements set out in section 6 of this document.

- 4.32 Industry feedback on NESO's draft Business Plan indicated a clear desire from some stakeholders to create a quantitative target for skip rates. We have reviewed this feedback and strongly support the desired outcome of NESO reducing skip rates as far as possible, as fast as possible.
- 4.33 However, we don't consider that it is currently possible to confidently set a reliable, realistic and achievable skip rates target. For a quantitative target to be an effective driver of behaviour, it must balance ambition and attainability. Current uncertainties risk setting a target too easily met or too difficult to meet. Either of these outcomes would not provide an incentive for NESO to strive to reduce skip rates as far as possible, as fast as possible.
- 4.34 As part of NESO's incentives framework, we can set some clear expected measures of success regarding skip rates:
- For the duration of BP3 we expect NESO to ensure transparency of its skip rates performance. NESO should publish timely, accessible and accurate skip rates data using both the 5-stage post system action methodology (as in use at the time of the publication of the Business Plan) and any updated methodology agreed with industry. Datasets should include a breakdown by technology type.
 - By the end of BP3 NESO should deliver a substantial reduction in skip rates that results in relative parity across technology types. This should be visible in both the methodology at the time of publication of the Business Plan and any updated methodology agreed with industry.
- 4.35 We will be closely monitoring NESO's performance on skip rates throughout the year. Our assessment of NESO's skip rates performance will consider whether NESO has met the expectations outlined above, alongside any other material factors that may have influenced NESO's outturn skip rates (eg. relevant code modification processes/decisions). Given the level of prioritisation stakeholders have placed on skip rates, we would like to assure stakeholders that their views on NESO's progress in reducing skip rates will be a material factor in our assessment of NESO's performance.

Connections Reform

4.36 NESO set out the following Performance Objective for Connections Reform:

NESO will drive delivery and implementation of a reformed connections process that enables projects needed for 2030 and beyond to connect in a timely and coordinated manner.

Performance Objective

- 4.37 This Performance Objective covers the work required to reform the GB electricity system connection processes, which is essential for achieving a clean power energy system in an efficient manner. It therefore represents a key focus of NESO, aligned with government and industry priorities.
- 4.38 We agree that NESO's Performance Objective reflects an ambitious and relevant outcome which, if achieved well, will provide value and, alongside its work on strategic energy planning, will put NESO in a position to continue to enable an efficient GB connections queue.
- 4.39 The outcome set by this Performance Objective will indicate whether NESO has been able to drive reform of the connections process in GB and to achieve a scenario whereby the projects which are needed to connect are able to do so in a timely fashion.

Success Measures

- 4.40 We consider that the Success Measures proposed by NESO for the Connections Reform Performance Objective are appropriate and will support the identification of ambitious delivery.
- 4.41 Ultimately, we consider that NESO's role in the delivery of a reformed connections process, and activity under that reformed process once implemented, can indicate ambitious performance against this Performance Objective. Substantial progress towards a rationalised connections queue which is strategically aligned to the capacity pathways in the CP2030 Action Plan will be the best indicator of NESO performance. We understand that the Transmission Entry Capacity (TEC) will continue to be published and thus do not propose any additional data be published but expect that NESO can use this information to evidence its performance at the end of BP3.
- 4.42 We agree with NESO's focus on the Connections Portal within the final Success Measure. We expect NESO to evidence how the portal undergoes continual improvement, aligned with user feedback and priorities.

Fit-for-purpose Markets

4.43 NESO set out the following Performance Objective for Fit-for-purpose Markets:

NESO will support the government in making informed decisions on policy and market reform across the whole system. We will also continue to reform our own markets to level the playing field and deliver value to consumers.

Performance Objective

- 4.44 This Performance Objective covers NESO's role to ensure that market rules, signals and operation are efficient. It therefore represents a key focus of NESO under its licence and aligns with government and industry priorities.
- 4.45 We agree that NESO needs to continue to evolve its own markets, responding to industry trends and opening access to all provider types, including new providers and demand-side response assets. NESO needs to continue to do this across electricity markets, following on from its earlier RIIO-2 commitments, as well as in the gas system requiring a whole system approach. We agree that ensuring a level playing field within and across its own markets and, where relevant, with other markets, is an important activity for NESO. We also agree that NESO should be providing high-quality, impartial, input to government decision making on broader market reforms.
- 4.46 However, we consider that it is not sufficiently clear how NESO's proposed Performance Objective will deliver an ambitious outcome.
- 4.47 Over RIIO-2 so far, NESO has undertaken a programme of reform of its reserve and response markets, as well as beginning to establish markets for non-energy services, such as stability and reactive power. We understand that delivery of some aspects of this will continue through BP3, but that NESO should now have laid substantial groundwork for its markets and therefore focus over BP3 should be about ensuring markets can support a zero-carbon system, at low cost to the consumer, with clear and consistent revenue opportunities to market participants.
- 4.48 We expect that in successfully delivering this Performance Objective, NESO should ensure that markets operate efficiently, in support of a zero-carbon operable system with significantly reduced barriers to entry. There will be coordination of rules and developments across markets, including across energy vectors. All stakeholders, particularly market participants, Ofgem and government, should be informed as to the opportunities for market

improvements (including through REMA) and a clear roadmap in place and communicated for the removal of remaining barriers.

Success Measures

- 4.49 The Success Measures listed by NESO under this Performance Objective are generally relevant and will support in identifying NESO's progress toward delivery of its outcome. However, we do not consider the list fully covers the key measures associated with attaining the anticipated outcome.
- 4.50 We clarify that we have the following additional expectations of NESO's performance under this Performance Objective:
- NESO should be able to evidence how market reform has resulted in greater market compliance with NESO's Market Design Framework,³ shown through an update of the 2023 assessment by a competent third party or equivalent.
 - NESO should be able to evidence how it has proactively engaged with the Market Facilitator ahead of its launch, such that development of market rules and delivery of benefits is enabled as soon as possible from go-live (and earlier where relevant). NESO should also continue to work with the Open Networks programme, delivering on actions where relevant.
 - NESO should be able to evidence how it has engaged proactively in the identification of GB rule changes (including relevant industry codes and standards) and has worked to affect change positively to the benefit of the GB consumer.
- 4.51 We also provide clarification of our understanding of NESO's Success Measures.
- 4.52 NESO will report on the volume of services which it procures through competitive means as a percentage of total service procurement (competitive plus non-competitive). Our expectation is that NESO will have phased out substantial non-competitive procurement by 1 April 2025, and this procurement should continue to decline over the BP3 period. We also expect to see that competitive procurement occurs across all NESO service types. We have included a proposed calculation methodology for this Success Measure in Section 6 Reporting Requirements of this document.

³ Detail on NESO's Market Design Framework is published at: <https://www.neso.energy/document/247136/download> and a March 2023 assessment of NESO's markets against that Framework, conducted by LCPDelta, is available at: <https://www.neso.energy/document/278316/download>

- 4.53 The information contained within the forthcoming April 2025 Markets Roadmap is not available at present. Therefore, we cannot comment on whether this is ambitious or not at this stage. We expect to be able to confirm our view on this ambition in our Final Determinations. We agree that this Success Measure should also include delivery / progression of actions from the Routes to Market Review for unlocking flexibility, and that the plan set out therein is sufficiently ambitious.

Secure and Resilient Energy Systems

4.54 NESO set out the following Performance Objective for Secure and Resilient Energy Systems:

NESO will improve whole energy system emergency preparedness and resilience. We will ensure the necessary capabilities and requirements are in place and facilitate industry readiness to meet the Electricity System Restoration Standard.

Performance Objective

4.55 NESO plays a crucial role in ensuring security of supply in GB and the expansion of its roles has only increased the importance of the part NESO plays in whole system resilience.

4.56 We agree that this Performance Objective reflects a clear ambitious outcome that suitably reflects both the existing and enhanced responsibility NESO now holds.

Success Measures

4.57 We consider that the Success Measures associated with this Performance Objective are both ambitious when considered in the round and relevant to the Performance Objective. However, the proposed Success Measures do not sufficiently cover the breadth of activity we expect NESO to undertake in order to meet the Performance Objective.

4.58 There are areas not covered by the proposed Success Measures that we consider vital to the delivery of the Performance Objective.

4.59 To ensure that our expectations are clear, we expect NESO to:

- establish the capability to fully meet Parts A, Energy risk and threat advice, and B, Post-event and post-emergency analysis, of its Energy resilience and resilience reporting licence condition obligations.
- provide the Emergency Processes Assessment to Ofgem and DESNZ by 1 December in line with NESO's licence obligation. For this Assessment NESO should collaborate with industry to improve processes, procedures and general prevention and response actions to potential severe disruptive events that could impact society to increase the overall resilience of the whole energy industry.
- continue to work on medium-term adequacy modelling, building on the developments made in BP2 including:

- the Capacity Market with the Electricity Capacity Report and the annual cycle of development projects to enhance the modelling, and
- the adequacy modelling, including the assessment of the 2030s, looking beyond the time horizon set out in CP30 which now includes a new, dedicated assessment of gas supply security to be produced by 31 October each year.

4.60 It is not clear to us how NESO will specifically demonstrate successful delivery of 95% of capability and arrangements to meet the Electricity System Restoration Standard. Given this uncertainty, and the need to be clear on our expectations, we expect NESO to continue to develop its restoration capabilities and remain fully on track to meeting the Electricity System Restoration Standard by the end of 2026.

Clean Power 2030 Implementation

- 4.61 NESO set out the following Performance Objective for Clean Power 2030 Implementation:

NESO will play a pivotal role in securing clean power for Great Britain by 2030 on the path to net zero by 2050. Building on our 2024 advice to government on pathways to a clean, secure, operable and deliverable electricity system, we will move to action and implementation in line with the government's CP30 action plan.

Performance Objective

- 4.62 We agree with NESO that identifying the actions required to deliver Clean Power by 2030 is a key government priority, and providing clarity on this to industry, ensuring all parties are prepared, should be a focus over BP3 as NESO will play a pivotal role in this.
- 4.63 Therefore, we agree that NESO should have a Performance Objective related to this aspect of its activities over BP3 and reflects an appropriate level of ambition against a government priority.

Success Measures

- 4.64 We consider that the Success Measures set out by NESO under the CP30 Implementation Performance Objective are relevant and will provide an indication of successful delivery of the ambitious outcome.
- 4.65 NESO's collaboration with DESNZ, the Clean Power 2030 Unit, Ofgem, and wider industry, while showcasing its institutional knowledge, will be key in ensuring the ambition of the outcome is realised. We agree with NESO's commitment to consulting on a comprehensive delivery plan and ensuring that the plan is coherent, identifying the key roles of all actors is a necessary Success Measure.
- 4.66 Some of the Success Measures listed by NESO are still subject to further detail which will be specified over BP3. However, one area where we hold a specific expectation of NESO is with respect to Long Duration Electricity Storage, where we expect that NESO will establish capabilities to support cost-benefit analysis work.
- 4.67 Finally, for the avoidance of doubt, we will additionally consider the last Success Measure listed by NESO under both the Fit-for-purpose Markets and the Clean Power 2030 Implementation Performance Objectives as there is substantial overlap of this Success Measure across the two performance areas.

Separated NESO Systems, Processes and Services

- 4.68 NESO set out the following Performance Objective for Separated NESO Systems, Processes and Services:

NESO will transition remaining systems, processes and services from National Grid to NESO ownership to enhance our capabilities and establish our autonomy and full independence.

Performance Objective

- 4.69 This Performance Objective covers the requirement for NESO to be established as a fully standalone business, able to make its own decisions about how best to resource and facilitate its business needs. This covers people, processes and IT infrastructure. We agree with NESO that an outcome where NESO is an autonomous organisation which can provide influence and benefits through being established as an independent actor is important.
- 4.70 We agree that NESO's Performance Objective is suitably ambitious and relevant, and thus is important to be included in this Business Plan. However, we note that NESO is not required to attain full independence (ie to have transitioned out of all Transition Service Agreements (TSAs)) until 1 October 2026.
- 4.71 As there is a likely period beyond the end of BP3 before NESO is able to fully achieve this, we clarify that we consider the outcome of this Performance Objective for BP3 to reflect a state where NESO's progress in transitioning from National Grid enables it to become a fully independent organisation with control over decisions on how best to resource its activities by 1 October 2026. Further, NESO should be trusted as an organisation that can act independently and impartially, with a focus on delivering for the GB consumer. This outcome – sufficient progress by NESO to being fully independent and showing its independence – is what we will be assessing against at the end of BP3.

Success Measures

- 4.72 We consider that the Success Measures associated with this Performance Objective appropriately reflect the activities that NESO will conduct in this area and are therefore relevant.
- 4.73 We consider that the Success Measures are generally measurable, and it will be clear as to the degree to which NESO has attained them. We are also content that they are sufficiently ambitious in nature.
- 4.74 We confirmed with NESO that the Success Measure relating to TSAs is measured with respect to the number of TSAs. We are comfortable that this is a suitable

measure and will show that NESO is progressing against this Performance Objective.

5. Value for money

Section summary

This section outlines our draft assessment of NESO's value for money. Delivering value for money for consumers requires an effective balance of nearer and longer term spend and the trade-offs between spending consumer's money and delivering benefits for consumers.

Questions

Q4. Is the information on NESO costs that we have provided in the Appendix 2 sufficient additional cost information? If not, what further information do you think NESO should make available publicly on its cost forecasts and value for money justification?

- 5.1 NESO is a public body but is not subject to HM Treasury oversight. Its internal (and external) costs are passed-through Balancing Service Use of System charges and ultimately paid through consumers' bills. NESO is subject to economic regulation by Ofgem. We utilise a value for money assessment on all NESO spending to undertake our economic regulation role.
- 5.2 NESO is expected to demonstrate the extent to which its plans maximise benefits whilst minimising costs, thus providing value for money. To exceed our expectations, NESO will need to demonstrate the expectations in the NESO Performance Arrangements Governance Document. This includes providing justification for expenditure and evidence that robust processes are in place which result in strong value for money outcomes.

Internal Costs

- 5.3 NESO's internal costs⁴ are proposed to be £690m in BP3. This represents an increase of £297m (+75%) on the forecast of BP3 costs previously made in the submission of the [ESO's BP2 Business Plan](#) in August 2022. This increase includes the additional separation costs required to continue the establishment of NESO as a standalone organisation.
- 5.4 We considered that the information provided by NESO in its Business Plan did not meet the Business Plan Guidance requirements, and therefore following NESO's publication of BP3, Ofgem requested further information.

⁴ The costs NESO incurs to run its business. NESO also recovers 'external' costs. These are the costs it incurs to pay electricity market participants and network operators for services to operate the electricity system.

- 5.5 NESO subsequently provided further detail on costs and related Full-time Equivalent (FTE) employees. This is the clearest, most detailed internal cost breakdown NESO has submitted during the RIIO-2 period. We have provided a summary of this information in Appendix 1 of this document.
- 5.6 Whilst the additional cost and FTE information is sufficiently detailed, it does not provide the justification required in line with the Business Plan Guidance requirements for us to fully assess value for money of NESO's BP3. We have therefore requested that NESO provide further justification for the proposed costs and FTE resource. This should focus on significant deviations between NESO's final BP3 proposals and the previous BP2 submission for BP3 costs. This should also include justification for the costs proposed in the FSO blueprint⁵. For clarity, we do not require justification for any activity itself but for the level of resource allocated to each activity.
- 5.7 It is therefore too early for us to provide assurance that delivering the plan to the costs proposed would meet or exceed our expectations for value for money. Between our Draft and Final Determination we will continue to work collaboratively with NESO to obtain the further information we require.

Evidencing Benefits

- 5.8 The Performance Objectives outline an ambitious set of outcomes for NESO to achieve. Delivering these outcomes alone does not constitute value for money. NESO must demonstrate, in its actions and through its reporting, that it is striking the balance between maximising benefits and minimising costs throughout BP3.
- 5.9 NESO could evidence that it is attempting to maximise benefits in a number of ways, including but not limited to: providing evidence of options assessments at the planning stage that show consumer benefit as a key factor; demonstrating agility through reassessing plans and prioritising benefit; or providing evidence of horizon scanning that identified issues early and addressing them when the impact or detriment incurred is smaller.
- 5.10 NESO's published Business Plan has not sufficiently evidenced how NESO has sought to maximise benefits as part of its value for money considerations. Therefore, we are unable to provide assurance that delivery of the plan would

⁵ The FSO Blueprint was a submission to Ofgem in March 2023. It was a proposal submitted by National Grid and the ESO outlining their plans and costs for implementing the Future System Operator (FSO).

meet or exceed our expectations for value for money. Between our Draft and Final Determination we will continue to work collaboratively with NESO to obtain the further information we require.

Digital, Data, and Technology

- 5.11 Underpinning NESO's Business Plan is continued delivery of an ambitious Digital, Data and Technology (DD&T) portfolio. The previous RIIIO-2 assessments of NESO's DD&T portfolio initially highlighted concerns with DD&T delivery; however, continued engagement and a more recent assessment of NESO's DD&T portfolio revealed significant improvement in both the delivery approach and governance of DD&T investments. We are therefore not proposing to perform another full DD&T assessment for BP3 but will maintain the Cost Monitoring Framework⁶ (CMF) and the requirements for NESO to continue to improve the transparency of its DD&T reporting.
- 5.12 Whilst we have not performed a standalone assessment of NESO's delivery of its DD&T portfolio for BP3, performance in this space will be assessed as part of our overall performance assessment of any relevant Performance Objectives (and Success Measures) and through the Value for Money assessment.

⁶ NESO is required to provide quarterly reports as part of the Cost Monitoring Framework. The primary focus of this regular reporting is on NESO's DD&T investments and DD&T portfolio but extends to non-DD&T costs.

6. Reporting Requirements

Section summary

This section outlines our draft position on certain reporting requirements for NESO for BP3. We propose retaining the majority of Reported Metrics from BP2, and we set our expectation on the scope of reporting under the CMF.

Questions

Q5. Do you agree with our proposal for Reported Metrics and the CMF?

6.1 The overarching performance reporting requirements for NESO are set through the NESO Performance Arrangements Governance Document (PAGD), which is published separately on our website. As outlined in the NESO PAGD, certain reporting details are set through our BP3 determinations. This section outlines our position on the Reported Metrics NESO must publish during BP3 and the scope of reporting under the CMF.

Reported Metrics

6.2 Regular performance reporting is important for industry transparency and for the NESO BP3 incentives processes to work effectively. Regular, transparent performance reporting is not only beneficial to Ofgem, but also to wider industry and NESO. It allows NESO the opportunity to demonstrate its performance throughout the year, helping Ofgem and industry provide feedback. This allows NESO to act on the feedback and minimises the risk of unaligned expectations.

6.3 Reported Metrics⁷ are regularly published quantitative measures. In several cases NESO's performance against Reported Metrics directly contribute to NESO's Success Measures. In other cases, they can support NESO's accountability to stakeholders and apply reputational incentives which are supplementary to our public performance assessment. In line with our previous November 2024 BP3 framework decision,⁸ we consider that many of the previous BP2 Reported Metrics will continue to have value in BP3. We consider they will allow Ofgem and stakeholders to continue to track key data trends that

⁷ For BP2, Reported Metrics were referred to as Performance Metrics and Regularly Reported Evidence.

⁸ [Decision on National Energy System Operator's performance incentives framework for BP3](#)

are relevant to NESO's RIIO-2 ambitions, over the full RIIO-2 period. As most Reported Metrics are pre-established processes, we also do not consider they will create disproportionate cost for NESO that outweighs their value.

- 6.4 We therefore consider that all Reported Metrics from the BP2 reporting are retained as published information except for the following:
- RRE 1E - Transparency of operational decision making
 - Metric 2Ai – Phase-out of non-competitive balancing services
 - RRE 3X - Timeliness of connection offers
 - RRE 3Y - Percentage of 'right first time' connection offers
- 6.5 RRE 1E is being replaced with a revised Reported Metric on Skip Rates, which NESO has included as one of its Success Measure in the Operating the Electricity System Performance Objective. This new skip rate measure will provide a greater level of transparency on the same issue as the existing RRE 1E.
- 6.6 The new skip rate measure should be reported at the same frequency as RRE 1E was in BP2; monthly.
- 6.7 We consider that RRE 3X and 3Y, as set out in BP2, may no longer be the most insightful measures for a reformed connection process. Measures, such as how connection offers from NESO are aligning the connection queue with the CP30 (or any other relevant) generation plans, would be more valuable. For clarity, we do still expect NESO to make connections offers in a timely manner, with a focus on quality. We believe the change in GB connections pipeline would be indicative of NESO meeting these expectations – if NESO is slow and / or provides incomplete offers then progress to reform the GB connections queue will suffer as a consequence.
- 6.8 NESO has proposed a Success Measure under its Fit-for-purpose Markets Performance Objective which is similar in nature to Metric 2Ai of BP2. The main difference between the Success Measure methodology and the Metric 2Ai methodology used in BP2 is that the BP3 figures will calculate the percentage of services procured through *competitive* means, rather than the percentage procured via non-competitive means. We think that this continues to suitably measure and incentivise NESO performance so we propose to adopt NESO's proposal as a required Reported Metric. All inputs remain as per the BP2 calculation methodology otherwise. In line with our position in paragraph 6.9 below, we have chosen not to set pre-defined benchmarks for reporting of this Success Measure, though we note that NESO has suggested figures within BP3.

- 6.9 We propose that NESO will continue to publish all other Reported Metrics from BP2 using the same methodology and at the same frequency as used in BP2 but with updated figures based on the latest data. For clarity, we are proposing not to retain pre-defined benchmarks for NESO on these reported values.

Cost Monitoring Framework

- 6.10 As a public entity we expect NESO to provide clear and transparent public reporting of its costs to facilitate industry understanding and scrutiny of costs incurred to deliver its activities.
- 6.11 Reporting through the CMF to Ofgem will continue for BP3⁹. NESO has demonstrated positive change, building our confidence in its DD&T portfolio through the quarterly CMF reports and through our regular meetings.
- 6.12 For DD&T Investments and the DD&T Portfolio we expect the same level of reporting as we've had so far under the CMF on each investment, both new and continuing, as well as for the proposed Technology Enhancements.
- 6.13 For non-DD&T costs, including major capital investments, where we require additional scrutiny and transparency we will engage with NESO on an as needed basis to ensure we have the information required to appropriately monitor value for money.

⁹ As decided in <https://www.ofgem.gov.uk/decision/decision-nesos-performance-incentives-framework-bp3>

7. Your response, data and confidentiality

Consultation stages

Stage 1

Consultation opens 31/03/2025.

Stage 2

Consultation closes 30/04/2025. Deadline for responses.

Stage 3

Responses reviewed and consultation decision published as soon as practical.

How to respond

- 7.1 We want to hear from anyone interested in this consultation. Please send your response to NESOperformance@ofgem.gov.uk.
- 7.2 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 7.3 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

- 7.4 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 7.5 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 7.6 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union (UK GDPR), the Gas and Electricity Markets Authority will be the data controller for

the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.

- 7.7 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

- 7.8 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
 2. Do you have any comments about its tone and content?
 3. Was it easy to read and understand? Or could it have been better written?
 4. Were its conclusions balanced?
 5. Did it make reasoned recommendations for improvement?
 6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

ofgem.gov.uk/consultations

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Would you like to be kept up to date with *Consultation*
name will appear here? subscribe to notifications:

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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendices

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Appendix 1 – Additional NESO cost information

Cost breakdown

This appendix builds on the cost information provided by NESO in the BP3 document and BP3 Cost Narrative with a more detailed view of the same cost information. The data is broken down by directorate rather than performance objective and therefore includes support functions.

The tables below display the information as BP2, which displays cost for BP3 as proposed in the BP2 document, FSO Blueprint, which displays the costs proposed for BP3 in the FSO Blueprint and BP3, which displays the total costs that make up the full BP3 spend proposals. All spend displayed in the tables below are in £m.

NESO Proposed Spend

Operational Costs £m	BP2	FSO Blueprint	BP3
Engineering & Customer Solutions	£13.90	£0.00	25.8
Strategic Energy Planning	£9.01	£5.10	53.3
Markets	£20.85	£1.68	24.3
Resilience & Emergency Management	£4.32	£5.24	11.3
System Operations	£43.15	£1.50	47.9
Customer	£1.81	£0.00	4.2
Major Projects	£0.62	£1.25	4.2
Innovation	£3.25	£0.00	2.0
Strategy	£4.35	£7.79	13.5
External Affairs	£3.00	£1.24	7.5
Legal & Regulation	£8.05	£2.00	13.6
Leadership	£2.96	£0.00	9.4
Finance	£17.78	£9.82	42.2
People	£4.29	£5.27	13.5
Digital, Data & Technology	£105.85	£0.00	125.5
Total	£243.18	£40.90	£398.30

The table above (Operational Costs) displays NESO's proposed operational spend for BP3 by directorate.

The table below (Investment Costs) displays the NESO's proposed investment spend for BP3 aggregated by type.

Investment Costs £m	BP2	FSO Blueprint	BP3
Direct DD&T Investment	128.0	0.0	157.1
Enabling DD&T Investment	17.4	0.0	40.6
Property	4.6	0.0	13.3
FSO CTA	0.0	76.2	80.6
Total	149.9	76.2	291.6

These tables show that some areas such as Engineering and Strategic Energy Planning have seen significant increases in proposed spend since the original BP3 forecasts included in BP2. These appear to be largely down to the new roles NESO has undertaken that were not known about when planning BP2. Other increases in areas such as finance and the DD&T related areas have also seen increases which appear to be attributed, in part, to NESO establishing itself as an independent organisation.

Full Time Equivalent Employee Breakdown

We have also included a breakdown of NESO's Full Time Equivalent (FTE) proposals. The table below displays the information in the same way as above. BP2 displays FTE for BP3 as proposed in the BP2 document, FSO Blueprint displays the FTE proposed for BP3 in the FSO Blueprint and BP3 displays the total FTE that make up the full BP3 spend proposals.

NESO Proposed Full Time Equivalent

Full Time Equivalent (FTE)	BP2	FSO Blueprint	BP3
Engineering & Customer Solutions	191	0.0	254.2
Strategic Energy Planning	116	25.0	441.0
Markets	183	15.0	242.4
Resilience & Emergency Management	45	46.0	109.2
System Operations	361	14.0	416.3
Customer	12	0.0	31.0
Major Projects	44	0.0	85.8
Innovation	29	0.0	57.0
Strategy	43	50.0	112.0
External Affairs	0	20.0	38.0
Legal & Regulation	29	48.8	84.1
Leadership	5	0.0	6.0
Finance	52	78.0	203.9
People	3	48.0	196.1
Digital, Data & Technology	0	0.0	607.0
Total	1113.3	344.8	2884.0

As with the cost information, FTE increase in areas such as Engineering and Customer Solutions and Strategic Energy Planning appear to be largely down to the new roles NESO has undertaken that were not known about when planning BP2. Other increases in areas such as Finance, People and the DD&T related areas appear to be attributed, in part, to NESO establishing itself as an independent organisation.

Through conversations with NESO, we are aware that some areas of spend, and FTE numbers proposed by NESO in the Business Plan remain reliant on assumptions. We are working with NESO to understand which areas these are, and when NESO plans to finalise the cost / employee forecasts.

As highlighted in section 5 of the main document, we have outstanding questions related to the value for money of NESO's proposed FTE and spend. We will continue to work with

NESO to answer these questions between publication of this document and our Final Determinations.

Appendix 2 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We will not share personal data collected through this consultation with any third parties.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held until 31 August 2026.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services

- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".