

Decision

Business Plan 3 Final Determinations – National Energy System Operator

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As part of the RIIIO-2 Price Control, National Energy System Operator (NESO) submitted its Business Plan 3 (BP3) earlier this year, which commenced on 1 April 2025. We consulted on this plan under our Draft Determinations in April 2025.

This document outlines our final determinations on BP3, including our expectations on NESO's performance, requirements for reporting and position on how the plan delivers value for money to consumers.

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Executive Summary

National Energy System Operator (NESO) was established to play a significant role in the energy transition, through operating and delivering an efficient, coordinated, secure and flexible clean energy system for all.

In February 2025 NESO published its Business Plan 3 (BP3), NESO's third and final RIIO-2 Business Plan covering the period of April 2025 to March 2026. NESO's BP3 document is specifically structured around the key outcomes and priorities (referred to as "Performance Objectives") that NESO plans to deliver in the BP3 period.

As NESO's economic regulator, we assess their business plan to support NESO to best deliver in consumers' interests. In March 2025 we published our Draft Determinations on NESO's BP3. Overall, we considered that NESO's priorities covered an appropriate range of key activities, and they collectively represented an ambitious plan, which should deliver material consumer benefits. We also set out a range of additional performance expectations for NESO and invited stakeholder views on all parts of our assessment.

The stakeholder responses we received have informed our Final Determinations. For the most part, respondents supported the positions we outlined. However, we have made changes in some specific areas following careful consideration of these responses.

The topic of most interest in the stakeholder responses was our consideration of NESO's skip rates performance. In our Draft Determinations we set the expectation that by the end of BP3 NESO should deliver a substantial reduction in skip rates with a target of relative parity across technology types. We also specified that NESO must ensure transparency of skip rate performance through publishing timely, accessible and accurate skip rates data, including a breakdown by technology type. In response to the feedback we received we have set two additional expectations for NESO in this area: for NESO to work with industry to develop an absolute numerical target for skip rates within the BP3 period, and for NESO to develop a methodology to measure the skip rate of actions taken to manage system constraints.

Respondents also highlighted the importance of NESO providing effective communication and undertaking quality stakeholder engagement during BP3. We agree with this feedback and have updated several of our performance expectations to strengthen this expectation. Similarly, respondents strongly requested greater levels of cost transparency and so we have included an additional requirement for NESO to publish this information following our Final Determinations.

1. Introduction

- 1.1 This document sets out our Final Determinations on NESO's BP3 plan, which runs between 1 April 2025 and 31 March 2026. The Final Determinations consider the responses we received to our [Draft Determinations](#).
- 1.2 The purpose of our¹ assessment is:
- a) to provide assurance that NESO has appropriately set its priorities in line with its statutory duties and consumer and stakeholder needs;
 - b) to set expectations for NESO performance; and
 - c) to provide assurance that NESO's planned spend provides consumers with value for money
- 1.3 The rest of this document is structured as follows:
- **Chapter 2** provides a summary of the responses we received to our consultation
 - **Chapter 3** confirms our decision on NESO's BP3 Performance Objectives and the expectations we hold for each of them
 - **Chapter 4** outlines our final considerations relating to the value for money NESO has evidenced
 - **Chapter 5** confirms our decision on the reporting requirements for NESO during the BP3 period

Next steps

- 1.4 This document reflects our assessment of NESO's BP3 plan and, alongside the NESO [Performance Arrangements Governance Document](#), sets out the reporting requirements for the BP3 period. NESO will now report on its progress against the Performance Objectives, Success Measures, Ofgem expectations, Reported Metrics and value for money over the course of BP3. This reporting will inform our assessment of NESO's BP3 performance in our Performance Assessment Report which will be published in summer 2026.

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.

2. Key themes from consultation responses

This section covers the key themes from the responses we received to our consultation on our Draft Determinations and directs readers to where we have addressed feedback within this document.

- 2.1 We received 10 responses to our Draft Determination consultation, which came from a diverse range of stakeholders. We have also engaged with stakeholders in the intervening period and considered wider stakeholder feedback as part of this process. We thank all parties who responded or contributed views.
- 2.2 For the most part, respondents supported the positions we outlined in our Draft Determinations. However, there were several themes that appeared across the range of responses we received. Here we highlight key themes from respondents, with specific responses discussed in more detail in the relevant sub-sections within Chapter 3.

Skip rate methodology

- 2.3 The main area of comment was on our proposal to set a *relative* target for NESO's skip rate performance. As explained in more depth in chapter 3, many respondents supported setting an *absolute numerical* target for skip rates.
- 2.4 In recognition of the strong stakeholder feedback in this area, we have decided to set two additional expectations for NESO. The first is that we expect NESO to work closely with industry to develop an absolute numerical skip rates target within the BP3 period. The second is that we expect NESO to develop and share a methodology to measure the skip rates behind constraints. We explain our rationale for this position in more detail within the Operating the Electricity System sub-section in Chapter 3.

NESO stakeholder engagement

- 2.5 Many respondents highlighted the importance of good stakeholder engagement in a variety of different areas. This theme appeared frequently under responses for the Strategic Whole Energy Plans Performance Objective, with many respondents highlighting that the quality (not just quantity) of NESO's engagement is vital to success here.

- 2.6 We agree with the feedback and have updated our position with respect to stakeholder engagement within the Strategic Whole Energy Plans sub-section in Chapter 3.
- 2.7 We also reiterate the position that we set out in our Draft Determinations, that we will expect NESO to evidence how it has engaged stakeholders and made use of the feedback gathered to improve processes and outputs across all its BP3 activities.

NESO communication

- 2.8 Many respondents pointed out that NESO must focus on effective communication throughout BP3. This theme appeared in several different areas of responses and notably included the importance of articulating how NESO's activities align with government priorities, particularly within the Clean Power 2030 Implementation Performance Objective, and clear communication on NESO's digitalisation work under the Enhanced Sector Digitalisation Performance Objective.
- 2.9 We agree with respondents that effective communication by NESO is vital to the successful delivery of BP3. We expand on this position in the sections mentioned above.

Cost transparency

- 2.10 Many respondents called for greater levels of transparency in general, but with a particular focus on costs and value for money. In response to this feedback we have decided to add a requirement for NESO to provide further cost transparency following the publication of this determination. To ensure appropriate scrutiny of costs we have also decided to increase our regular engagement with NESO specifically with regard to cost and value for money. We discuss this further in the value for money sub-section in Chapter 4.

Monitoring and reporting

- 2.11 In general, respondents asked for more reporting from NESO in a range of areas. This included calls to retain several metrics we proposed to remove for BP3, as well as several suggested additional Success Measures.
- 2.12 Respondents specifically asked for additional key performance indicators within the Fit-for-Purpose Markets Performance Objective and additional reporting requirements on NESO to allow for further monitoring of performance, particularly under the Connections Reform Performance Objective. We address these issues within the relevant sections of Chapter 3.

- 2.13 We have decided to maintain reporting requirements in line with our Draft Determinations and have not added additional reporting requirements. We set out the rationale for our position on the reporting requirements, including reported metrics, in Chapter 5.

NESO focus on gas activity

- 2.14 Some respondents referenced the need for NESO to ensure that it appropriately reflects the importance of its gas system planning role through its business plan activities. We agree that NESO's new gas roles are important to the energy system. Additional details of our views can be found in the Strategic Whole Energy Plans and Clean Power 2030 Implementation sub-sections in Chapter 3.

3. Our assessment of the BP3 Performance Objectives

This chapter summarises the decisions we have made following feedback from respondents to the consultation on our Draft Determinations, including the rationale for our positions.

Overall view on NESO's Performance Objectives

- 3.1 We confirm our position that the Strategic Aims² set out for BP3 represent a suitable focus for NESO and align with NESO's statutory duties, licence obligations and the strategic priorities of the Strategy and Policy Statement (SPS).
- 3.2 NESO proposed eight Performance Objectives for the BP3 period. Each of these Performance Objectives are reviewed individually later in this section. The 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
- 3.3 We retain the view from our Draft Determinations that NESO's Performance Objectives suitably capture the right priorities for NESO as an organisation, confirming that they cover an appropriate range of key activities and that they collectively represent an ambitious plan. We consider that the Performance Objectives effectively facilitate the achievement of NESO's Strategic Aims and align NESO priorities with consumer and stakeholder needs.

² Which NESO refers to within its BP3 document as its strategic priorities.

- 3.4 Whilst the eight Performance Objectives should represent the main focus of our performance assessment for BP3, we expect NESO will perform any wider tasks that fall outside these Performance Objectives to an equally high standard. We may take performance of these wider activities into account at the end of the scheme.
- 3.5 We wish to confirm and underline that our assessment of NESO's BP3 performance will consider the quality of delivery, where relevant, for the activities covered in NESO's Success Measures, and not just whether an activity has been delivered. We expect NESO to evidence this quality aspect, such as through key stakeholder feedback or where delivery facilitates the achievement of a larger outcome in a multi-year process. Repeatable activities should show how continuous improvement has led to increased quality or benefit for consumers.
- 3.6 Stakeholders play an important role in our regulatory framework and we will use stakeholder feedback as a key measure of the quality of NESO's achievement of all the Performance Objectives.

Rationale

- 3.7 The responses from stakeholders to our Draft Determinations on this aspect were generally supportive. No respondent raised material concern with the collective Performance Objectives proposed by NESO.
- 3.8 We note some respondents questioned the alignment of NESO's plan with the Strategy and Policy Statement (SPS), particularly with the Clean Power 2030 (CP2030) government priority being established after publication of the SPS. We wish to clarify that NESO's plan must have regard to the SPS but it is not meant to be strictly limited by the SPS. NESO can further establish its priorities through industry engagement and its own views of the importance of delivering in certain areas.
- 3.9 Further, some respondents commented that NESO's plan did not sufficiently highlight how NESO's work would ensure that CP2030 aims are achieved. We understand industry's view on the importance of meeting CP2030 goals, but we consider that NESO's BP3 Performance Objectives do take account of CP2030 as a priority, including a Performance Objective on CP2030 Implementation (which will enable transparency and accountability in NESO's delivery in line with government's Clean Power 2030 Action Plan). We further note that in Appendix 2 (Consideration of the Strategic and Policy Statement) of its BP3 document, NESO listed CP2030 as a particular route through which meeting the UK's Net Zero target would help NESO to "meet and exceed" the SPS targets.

- 3.10 We also received more granular feedback from some respondents in relation to NESO's work in achieving CP2030 aims. These comments suggested that CP2030 as a strategic priority in and of itself requires a greater focus from NESO on establishing consumer led flexibility, removing barriers to market entry, and improvement of NESO's supporting digital infrastructure. We agree that these are important areas for NESO to focus on over BP3 and consider that the Performance Objectives on Fit-for-Purpose Markets and Enhanced Sector Digitalisation and Data Sharing allow for suitable reporting and focus on these aspects.
- 3.11 We note that one respondent commented that many of the Success Measures proposed by NESO were focussed more on the delivery of certain activities by milestone dates, and less so on the quality or utility of the output of the activity. We confirm our position, as per paragraph 4.7 of our Draft Determinations, that NESO is expected to evidence the quality and benefits of the work it undertakes in order to show how it has effectively attained the outcome expected for a Performance Objective. We also confirm that we expect NESO to use stakeholder feedback as a key measure of this quality of delivery. However, the scheme does provide NESO with some operational flexibility in achieving the important outcomes identified by the Performance Objectives.
- 3.12 Finally, one respondent suggested an additional Performance Objective for NESO to be responsible for monitoring UK delivery of Net Zero plans. We consider that this is beyond NESO's current remit³ and that this would not be a sufficiently large activity to be a full Performance Objective on its own. However, we note our position that NESO is required to continue to report on the carbon intensity of its actions and the percentage of electricity delivered by zero carbon generation⁴ (both pre- and post-NESO actions) throughout BP3 and thus consider that this expectation from industry is covered to a large degree under existing arrangements.

³ For clarity, this is driven by two main factors: 1. NESO would only report on activities for GB, not the UK; 2. NESO would likely be limited to report on areas of the GB economy linked to the relevant activities set out in the Energy Act 2023. However, this kind of activity (with the restrictions of points 1 and 2) could be asked of NESO by government in future.

⁴ Both reported as Success Measures under the Operating the Electricity System Performance Objective.

Strategic Whole Energy Plans

Decision

3.13 In our Draft Determinations we set out that we considered this to be an ambitious and relevant Performance Objective. We provided some clarifications as to what we consider NESO needs to do to deliver the full extent of the outcome envisaged by this Performance Objective, which are that:

- NESO should build on existing capability to incorporate gas and electricity distribution into its whole system plans; and
- NESO's outputs under this Performance Objective should be able to be relied upon for decision making and industry planning.

3.14 Our decision is to retain this position as well as the expectations we set for this Performance Objective in our Draft Determinations:

- that the transitional Centralised Strategic Network Plan 2 (tCSNP2) should be a publication that sets clear signals for industry investment and does not require further refresh;
- that NESO's review of the Security and Quality of Supply Standard (SQSS) is relevant in NESO establishing the foundations to deliver strategic energy plans and is therefore something NESO should have progressed by the end of BP3 in line with its RIIO-2 plans; and
- that NESO should evidence how delivery timelines of the Success Measure deliverables that it identified under this Performance Objective have been optimised to allow for the benefits to be accessed earlier or for greater synergies with other activities to access additional benefits.

Rationale

3.15 Industry responses supported our positions on this Performance Objective.

3.16 One respondent requested expansion on our Draft Determinations position that NESO outputs should be relied upon for decision making and industry planning. The respondent queried whether this meant NESO's outputs should be used as planning endorsement. We wish to clarify here that this view is not correct. Our position is that the quality and detail of NESO's outputs should provide Ofgem with a clear route to decision-making and to enable Transmission Owners (TOs) to accelerate business case processes and progress sufficiently developed designs (which should aid planning permission applications). NESO outputs should provide

the correct level of transparency as to how NESO recommendations were arrived at (for example, outlining risks and trade-offs considered), but recommendations should not be assumed firm ahead of an Ofgem decision.⁵

- 3.17 Some of the responses we received reiterated the importance of NESO beginning the expansion of its gas capabilities early and at pace. While we do not consider it appropriate to set this as a formal expectation for BP3, NESO should show how they are readying themselves and moving into their role as Gas System Planner. For clarity, it should be clear over BP3 that NESO has established capability in this area and, in line with comments received through our consultation, show that it has given sufficient consideration to both gas and electricity issues, outputs and engagement under this Performance Objective.
- 3.18 We note that respondents strongly agreed with our position that NESO should evidence how its outputs under this Performance Objective have been informed by stakeholder views in addition to performance being informed by stakeholder feedback on final outputs. In line with the paragraph above, we expect that NESO will evidence the quality of Success Measures in this way. However, we do agree with respondents that for the Success Measures which relate to outputs under the Strategic Whole Energy Plans Performance Objective, NESO will be expected to evidence this across a broader range of stakeholders than in some other areas, including clear evidence of engagement with gas industry stakeholders.
- 3.19 Stakeholders, and in particular NESO, agreed with our expectations around its forthcoming tCSNP2 publication. We therefore confirm our expectation of no further refresh being required following this publication, and the tCSNP2 should set clear signals for industry investment. We welcome NESO's suggestion to continue to work with Ofgem to ensure this can be achieved, and we further encourage NESO to continue to work with key stakeholders to ensure that the report delivers added value and insight. We note that some respondents requested NESO to be clear ahead of time how it will engage with stakeholders on key outputs. We agree this could be a useful approach but consider that it falls beyond the scope of the BP3 plan directly, and therefore beyond the scope of this Determinations document.

⁵ For further clarity, decisions on planning regimes are not within the scope of Ofgem's powers or the process within TO price controls. We will be working with the UK, Scottish, and Welsh governments to consider whether the outputs of strategic network plans can be incorporated into planning frameworks.

Enhanced Sector Digitalisation and Data Sharing

Decision

- 3.20 In our Draft Determinations we set out that in order for this to be considered an ambitious and relevant 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 its role in this digital ecosystem.
- 3.21 We also outlined our position that we expect the organisational function and capabilities required to deliver the role of interim data sharing infrastructure coordinator be in line with [Ofgem's decision on Governance of the Data Sharing Infrastructure](#), which has now been published on our website.
- 3.22 Our decision is to retain this position.

Rationale

- 3.23 Consultation responses supported our position with some respondents also highlighting the importance of the digitalisation timelines being met and the need for communication from NESO in this area to improve, specifically with regard to the objective it is trying to achieve and the provision of updates towards these objectives. We agree with these views and consider them as a key part of meeting our expectation for NESO to be recognised as a digital leader. Our assessment of NESO's performance against this Performance Objective will consider both timely delivery and clear communication.
- 3.24 One respondent commented that to support the digital ecosystem more work is required in defining and agreeing an appropriate methodology for data sharing before a digital solution is created. We note that multiple methods for data sharing can and will exist within the energy sector, including the use of open data platforms and solutions like the data sharing infrastructure.
- 3.25 Another respondent asserted that legacy IT was an issue. They added that NESO must ensure that when a solution is decided on, it is a solution that works across the industry not just for NESO. When those solutions are implemented, they should fulfil the objectives of the work and deliver progress in IT developments that benefit the industry. We agree that legacy IT should not be , as captured in our view that NESO should ensure that its own DD&T actively accelerates wider sector digitalisation. We also agree that when developing solutions, NESO will need to consider the needs of the wider energy sector and any trade-offs between needs before implementing the solutions.

Operating the Electricity System

Decision

- 3.26 In our Draft Determinations we set out that this Performance Objective reflects an ambitious and relevant outcome and that the Success Measures, when viewed comprehensively, reflect a suitable level of ambition.
- 3.27 We also noted additional expectations for NESO's skip rates performance to ensure skip rates fall as far as possible, as fast as possible during BP3. We set out that by the end of BP3 NESO should deliver a substantial reduction in skip rates with a target of relative parity across technology types. Moreover, this outcome should be visible in both the methodology at the time of publication of the Business Plan and any updated methodology agreed with industry.
- 3.28 We also set our expectation for NESO to ensure transparency of its skip rates performance. NESO should publish timely, accessible and accurate skip rates data using both the existing 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.
- 3.29 Our decision is to retain this position but in response to feedback from industry we propose to add two additional expectations.
- We expect NESO work closely with industry to develop and set an absolute numerical target for skip rates within the BP3 period.
 - We expect NESO to develop and share a methodology to measure the skip rate of actions taken to manage system constraints.
- 3.30 We also clarify that successful delivery of the Balancing Cost Strategy Success Measure must include NESO clearly demonstrating evidence of working with stakeholders to explore, develop and assess innovative solutions to minimise drivers of balancing costs and increase flexibility.

Rationale

- 3.31 Industry responses to this Performance Objective largely focussed on the skip rate issue and the associated Success Measure, with one respondent providing their view that balancing costs more widely should be the key priority.
- 3.32 With specific regard to the skip rates feedback, two of the ten respondents agreed with our skip rate position, three did not comment and five appeared to support, among other things, the introduction of an absolute numerical target.

Respondents felt that our proposed approach lacked exactness and ambition which undermined the ability to measure success. They provided the view that an absolute numerical target would increase accountability and be a more effective marker for progress.

- 3.33 To clarify our Draft Determination position, we proposed to set NESO the target of substantially reducing skip rates relative to BP2 and to achieve parity of skip rates performance across technology types relative to each other. This means that by the end of BP3, we expect substantial overall reduction in skip rates, and the skip rates for batteries and other flexible generation assets to reduce to rates consistent with traditional generation assets. We also proposed that NESO should publish timely, accessible and accurate skip rates data using both the existing 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. It is our view that this transparency allows for a clear measure of progress that can be used to ensure accountability.
- 3.34 For an absolute numeric target to be an effective behavioural incentive it must be both attainable and ambitious. The current difficulties in establishing a reliable, effective absolute numerical skip rates target are driven by the existing lack of historic performance data for the current methodology and the known limitations in the current methodology. NESO has now identified three significant areas of improvement in the methodology and has already proposed new steps to address two of these challenges this year. With those methodological improvements, plus the additional timeseries data being gained every day throughout BP3, we expect NESO to be well placed to work closely with industry to create an absolute numerical target for skip rates within the BP3 period.
- 3.35 Several responses also noted a desire to see low carbon assets being skipped at a comparable level to high carbon assets. We believe this expectation is already captured by our expectation that NESO should achieve skip rates parity across technology types.
- 3.36 Other suggestions also included NESO publishing analysis on the materiality of skip rates, publishing root cause analysis of skip rates, a transparent methodology for assessing skip rates, and reporting skip rate data at the different stages. We believe these suggestions are all captured in the latest NESO roadmap for addressing skip rates. Therefore we expect these to be captured by NESO's respective Success Measure that states: *"During BP3, we [NESO] will deliver all commitments within our delivery programme and roadmap to reduce skip rates,*

providing transparency by continuing to report against the skip rate measure.”

For clarity, we expect the latest publication of the roadmap, following the stakeholder event on 1 May 2025, to be the version of the roadmap used in this Success Measure.

- 3.37 Another request from stakeholders was for NESO to measure the skip rates of system actions taken to manage network constraints. We agree with this stakeholder feedback and have set an additional expectation on NESO to develop and share a methodology to measure the skip rate of actions taken to manage system constraints. We note the challenges related to public provision of constraints data and the ongoing work being undertaken to determine what data maybe be reasonably published. We expect NESO to work with Ofgem, DESNZ and industry to find an appropriate means of sharing this data that balances transparency with system security.
- 3.38 Outside of skip rates-related feedback, one respondent noted that while NESO’s BP3 document stated that achieving lower costs than would otherwise be the case is a core outcome, and consumer value is one of its strategic priorities, they did not believe NESO had provided sufficient evidence of activity that could deliver this outcome and priority, particularly in relation to the cost of balancing the system. This respondent suggested NESO must clearly demonstrate evidence of working with stakeholders to explore, develop and assess innovative solutions to minimise balancing costs and increase flexibility on the system. We agree with this point and it should be considered as a key part of the Balancing Cost Strategy Success Measure.

Connections Reform

Decision

- 3.39 We retain our view that this is a relevant and ambitious Performance Objective with generally well-formed Success Measures.
- 3.40 We confirm our position that under the Success Measure relating to the Connections Portal, we expect NESO to evidence continual improvements, aligned with user feedback and priorities.
- 3.41 In our Draft Determinations, we considered that the Success Measures proposed in NESO's BP3 for the Connections Reform Performance Objective to be appropriate and would aid in identification of ambitious delivery. We note that since our Draft Determinations the timelines for the Gate 2 process have changed. We therefore clarify that for the Success Measure which requires 100% of projects entering the Gate 2 to Whole Queue process to have connection offers will be required by the end of March 2026.
- 3.42 Despite some suggestions from respondents for additional Connections Reform monitoring within the BP3 scheme, we have decided not to include these, for the reasons set out below.

Rationale

- 3.43 There was general support from respondents for the Connections Reform Performance Objective, alongside some suggestions for additional monitoring and strengthening of NESO's Success Measures.
- 3.44 Our decision to adjust expectations for the Gate 2 to Whole Queue connections offers to be delivered by the end of March 2026 aligns with a re-baselined timeline as set out in our recent [decision](#).
- 3.45 One stakeholder suggestion was to include agreements to vary (ATV) as a measure of NESO performance under this Performance Objective. We agree that over time, ATV may be an important part of NESO performance with regards to connections performance. However, at this stage we consider there is too much uncertainty⁶ to set explicit expectations on reporting for NESO's BP3. We do expect NESO to monitor ATV and ensure this aspect of connection offers

⁶ For example, because there are likely to be multiple drivers of the need for ATV, and it is not sufficiently clear at this point so as to ensure monitoring would accurately reflect NESO performance alone.

performance is at a high standard, but we consider this is best managed outside of the BP3 scheme at this stage.

- 3.46 Similarly, there were suggestions for explicit monitoring of NESO's performance with respect to Gate 2 Project attrition⁷ and alignment of project designation. We consider that monitoring of the Gate 2 Project attrition is not needed at this time, but it is something we expect NESO to keep under consideration. NESO's [Connection Network Design Methodology](#) set out the procedure for project attrition, and we will monitor NESO's compliance with Connections Reform processes and procedures. Likewise, we set out in our Draft Determinations (at paragraph 4.41 of that document) that we consider the best indicator of NESO performance in this Performance Objective will be "[s]ubstantial progress towards a rationalised connections queue which is strategically aligned to the capacity pathways in the CP2030 Action Plan" – and so while we are not setting specific reporting of project designation, we consider that we have already set an expectation of transparency and explanation of performance in this regard.

⁷ Gate 2 is the point at which eligible projects are provided with a confirmed connection date, connection point and Gate 2 Queue position. Attrition in this context refers to the allocation of more capacity than needed.

Fit-for-Purpose Markets

Decision

3.47 We retain our Draft Determination position that this Performance Objective is relevant. However, we also maintain the position from our Draft Determinations with respect to our expectations on the outcome that this Performance Objective should deliver. Therefore, by the end of BP3, NESO is expected to be able to evidence:

- how its markets can support a zero-carbon system, at low cost to the consumer, with clear and consistent revenue opportunities to market participants;
- that markets operate efficiently, in support of a zero-carbon operable system with significantly reduced barriers to entry; and
- that there is coordination of rules and development 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.

3.48 We have decided to alter our expectations for the Success Measure in NESO's BP3 document related to the launch of the first Early Competition pre-qualification and invitation to tender events. We wish to clarify that our expectation is now for NESO to ensure it is ready to deliver against a future identified project with similar project timelines, though further into the future than set out in the original plan.

3.49 We have also decided to retain the following positions on the expectations for NESO from our Draft Determinations:

- NESO should proactively engage with the market facilitator⁸ ahead of market facilitator launch⁹ and NESO should also continue to work with the Open Networks programme ahead of that point, delivering on actions where relevant.

⁸ Following our 29 July 2024 [decision](#), Elexon will be the market facilitator.

⁹ We intend for the market facilitator to be live by the end of 2025, ie before the end of BP3.

- NESO should evidence how it has engaged proactively in the identification of GB rule changes (including relevant industry codes and standards) and work to affect change positively to the benefit of the GB consumer.
- 3.50 We have decided to maintain our expectation that NESO can evidence how market reforms have led to better alignment of its services with its Market Design Framework.
- 3.51 We confirm that we agree NESO’s delivery against its [Markets Roadmap](#) can reflect ambitious delivery against the Performance Objective outcome. In particular, we consider that NESO should be able to evidence how progress on activities that NESO defines within the Markets Roadmap as “ongoing in the short-term” has supported attainment of this Performance Objective’s intended outcome. Work progressing in the medium and longer term should also provide an evidence base for NESO to explain how it is ensuring that markets remain fit-for-purpose and help deliver its ambitions.

Rationale

- 3.52 The plan set out by NESO for its Early Competition Success Measure was in line with our expectations of ambitious delivery at that time. However, noting our [recent decision](#) on Early Competition, we now recognise uncertainty to the timelines expressed for the first Early Competition event noted within NESO’s BP3 document. Therefore, our revised expectation is for NESO to ensure it is ready to deliver against a future identified project with similar project timelines, though further into the future. Our expectation is that NESO continues to upskill and prepare for this important competitive procurement activity and to continue to act in accordance with the Next Steps section of our decision on the first Early Competition project.
- 3.53 We note that NESO is supportive of the expectations set out in our Draft Determinations relating to working with the market facilitator and Open Networks, and evidencing of proactive identification of GB rule changes. We will work with NESO over the BP3 period to establish what evidence of these aspects could look like.
- 3.54 We set out in our Draft Determinations that NESO should provide an update on how well its markets align with its Market Design Framework, given the quantity of reforms and updates already made by NESO to its services. We set out that this could look similar to a previous exercise that NESO commissioned from a third party, or equivalent. In its response, NESO indicated that due to ongoing reforms and the embedding of outcomes of BP3 reforms, a full re-assessment of

market alignment to the Market Design Framework might not be appropriate within BP3 timeframes. We acknowledge NESO's view on this, and therefore clarify that there are a range of methods for NESO to provide evidence of this short of a full, independent reappraisal. However, we continue to hold an expectation that NESO should evidence where services have improved in alignment with the framework, meaning that industry and Ofgem can consider the extent to which NESO has achieved reform of its markets in line with those principles. We also consider that this could be used by NESO in support of evidencing progress toward RIIO-2 aims such as *enabling zero carbon operability* and *competition everywhere*.

- 3.55 Some stakeholders suggested that given the context of CP2030, there should be added emphasis on NESO's ability to deliver against key aspects of the CP2030 plan, such as working to deliver more accessible markets, particularly for demand side assets. We agree with the sentiment of these responses, but consider that there is already sufficient monitoring of this in NESO's BP3 plan (including several Success Measures and Ofgem expectations) which will maintain transparency and accountability for delivering on this aspect. We consider that NESO's ambition under this Performance Objective, with the clarifying expectations set in paragraph 4.48 of our Draft Determinations, ensures that the outcome NESO intends to achieve should address stakeholder expectations.
- 3.56 NESO included a Success Measure in its BP3 plan which referred to delivery against its April 2025 Markets Roadmap. At the time of our Draft Determinations, NESO's April 2025 Markets Roadmap had not been published but has since published it. In general, the medium term (ie 2030) outlook for NESO's markets in the April 2025 Roadmap reflects the same ambition as did the March 2024 document, and we consider that this does reflect a position that would support NESO's desired outcomes for Fit-for-Purpose Markets. We also recognise that NESO has incorporated relevant publications and milestones for its gas work as it relates to markets.
- 3.57 For clarity, our position is not that NESO being able to identify project completion in line with its Markets Roadmap reflects performance exceeding our expectations, but rather that NESO having delivered those projects would be able to evidence the impact they have had and thus evidence the degree to which NESO has attained our expectations as set in paragraph 3.47 of this document.

Secure and Resilient Energy Systems

Decision

- 3.58 We confirm our position set out in our Draft Determinations that Secure and Resilient Energy Systems is a clear, ambitious Performance Objective.
- 3.59 We have decided to keep the additional expectations listed at paragraph 4.59 of our Draft Determinations, summarised as:
- NESO should 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;
 - NESO should provide the Emergency Processes Assessment to Ofgem and DESNZ by 1 December in line with NESO's licence obligation. This should follow collaboration with industry to improve processes, procedures and general prevention and response actions to potential severe disruptive events that could impact society. The outcome of which should be an increase to the overall resilience of the whole energy industry; and
 - NESO should continue to work on medium-term adequacy modelling, building on the developments made in BP2 including:
 - the Electricity Capacity Report and the annual cycle of development projects to enhance the modelling; and
 - adequacy modelling, including assessment of the 2030s, looking beyond the time horizon set out in CP2030 which now includes a new, dedicated assessment of gas supply security to be produced by 31 October each year.

Rationale

- 3.60 Responses to our Draft Determinations consultation universally supported our view on this Performance Objective and the expectations we set for NESO.
- 3.61 Feedback indicated that NESO should ensure it utilises the full suite of services and energy vectors available to it when considering energy system security. We expect NESO to demonstrate rationale for the considerations and trade-offs it makes. We also expect NESO to build its gas capabilities throughout BP3 with regards to delivering future Energy Resilience Assessments and Emergency Process Assessments.

- 3.62 NESO agreed with our position (set out in paragraph 4.60 of our Draft Determinations) that calculation of 95% delivery of capability and arrangements for the Electricity System Restoration Standard (ESRS) is challenging and, instead, NESO's demonstration to Ofgem of being on track to meet the ESRS will be the expectation used for that Success Measure. We will work with NESO over BP3 to ensure that there is an appropriate route for providing the necessary evidence to Ofgem.
- 3.63 We did not receive substantial feedback on the other expectations that we set for this Performance Objective.

Clean Power 2030 Implementation

Decision

- 3.64 In our Draft Determinations, we set out that we agreed NESO's Performance Objective was relevant and reflected appropriate ambition, with NESO being crucial to facilitating implementation in line with government's CP2030 Action Plan. We also set expectations on NESO to support Long Duration Electricity Storage developments. Finally, we clarified our position that NESO's proposed Success Measure under the Fit-for-Purpose Markets Performance Objective, which relates to progressing the realisation of demand side flexibility to meet CP2030 Action Plan requirements, was also suited to supporting performance under this Performance Objective.
- 3.65 We have decided to maintain our positions for this Performance Objective as per our Draft Determinations, with one modification.
- 3.66 We received feedback on our Draft Determinations position with respect to expectations for NESO to identify the key roles of all actors for the comprehensive CP2030 delivery plan. We here clarify that we do not expect NESO to assign responsibility, but rather that a necessary feature of this Success Measure is that there will be alignment with the Clean Power Unit on the roles and responsibilities of key actors in NESO's comprehensive delivery plan.
- 3.67 We still consider that some of NESO's Success Measures under this Performance Object will need further refinement as BP3 progresses and expect NESO to provide further clarity as it emerges.

Rationale

- 3.68 Generally, responses to our Draft Determinations showed support for this Performance Objective, with clear identification that CP2030 should be a core priority for NESO given it remains a government priority.
- 3.69 We have clarified the intent of our Draft Determinations position with respect to the identification of key actors within NESO's proposed Success Measure for a comprehensive delivery plan. Our clarification that we expect alignment of NESO's plan to the Clean Power Unit assignment of responsibilities is based on ensuring that plans are coherent and therefore it should be clear to all industry parties as to where responsibilities lie.
- 3.70 We do not agree with responses which suggested that NESO's plan placed a lack of emphasis on CP2030 as a strategic intent. In addition to this Clean Power 2030

Implementation Performance Objective, NESO's BP3 document also set "Clean Power" and "Decarbonised Energy" as two of the six new strategic priorities that built on its BP2 ambitions. NESO has also set a Success Measure to track enablement of the demand side flexibility required to meet CP2030. We consider this does show that NESO has correctly identified the importance of delivering in this area and is therefore aligned well to stakeholder expectations.

- 3.71 We note calls from some responses for NESO to better explain how planned activities align with CP2030 intent. However, we consider this is best done throughout the scheme, including through publications flagged by NESO as Success Measures, for example its Routes to Market Review.
- 3.72 Some stakeholders asked for NESO to go further with its ambition under this Performance Objective. We agree that should NESO decide it is beneficial to deliver additional outputs in this area then its current plans should not restrict further progress. However, we will not hold this as a specific expectation, and we continue to believe that this Performance Objective represents an appropriate level of ambition.
- 3.73 For clarity, we consider that points raised by stakeholders related to the need for NESO to consider the role of gas (or gas networks) within achieving CP2030 are important. We will expect NESO to evidence how whole system thinking has influenced both its continuing stakeholder engagement and its delivery against this Performance Objective. We consider this can be achieved under its current list of Success Measures and the additional expectations set out in our Draft Determinations.
- 3.74 There were calls from some respondents to add further monitoring of NESO's performance under this Performance Objective. We consider that the monitoring and reporting requested is likely to form part of other mechanisms (such as the Flexibility Roadmap)¹⁰ and does not need to be reported directly within this scheme. However, NESO may choose to use this data as evidence of its performance throughout BP3 and we expect NESO to provide transparency around clean power ambitions.

¹⁰ A document to be published by the Department of Energy Security and Net Zero setting out a roadmap to deliver in line with its [Clean Power 2030 Action Plan](#) commitment to publish a Low Carbon Flexibility Roadmap.

Separated NESO Systems, Processes and Services

Decision

- 3.75 We retain our position from our Draft Determinations that this is a relevant and ambitious Performance Objective.
- 3.76 We confirm our position that the Success Measure related to NESO's exit from Transition Service Agreements (TSAs) with National Grid PLC should be measured and evidenced with respect to the total number of TSAs originally in place.

Rationale

- 3.77 Responses supported our view on the relevance and ambition of this Performance Objective. We note that NESO's response to our Draft Determinations agreed with our position (at paragraphs 4.70 and 4.71 of that document) that full separation is not required until 1 October 2026. Therefore, while the end of BP3 will represent a significant milestone to achieving that ultimate aim, NESO's performance should reflect progress rather than completion. This should not be seen as a slowing of attainment of this important outcome.
- 3.78 We did not receive any substantive feedback on the Success Measures or our expectations under this Performance Objective.

4. Value for money

This section outlines our determinations on NESO's value for money. We consider that it is appropriate for NESO to undertake all planned activities and the benefits of delivering these should outweigh the costs. We place an expectation that NESO provide additional cost transparency to industry. We outline that we will continue to work with NESO within scheme to ensure we receive sufficient information required for us to make an informed assessment on value for money at the end of the BP3 period.

- 4.1 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. This pass-through approach recognises that NESO can create most value through delivering sectoral outcomes and reducing external energy system costs, rather than through minimising its own internal costs. This approach is designed to be dynamic to provide flexibility to NESO to adapt quickly in response to energy sector developments.
- 4.2 NESO is subject to economic regulation by Ofgem and as part of our role we have to strike the right balance between providing NESO with the flexibility to effectively respond to energy system developments, with the appropriate level of scrutiny and incentives on its spending. Our regulatory framework obligates NESO to spend efficiently and incentivises NESO to make ongoing trade-offs to maximise the value for money of its spending.
- 4.3 To protect consumers' interests we have scrutinised NESO's BP3 costs. We have done so proportionately, which means we have focused most on the areas of significant year-on-year change, such as where NESO is undertaking new functions that did not previously exist.

Decision

- 4.4 We consider that the total benefits of NESO delivering its proposed activities outweigh the costs. We expect NESO to continue to evidence how it has sought to optimise the balance of maximising benefits while minimising cost.
- 4.5 However, for a small number of workstreams our assessment has not fully considered NESO's cost forecasts due to these workstreams, understandably, having not yet reached a sufficient level of maturity. Once these workstreams mature NESO will resubmit additional cost breakdowns and rationale to Ofgem.

- 4.6 Ofgem will be assessing NESO's delivery of value for money, broadly defined as maximising benefits whilst minimising costs, as part of the BP3 end of scheme assessment. Before then, we will continue to work with NESO to ensure we are provided with the information required for us to make an informed assessment. To support this, we have decided to establish a more frequent, regular process to engage with NESO on its cost and value for money reporting.
- 4.7 We set an expectation that NESO will publish a transparent breakdown of its costs with an accompanying narrative following the publication of our Final Determination and sufficiently ahead of NESO's mandatory 6-month value for money reporting. We expect this to be at least as granular as the information Ofgem provided in our Draft Determinations appendix.
- 4.8 We confirm our position not to perform another full assessment of NESO's Digital, Data and Technology (DD&T) portfolio for BP3 but to maintain the Cost Monitoring Framework (CMF) and the requirements for NESO to continue to improve transparency on its DD&T reporting.

Rationale

- 4.9 As part of our scrutiny of NESO's costs, we requested further details from NESO both before publication of our Draft Determinations and between our Draft and Final Determinations. NESO responded with additional information being submitted and a number of meetings were held between Ofgem and NESO directors and heads of team. These meetings were helpful in supporting our understanding of what NESO intend to deliver for the proposed costs. We also gained a fuller understanding and appreciation of how NESO's cost forecasts were created and the governance behind both the original cost submissions and ongoing cost and full-time equivalent (FTE) monitoring.
- 4.10 For two workstreams newly included in NESO's BP3 plan, Regional Energy System Planners and the new contingency control centre, the additional information provided revealed that these cost forecasts were not yet at a mature stage. This is understandable and therefore, as cost forecasts for these workstreams develop in maturity, NESO should further engage with Ofgem and provide the relevant cost information when forecasts become more certain.
- 4.11 Our BP3 incentives scheme requires NESO to produce public value for money reports every six months. We have decided to implement additional dedicated monthly engagement with NESO to ensure we can proportionately but effectively scrutinise ongoing NESO spending throughout BP3.

- 4.12 Respondents expressed strong views in their responses to our Draft Determination consultation that NESO's BP3 document should provide greater transparency and rationale for proposed cost and FTE numbers. We agree with these views and consider that the pass-through nature of NESO's cost recovery necessitates a high degree of transparency. We have therefore set our expectation that NESO should transparently publish a further breakdown of its costs, with an accompanying narrative, following the publication of our Final Determinations and sufficiently ahead of the obligatory 6-month value for money report. We expect this will provide industry with a much clearer understanding of NESO's costs, reflecting the type of information recently shared through NESO's engagement with Ofgem. We understand that the pace at which NESO should produce this ad-hoc publication may mean that the format may not align with future NESO value for money reporting.
- 4.13 Respondents broadly agreed with our proposal not to perform another full DD&T assessment for BP3, and our position to maintain the CMF and the requirements for NESO to continue to improve the transparency of its DD&T reporting.

5. Reporting requirements

This section outlines our final position with respect to the information that NESO will report regularly throughout BP3.

Decision

- 5.1 Our decision is to maintain our Draft Determination position that NESO retain the Reported Metrics from BP2 with the exception of the following which will no longer be reported:
- 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
- 5.2 In addition, we also expect NESO to work with industry to identify whether there is a need for a broader operational transparency reporting tool alongside the skip rate measure. If there is found to be a need, NESO should create such a reporting tool within BP3.
- 5.3 We confirm our Draft Determinations position with respect to the timing and calculation methodologies of the Reported Metrics. This includes the requirement for the new skip rate measure to be reported on a monthly basis. We also confirm that NESO's Success Measure for the Fit-for-Purpose Markets Performance Objective relating to competitive spend on balancing services will reflect the percentage of spend on competitive services out of total spend on services, using the same inputs as for BP2 (ie the same service types).

Rationale

- 5.4 There was broad agreement from respondents to our draft determination position.
- 5.5 One respondent felt that operational decision making should be interpreted more broadly than just skip rates and therefore a broader operational transparency metric should be in place alongside a targeted metric focused on skip rates. We agree that operational decision making is an important industry concern and is broader than just skip rates. RRE 1E, transparency of operation decision making, solely focuses on skip rates and does not provide a complete view of operational

decision making. Therefore, in response to this feedback, we consider that NESO should work with industry to test whether there is a need and benefit to be had from a broader operational transparency reporting tool/metric alongside the skip rate measure. If such a need is identified NESO should create such a reporting tool within BP3.

- 5.6 NESO queried whether the metric which reports the volume and spend on balancing services procured by NESO in a non-competitive manner (RRE 2Aii of BP2) was still required for BP3. NESO pointed to its proposed Success Measure under its Fit-for-Purpose Markets Performance Objective which measures the percentage of service volumes which are procured competitively and suggested that this could be duplicative.
- 5.7 We consider that retaining RRE 2Aii of BP2 is still beneficial. Continuity of this reporting enables transparency as to NESO's progress against its RIIO-2 aim of "competition everywhere". We consider particularly that NESO has set targets within its BP3 for the associated Success Measure which are less than 100% of overall procurement and so continuing to allow NESO to show the volumes and prices of its non-competitive procurement ensures a comprehensive picture of progress in this area.
- 5.8 We received a response suggesting that the information required as RRE 3X and RRE 3Y in BP2 would continue to be useful information for NESO to report on through BP3. We agree with the respondent's general view that timely and accurate connection offers remain important. We confirm that we expect NESO to provide industry with a high-quality service under the reformed connections process, including with timely and accurate offers. However, we do not consider that the current construction of RREs 3X and 3Y are suited to reporting of this information under the new connections process, and therefore continuing to report them in their current form may cause confusion and reduced transparency. We note that the respondent also acknowledged a challenge in setting the parameters for these measures. We expect NESO to be able to showcase its performance in BP3 under the Connections Reform Performance Objective, and that these RREs would not add significantly to our assessment of NESO performance. For clarity, if NESO sees benefit in providing additional information around connection offers once the reformed process is fully implemented, we encourage them to do so where it aids industry understanding or transparency, but this can be outside of the formal BP3 reporting.
- 5.9 We did not receive feedback on our Draft Determinations position relating to the calculation methodology or reporting timings for Reported Metrics. However, one

respondent questioned the rationale for removal of the pre-defined benchmarks. We have decided to remove the benchmarks as they served a specific purpose within the BP2 assessment framework of providing a below, meets or exceeds expectations score as one of the five assessment criteria. The need for a set benchmark to provide a clear distinction of below, meets or exceeds expectations no longer exists in BP3. The BP3 assessment framework predominantly utilises the Reported Metrics to increase transparency and, where appropriate, inform NESO's performance of the achievement of business plan aims. We recognise that NESO may choose to use benchmarks or the provision of historic performance in its reporting and we encourage it to do so where it would further aid transparency.