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## NESO Business Plan: Guidance Document

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National Electricity System Operator (NESO) will need to submit a Business Plan for its two-year Business Plan cycle on an ongoing basis, commencing with the Business Plan cycle from 1 April 2026 and ending on 31 March 2028. This document provides guidance on the information that should be included in the Business Plan.

This Guidance Document outlines the key dates for the submission and determinations of the Business Plan; the contents of the Business Plan; how the Authority will assess the Business Plan; and the duration of the Business Plan cycle.

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## **1. Introduction**

- 1.1 This chapter sets out the purpose of this Guidance Document and its status from a compliance perspective.
- 1.2 NESO is an independent, non-profit, Government-owned public corporation, licenced and regulated by Ofgem. It has key roles in relation to the planning and operating the energy system. NESO can unlock substantial benefits for consumers by helping to shape the best pathway to a Net Zero energy system, while maintaining energy security and minimising costs for consumers. NESO's Business Plans are a key component of its regulatory framework, as they provide transparency on NESO's aims, activities and spending, and help support accountability to Ofgem and wider stakeholders.
- 1.3 NESO will publish a Business Plan for a two-year Business Plan cycle on an ongoing basis, commencing with the Business Plan cycle from 1 April 2026 to 31 March 2028.
- 1.4 This Guidance Document provides NESO with specific guidance, setting out the process by which NESO must submit the Business Plan to the Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> and the governance and process by which the Authority and the Independent Challenge Panel (ICP) will assess the Business Plan.
- 1.5 The NESO Business Plan Guidance Document is issued by the Authority under Part D of Condition G1 (Business Plan) of NESO's licences. As set out in Condition G1.13, the Authority may make appropriate provision about, or impose, requirements in the Business Plan Guidance Document, which may include, but will not be limited to:
  - (a) the dates for the submission of the Business Plan;
  - (b) the contents of the Business Plan;
  - (c) the processes for engagement with stakeholders, including any consultations; and
  - (d) how the Authority will assess the Business Plan and make a Plan Determination.

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<sup>1</sup> The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day-to-day work. In this Guidance document, 'we', 'Ofgem', and 'Authority' are often used interchangeably.

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- 1.6 This document may be revised and reissued in accordance with Part D of Condition G1.
- 1.7 Before issuing new or amending the NESO Business Plan Guidance Document, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed NESO Business Plan Guidance Document;
  - (b) the date on which the Authority intends the NESO Business Plan Guidance Document or amended NESO Business Plan Guidance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the NESO Business Plan Guidance Document, which will not be less than 28 days.

## **Compliance**

- 1.8 Where provisions of this Guidance Document require the compliance of the licensee, the licensee must comply with those provisions as if the Guidance Document were part Condition G1.
- 1.9 For the avoidance of doubt, this document is subordinate to the licence. This document does not change any definitions or obligations contained within the licence and in the event of any ambiguity over the Guidance Document, the licence will take precedence.
- 1.10 The content of this Guidance Document does not alter or supplement NESO's compliance with its wider obligations under legislation, its licence or industry codes.

## **2. Strategic Aims**

This chapter sets out requirements on NESO related to the development and publication of Strategic Aims.

### **Overview**

- 2.1 Condition G1 of NESO's licences requires NESO to provide a summary of its key strategic aims as part of its Business Plan, where and when required by this guidance.
- 2.2 This section expands on this requirement. It provides guidance on what the Strategic Aims should include and the time horizon they should cover; when they should be developed and published; how often they should be reviewed; and how they related to the Business Plan and Business Plan process.

### **What the Strategic Aims should cover**

- 2.3 NESO must have in place a published set of Strategic Aims to support its Business Plan submissions. The Strategic Aims should set out what NESO intends to achieve over the medium- to longer-term to deliver its overall organisational vision. The Strategic Aims should consider the overall impacts and major sectoral changes NESO is aiming to achieve and NESO's strategy for delivering these. The published Strategic Aims should provide clarity on what is underpinning NESO's shorter-term objectives, commitments and investments in its Business Plan submission.
- 2.4 Strategic Aims should be timebound, but NESO has discretion over the timeframe each Strategic Aim should cover.

### **Strategic Aims process requirements**

- 2.5 NESO's first version of the Strategic Aims can be published at any point prior to the final Business Plan submission for the April 2026 to March 2028 period. They do not have to be submitted as part of NESO's Business Plan if NESO wishes to develop these earlier. However, at any point at which NESO submits a Business Plan there must be a relevant and up-to-date set of Strategic Aims in place.

- 2.6 NESO must engage with a wide range of stakeholders when developing or materially changing its Strategic Aims. NESO must provide transparency on how stakeholder views have been considered.
- 2.7 NESO must keep its published Strategic Aims under review and ensure they are updated and re-published if they become materially out of date or inaccurate (for example, where NESO takes on major new roles or there is major policy change that impacts NESO's medium to longer term aims). The Strategic Aims should be reviewed and republished at least every 6 years.
- 2.8 We will publicly comment on NESO's Strategic Aims where appropriate (either alongside our determinations or at another point). For example, if we consider NESO's Strategic Aims are misaligned with strategic government policy, if they have not appropriately reflected on stakeholder views, or where we consider they are not fully aligned with the interests of energy consumers. The purpose of this comment is to align expectations and support an effective process for making determinations on NESO's shorter Business Plan submission.



### **3. The Business Plan process**

This chapter provides an overview of the Business Plan process. It provides guidance on the steps, processes and timings involved in NESO's two-year Business Plan cycle, commencing with the period beginning 1 April 2026 onwards and ending 31 March 2028.

#### **Overview**

- 3.1 Condition G1 of NESO's licences requires it to produce, publish and submit to Ofgem a Business Plan, according to the process and timelines set out in this guidance document. Condition G1 also requires NESO to engage with relevant stakeholders when preparing the Business Plan in line with the guidance in this guidance document. This chapter sets out further requirements for these processes for NESO's Business Plan submission.

#### **Duration of the Business Plan cycle**

- 3.2 NESO's Business Plan cycle will cover a two-year period on an enduring basis, commencing with the period from 1 April 2026 to 31 March 2028.
- 3.3 NESO is expected to deliver its Business Plan and adhere to its relevant submission timing, in the absence of any changes or further updates from Ofgem.

#### **Stages in the Business Plan process**

- 3.4 This chapter provides an overview of the key stages and timings in the Business Plan process. The content required for NESO's Business Plan submission is outlined in Chapter 3, whilst further details on Ofgem's determinations are in Chapter 4.

#### **Step 1) Business Plan Development**

- 3.5 NESO should carry out robust and effective engagement with stakeholders to inform the development of the Business Plan. This should include discussing key aspects of the plan with stakeholders, such as the Performance Objectives and Success Measures, as they are being developed. The Business Plan should also reflect stakeholder views and feedback provided to NESO throughout the duration of the previous Business Plan cycle.

- 3.6 NESO's consultation and engagement with stakeholders should occur early enough, and take place over a sufficient duration, to enable stakeholder views to be robustly considered. It should enable time for NESO to draft and update the Business Plan in response to those views, prior to the formal submission in Step 2. NESO should ensure it engages with a wide spectrum of stakeholders, including but not limited to the Independent Challenge Panel (ICP); electricity and gas industry parties; the Authority; and any other interested parties, including consumer representatives and academics.
- 3.7 NESO must engage with Ofgem on key aspects of the plan to a sufficient level of detail and sufficiently far in advance of the Business Plan submission, as agreed with Ofgem, to enable Ofgem to provide early feedback. Our review at this stage will be focussed on providing feedback on key areas, rather than a full plan assessment. Key areas include the Performance Objectives, Success Measures and NESO's cost forecasts and justifications. This will be particularly important where NESO is expecting material changes from the previous Business Plan. This is to minimise the risk of a major misalignment of views between NESO and Ofgem for the final Business Plan submission. This in turn will help streamline the determinations process.

## **Step 2) Business Plan Submission**

- 3.8 NESO must publish a final version of its Business Plan by the 15<sup>th</sup> working day in October the year prior to the start of the Business Plan cycle, or at another time agreed with Ofgem. The final Business Plan should demonstrate how NESO has incorporated the views of stakeholders, Ofgem and the ICP. This should include an explanation of the reasons why key themes raised by stakeholders may not have been factored into the final Business Plan.

## **Step 3) The Authority's Draft Determination**

- 3.9 We will provide and publish a 'Draft Determination' on the final Business Plan by the end of January, the year the Business Plan cycle commences. This will follow our review of the Business Plan, stakeholder responses received by NESO and the ICP's views on the Business Plan.
- 3.10 Before issuing the Draft Determination, we may seek further clarifications from NESO on any aspect of its Business Plan (for example, if any unclear or ambiguous points remain). NESO should respond to these requests promptly.

3.11 In our Draft Determination, we will set out for consultation our proposals for:

- our **assessment of NESO's proposed Performance Objectives**, including our views on any missing areas or additional performance expectations that NESO should achieve over the Business Plan cycle;
- our **Value for Money assessment**, including views on any activities or investments that should not be funded or areas where more demonstration of value is needed;
- any additional **reporting requirements**, including specific Reported Metrics that NESO should publish; and
- **any other aspects being reviewed**, including NESO's Network Innovation Allowance (NIA) funding.

3.12 We discuss each of these aspects in more detail in Chapter 4.

#### **Step 4) The Authority's Final Determination**

3.13 Following a review of stakeholder feedback to the Draft Determination, Ofgem will publish a 'Final Determination'. The Final Determination will consider all consultation responses received.

3.14 Ofgem will aim to publish a Final Determination in a timely manner before the start of the Business Plan cycle to provide clarity to NESO. However, final timelines will depend on the nature and volume of feedback received.

#### **Revisions to the Business Plan**

3.15 We expect NESO to remain flexible and adaptable throughout the Business Plan cycle and respond to changing situations. NESO should deviate from the plan where it identifies opportunities for greater consumer benefits and explain why. Equally, if an action in the plan turns out not to be in consumers' best interests, NESO should change its approach and explain why.

3.16 Whilst the Business Plan document will not be revised once published, we expect any changing context and changes from the plan to be appropriately explained through NESO's within-scheme reporting throughout the rest of the Business Plan cycle.

## **4. Contents of the Business Plan**

This chapter outlines our expectations on the contents of NESO's Business Plan and provides specific guidance on what different elements of the Business Plan should contain.

### **Overview**

- 4.1 Condition G1 of NESO's licences requires it to include the following minimum content within its Business Plan:
- a forecast of the total expenditure that NESO expects to incur for the regulatory year ahead;
  - an explanation of and justification for the forecast expenditure;
  - where and when required by this guidance document, a summary of the licensee's key strategic aims in respect of the period specified in this document;
  - a summary of the licensee's key work priorities and major planned deliverables for the regulatory year, including how they relate to its latest key strategic aims; and
  - any other required contents set out in this guidance document.
- 4.2 Condition C2 of NESO's licences requires it to explain in its Business Plan how it plans to carry out its functions in a way that has regard to the strategic priorities set out in the Strategy and Policy Statement (SPS) pursuant to section 165 of the Energy Act 2023<sup>2</sup>.
- 4.3 This chapter expands on these requirements for the Business Plan submission.

### **Key contextual information**

- 4.4 As set out in Chapter 2, NESO does not have to publish new or updated Strategic Aims as part of each Business Plan submission. However, NESO must in each Business Plan clearly show how the Business Plan is aligned with and helps achieve its latest published Strategic Aims.

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<sup>2</sup> [Energy Act 2023 \(legislation.gov.uk\)](https://legislation.gov.uk/ukpga/2023/55)

- 4.5 In line with its licence requirements, NESO must also explain how it plans to carry out its functions in a way that has regard to the strategic priorities set out in the SPS<sup>3</sup>. NESO will have discretion to determine how best to meet this requirement but should consider any relevant feedback provided by Ofgem and stakeholders on this area in previous Business Plans.

## **Performance Objectives and Success Measures**

- 4.6 As set out in G1.4 of NESO's licences, NESO must set out its key work priorities for the regulatory year. To achieve this, NESO must include within its Business Plan a set of Performance Objectives, Success Measures and Major Deliverables.
- 4.7 In each Business Plan submission NESO should explain the key objectives it has for the Business Plan period (known as Performance Objectives). A Performance Objective should be a major outcome that NESO intends to achieve by the end of the two-year Business Plan period. Each Performance Objective should be supported by narrative to explain the context and rationale for the Performance Objective and provide further information on what the outcome means in practice.
- 4.8 The Performance Objectives should as a package meet the following principles:
- Aligned with energy sector and consumer priorities: they should be aligned with NESO's statutory duties (including priorities in regard to the SPS), focussed on areas that can maximise consumer interests, and have considered stakeholder priorities;
  - Comprehensive: NESO should consider the breadth of its roles when setting the Performance Objectives. The Performance Objectives themselves do not have to cover every activity, but NESO should identify its organisational priorities through a broad consideration of its activities. Where relevant, Performance Objectives can be cross-cutting objectives applicable to multiple functions;
  - Provide continuity: NESO should explain how the Performance Objectives link back to and build on its Strategic Aims. Also, NESO should explain how they build on the Performance Objectives from

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<sup>3</sup> [Strategy and Policy Statement for Energy Policy in Great Britain](#)

previous Business Plans, including by providing transparency on where and why previous aims commitments may have changed; and

- Ambitious: they should be set at a stretching level of ambition, such that if achieved by NESO to a high standard (as evidenced by Success Measures), this would represent a strong overall level of performance.

- 4.9 Performance Objectives in the plan should each be supported by tailored Success Measures. Success Measures should be key indicators that help explain how the outcome within a Performance Objective will be attained in practice. This should help provide clarity on how successful delivery of the Performance Objectives should be measured. For example, this could include the on-schedule delivery of milestones for a key product/system, positive feedback from stakeholders, performance against metrics, or evidence on the delivery of benefits from relevant activities.
- 4.10 NESO should clearly set out the Success Measures for both Year 1 and Year 2 of the Business Plan cycle, in line with its requirement in Condition G1.4 to set out major work priorities for each regulatory year.

## **Major Deliverables**

- 4.11 As set out in G1.4 of NESO's licences, NESO must set out in its Business Plan the Major Deliverables for the Business Plan cycle. Major Deliverables should be specific, measurable and timebound outputs that are key to achieving the Performance Objectives (for example, implementation of a system or product). In most cases, we would expect delivery of these Major Deliverables to be relevant Success Measures.
- 4.12 The Major Deliverables should focus on the delivery of a key output that is essential for the Performance Objective to be achieved, rather than outlining every step of delivery.
- 4.13 To ensure there is continuity between Business Plans, NESO should provide transparency on how ongoing or outstanding Major Deliverables committed to in previous Business Plan cycles are being captured within the current Business Plan cycle.

## **Internal costs and value for money**

### **Overarching requirements**

- 4.14 As set out in G1.4 of NESO's licences, NESO must include within its Business Plan submission its most recent forecast of its internal costs for the Business Plan cycle and a clear explanation and justification for these costs. This should be broken down into forecasts for both Year 1 and Year 2 of the Business Plan. NESO should clearly show how total expected internal costs for the Business Plan cycle have changed compared to expenditure the previous Business Plan cycle.
- 4.15 NESO's costs forecasts must be supported by robust justifications. NESO should explain the key drivers for cost changes and explain how it is delivering value for money for consumers through its Business Plan proposals.
- 4.16 For areas of material cost increases or new investments, NESO should explain what value to consumers that additional expenditure will create. NESO should provide transparency on how cost forecasts has been formed and why the resources needed for a new or revised activity represent value for money.
- 4.17 Where underlying costs are increasing for the delivery of a pre-existing activity, NESO should explain what is causing this and what action it has taken to minimise the extent of those cost increases. NESO should also explain what steps it has taken to deliver efficiency within its overall Business Plan proposals and investments in general. This includes drawing out the areas where NESO intends to deliver efficiency savings and the total value of those forecast savings.
- 4.18 NESO should provide breakdowns of its costs and specific information on certain cost categories, in line with the requirements in the next section. This is to demonstrate to stakeholders how it is delivering value for money for specific investments and activities.

### **Specific requirements and supplementary submissions**

- 4.19 NESO should provide specific information on costs and value for money through the NESO Cost Template and an annex on specific details associated with its costs, cost-benefit analyses (CBAs), and (where relevant) specific

information on Enabling Functions. The sections below describe our requirements in these areas.

### NESO Cost Template

- 4.20 NESO is required to submit a completed NESO Cost Template alongside its Business Plan submission in a format and template agreed with Ofgem. NESO should use this template to submit its detailed breakdown of its Business Plan costs. NESO should include justification and narrative for costs in the NESO Cost Template within its specific annex.

### IT investments

- 4.21 Unless confirmed otherwise by Ofgem, NESO must submit specific details associated with its IT investments.
- 4.22 For any new IT investments, or for investments that have materially changed since the previous Business Plan cycle, NESO will be required to provide, where relevant: an overview of the investment, the current state of the investment, the case for change for the investment, a roadmap for the investment, the future state of the investment, the approach taken to identify the investment, costs associated with the investment, risks identified with the investment, alternative options identified before taking on this investment and any additional information relating to the investment if, and when needed.
- 4.23 For existing IT investments made during the previous Business Plan cycle that have not materially changed, NESO will not be required to provide duplicate information that has already been received through the previous Business Plan cycle and/or existing data received through the Cost Monitoring Framework (CMF). Specifically, NESO is required to provide an update on: the overview of the investment, the current state of the investment, the roadmap of the investment, any changes to the future state of the investment, costs associated with the investment and any additional information relating to the investment if, and when needed.
- 4.24 For the avoidance of doubt, NESO's IT submission should comply with the Technology Business Management (TBM) model<sup>4</sup>. Where this is not possible,

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<sup>4</sup> The TBM Council publish the TBM taxonomy. At the time of writing, the latest version of the [TBM taxonomy is Version 4.1](#).



NESO should engage with Ofgem as soon as possible to agree an appropriate submission structure.

### Non-IT investments

- 4.25 NESO must report on non-IT capital expenditure (capex) investments. For any significant non-IT capex expenditures (such as a new control centre or new offices), NESO should provide: an overview of the investment, the costs of the investment, the expected benefits from the investment and a roadmap of the investment, excluding any commercially sensitive information.

### Demonstration of benefits and CBAs

- 4.26 Throughout its Business Plan narrative, NESO should clearly explain how the Business Plan will deliver its statutory duties and Strategic Aims in a manner that will maximise benefits for energy consumers. For investments or major activities with more significant relative expenditure, NESO should clearly show what options it considered and why its proposed approach delivers the greatest net benefits and therefore value for money for consumers.
- 4.27 NESO should submit a specific CBA for any major new activities or high expenditure investments that NESO chooses to undertake that have not been included or assessed in previous Business Plans. We will work with NESO on specific examples to agree where and when this may be required. In some cases, the timing of a project may mean it is more appropriate to develop a CBA outside of the Business Plan process and timings. We expect the level of detail provided in the CBA to be proportionate to the level of spend NESO expects the activity to require. NESO must outline the methodology used for its CBAs as part of its Business Plan submission.
- 4.28 For the avoidance of doubt, CBAs should: identify benefits and clearly articulate how the activities in question lead to those benefits, clearly justify any assumptions that are made, and clearly set out how anticipated costs and benefits are measured. Where financial benefits are identified, these should be either directly measurable or measurable through a proxy that has a direct cost associated with it. For benefits that cannot be easily measured, NESO should include these in qualitative terms and signpost them within the section on CBAs in the Business Plan.

## Enabling Functions

- 4.29 For the Business Plan commencing on April 2026 and ending on March 2028, NESO should submit specific additional information relating to its Enabling Functions and the costs of its transition away from National Grid Pls services.
- 4.30 Enabling Functions are functions that deliver services on behalf of the whole organisation. This includes: IT & telecoms, property management, HR & non-operational training, finance, audit & regulations and insurance and procurement. For a time-limited period, some of these services will continue to be provided by National Grid Plc through the Transitional Service Arrangement (TSA) as NESO looks to develop its own standalone capabilities. Others will be provided through the Operational Service Agreement (OSA) as further consideration is given to a long-term solution for these services.
- 4.31 NESO should clearly outline which of its total Enabling Function costs it expects to incur through the TSA and the OSA and which it expects to incur directly. This distinction should also clearly show the breakdown between ongoing/run-the- business costs, versus one-off costs incurred to deliver new systems or capabilities.
- 4.32 NESO's Enabling Function cost estimates should be informed by its most recent TSA exit plans and should set out any changes to the charges that were set out in the original TSA at Day 1. Where relevant, NESO should provide a range of forecasts for Enabling Function costs to demonstrate total costs in different TSA exit scenarios. NESO should clearly explain its assumptions behind these estimates, including which areas of its Enabling Functions it expects to develop accelerated, standalone capabilities for and how this will provide overall value for money.
- 4.33 For the avoidance of doubt, NESO can present its costs and narrative related to the TSA and OSA costs in different sections of its Business Plan if it chooses to do so, recognising that the provisions for exiting these services differ.
- 4.34 The requirements in this section will cease for the Business Plan submission in April 2028, unless confirmed otherwise by Ofgem. However, NESO may still be required to submit specific information on Enabling functions through the NESO Cost Template.

## **Innovation**

### **Network Innovation Allowance (NIA)**

- 4.35 NESO will be able to apply for NIA funding, as part of its Business Plan submission for the Business Plan cycle commencing 1 April 2026 for a 5-year period. This will align with the timelines for funding granted to network companies for RIIO-3.
- 4.36 NESO should set out its request in line with our guidance set out for other network companies for RIIO-3<sup>5</sup>. We will work with NESO before the submission to ensure NESO is able to submit clear evidence for its funding proposal.
- 4.37 NESO can request additional NIA funding, if needed, for the remainder of the 5-year period in its Business Plan submission for the Business Plan cycle commencing 1 April 2028.

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<sup>5</sup> Please see 3.13: [RIIO-3 Business Plan Guidance](#)

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## **5. Ofgem's determinations**

This chapter outlines the scope and content of Ofgem's determinations on NESO's Business Plan submission.

### **Overview**

- 5.1 Part C of Condition G1 of NESO's licences sets out at a high level of what Ofgem's determinations on NESO's Business Plans will consider. This includes our views and conclusions on the key strategic aims, activities and costs outlined in the Business Plan, in line with the requirements of this document.
- 5.2 As set out in F1.3 of NESO's licences, NESO must have regard to any relevant Plan Determination made by the Authority in accordance with Condition G1, including, but not limited to, any determination by the Authority that the licensee must: deliver a specific activity or set of activities at a different cost than proposed by the licensee in its Business Plan; or not carry out an activity at all.
- 5.3 This chapter expands on these licence conditions and outlines the specific areas we intend to make determinations on.

### **Key elements of our determinations**

- 5.4 As noted in Chapter 1, we expect our determinations to cover three areas, outlined further below:
- An assessment of NESO's Performance Objectives;
  - A value for Money assessment;
  - Certain Reporting requirements, including Reported Metrics; and
  - Any other aspects being reviewed.

### **Performance Objectives assessment**

- 5.5 When making our determination of NESO's Performance Objectives, our assessment will consider whether the Performance Objectives and Success Measures:
- Sufficiently cover key areas and priorities - in regard to the SPS, industry feedback and consumer interests, and that no gaps remain;

- Are suitably stretching and ambitious; and
  - Are clear and measurable.
- 5.6 We expect to work with NESO prior to its final Business Plan submission to minimise scope for misaligned views. If gaps or differences of opinion remain, we may set additional or revised performance expectations as part of our determinations. This may include commenting on specific Performance Objectives or Success Measures to ensure clarity on how NESO's performance will be considered and to ensure NESO's within-scheme reporting against its Business Plan is focussed on meeting our performance expectations. We will provide clarity on the reasons as part of our determinations.
- 5.7 Our determinations on the Performance Objectives will provide an ex-ante view on what NESO needs to do to perform well and exceed expectations in its end-of-scheme performance assessment (as set out in more detail in the NESO Performance Arrangements Governance Document).

### **Value for Money assessment**

- 5.8 Through our Value for Money assessment, we will make a determination on two aspects:
- Whether the proposals in the Business Plan, including any new investments, have been sufficiently justified to be undertaken and funded by consumers; and
  - Whether the Business Plan has demonstrated overall value for money for consumers, and where particular areas of activity or investment may need further demonstration in order for NESO to perform well in its end-of-scheme performance assessment.
- 5.9 For the first part of our assessment, where we do not consider NESO has sufficiently shown an activity or investment is in the interest of consumers, we will reject that activity or investment for funding. To avoid ambiguity, we will be clear on the specific activity/investment that should not be taken forward.
- 5.10 For all remaining activities that we have approved for funding, we will carry out a holistic Value for Money assessment. This will provide an overall view on whether the Business Plan proposals provide value for money for consumers. This overall view will be informed by our assessment of individual functions, investments and activities in the Business Plan. We will highlight within our determinations the key

areas that have driven our overall conclusions, and clearly specify areas of strong and weak demonstration of value for money.

- 5.11 Our assessment will consider relevant factors used in our ongoing performance assessment of NESO's value for money (as set out in more detail in the NESO Performance Arrangements Governance Document), such as the demonstration of business suitability, consumer benefits and use of industry best practice.
- 5.12 Our determinations on value for money will provide an ex-ante view on where NESO may need to seek additional efficiencies within its expenditure, or provide additional evidence of benefit/value, in order to perform well and exceed expectations in its end-of-scheme performance assessment (as set out in more detail in the NESO Performance Arrangements Governance Document).

### **Reporting requirements**

- 5.13 Following our Business Plan assessment, we will make determinations on certain reporting NESO will be required to undertake, that has not already been captured by NESO's overarching reporting requirements in the NESO Performance Arrangements Governance Document. This will include determinations on the type, methodologies and reporting frequency of any Reported Metrics as well as any other additional reporting requirements we consider are necessary in response to our assessment of NESO's Business Plan.

### **Other aspects for review**

- 5.14 This chapter expands on these licence conditions and outlines the specific areas we intend to make determinations on.
- 5.15 When, and where relevant, we will also outline our proposal and decision for NESO's Network Innovation Allowance (NIA). We will assess NESO's funding request in line with our overall approach for other network companies for RIIO-3<sup>6</sup>.

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<sup>6</sup> Please see 3.14: [RIIO-3 Business Plan Guidance](#)

## **Appendix 1 – Glossary**

### **Glossary of key terms used in NESO’s Business Plan Guidance Document**

#### **Business Plan**

Details NESO’s Performance Objectives, associated Success Measures, Major Deliverables and costs for the Business Plan cycle.

#### **Business Plan cycle**

The Business Plan cycle is the period for which the Business Plan is applicable. The Business Plan cycle is a two-year period, commencing with the incentive scheme starting on 1 April 2026 and ending on 31 March 2028.

#### **National Electricity System Operator (NESO)**

The entity for the time being designated as the Independent System Operator and Planner under section 162 of the Energy Act 2023 who holds an Electricity System Operator Licence and Gas System Planner Licence.

#### **Independent Challenge Panel (ICP)**

The panel of that name, administered by NESO, and comprised of independent experts and industry representatives, responsible for providing challenge and feedback on NESO’s plans and performance across the Business Plan cycle.

#### **Major Deliverable**

Specific, measurable and timebound outputs that are key to achieving the Performance Objectives for the Business Plan submission. In most cases, we would expect delivery of these Major Deliverables to be relevant Success Measures.

#### **Performance Objective**

A major outcome that NESO intends to achieve by the end of the two-year Business Plan period, with associated Success Measures and Major Deliverables.

## **Reported metrics**

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

## **RIIO-2 period**

RIIO-2 covers the period starting 1 April 2021 and ending on 31 March 2026.

## **RIIO-3 period**

RIIO-3 covers the period starting 1 April 2026 and ending on 31 March 2031.

## **Strategic Aims**

A set of published aims which explain what NESO intends to achieve over the medium- to longer-term to deliver its overall organisational vision. The Strategic Aims should consider the overall impacts and major sectoral changes NESO is aiming to achieve and NESO's strategy for delivering these.

## **Success Measure**

Success Measures should be key indicators that show how the outcome within a Performance Objective will be attained in practice, and which should help provide clarity on how successful delivery of a Performance Objective should be measured.

## **Value for Money assessment**

Considers whether NESO has delivered value for money, striking the optimal balance between maximising benefit delivered from outputs whilst minimising costs.