

Decision

Performance Panel's assessment of NESO's end-scheme performance for BP2

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The RIIO-2 price control for National Energy System Operator (NESO) covers the period 2021-26. NESO's business plan periods and incentives framework run over two-year periods with a final one-year period for the third Business plan. The second business plan period of RIIO-2, known as "BP2", ran from 1 April 2023 to 31 March 2025.

As part of the incentive framework for NESO's RIIO-2 price control, the NESO Performance Panel and Ofgem assess NESO's performance every year. We are publishing this report as the Secretariat for the NESO Performance Panel, detailing the Panel's assessment of NESO's performance at the BP2 end-scheme review stage. **This report contains the views of the NESO Performance Panel, not Ofgem.**

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RIIO-2 incentives framework

Background

The [RIIO-2 price control for NESO](#) (previously known as the Electricity System Operator (ESO)) covers the period between 2021-26. The price control consists of a pass-through funding approach, supported by performance-based financial incentives to deliver value for money. These financial incentives have since been replaced by reputational incentives following the ESO’s transition to NESO in October 2024. The incentives framework runs over a two-year cycle (aligning with the business plan period) and is underpinned by the [NESO Roles Guidance](#) that sets out Ofgem’s expectations for NESO’s activities and outcomes. NESO’s combined performance on delivery and costs will be evaluated, across the full spectrum of its roles.

The NESO Performance Panel (the Panel) plays a central role in NESO’s RIIO-2 price control. It assesses NESO’s performance every year, identifying areas where NESO is performing in line with expectations, where it is exceeding expectations and where it is not meeting expectations. The Panel gives NESO feedback on its performance and the opportunity to act on this and make any necessary improvements during the remaining months of the scheme. For RIIO-2, we¹ [appointed an independent](#) (non-Ofgem) Panel Chair to lead the Panel.

Approach

This end-scheme review covers the full two years of the BP2 period, from 1 April 2023 to the end of March 2025. NESO published its [BP2 end-scheme report](#) on 16 May 2024. The Panel convened on 24 June 2025 to fully consider and assess NESO’s BP2 performance.

Following the process described in Chapter 3 of the [Performance Arrangements Guidance Document](#) (PAGD), the Panel assessed each of the three NESO Roles as well as the additional activities NESO undertook during the BP2 period. The Panel chose to carry out a more strategic and targeted assessment and recommendation instead of following the full assessment and scoring approach.

The Panel’s recommendations are used to inform Ofgem’s formal assessment of NESO’s performance. Ofgem’s assessment will be published separately, by the end of August 2025.

For each Role, as well as NESO’s implementation activities, the Panel assessed whether NESO had overall fallen below, met or exceeded expectations. This included

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 report.

consideration of NESO’s delivery and quality of outputs, the evidence of value provided to consumers and the feedback from NESO’s stakeholders.

NESO Performance Panel assessment

Context

The Panel’s assessment reflects the degree of progress they considered NESO had made against the commitments set out in its [BP2 plan](#). Panel members individually assessed NESO’s performance before meeting to discuss and align on a final shared assessment. There was a wider spread of individual views, however the Panel members reached a consensus after discussion and debate. This report primarily explains the Panel’s consensus shared assessment; however, we have tried to reflect any differing views (both positive and negative) in the narrative below.

Key messages

The Panel noted an overall performance improvement since their mid-scheme assessment. On balance, across NESO’s three roles and the additional NESO transition activities, NESO either met or exceeded expectations. Moreover, Panel members noted that this was achieved while managing the challenge of transitioning from ESO to NESO.

The Panel noted that NESO appeared to have handled substantial growth in headcount and activities while demonstrating positive cultural change in the organisation’s leadership that seemed well-aligned with NESO’s new public-sector role. However, Panel members noted evidence of deficiencies in day-to-day interactions between external stakeholders and NESO operational and customer service staff - demonstrating that further work is required for cultural change to permeate the entire organisation.

The Panel considered that NESO’s performance included evidence of good progress within NESO’s Data Digital & Technology (DD&T) transition, delivery of a majority of the original BP2 milestones, a more transparent and balanced approach to their end-scheme report including for benefits realisation, and generally strong performance in undertaking additional or unplanned activities (such as Clean Power 2030 Advice). However, delays continue to impact the delivery of some DD&T platforms and associated improvements.

Panel members reflected that ‘what’ NESO delivered was strong but ‘how’ NESO delivered had room to improve. There was noted stakeholder frustration in NESO’s transparency and consistency in decision making and, in some areas, NESO’s approaches for stakeholder engagement hindered effective collaboration. Further improvements could also be achieved in providing greater insight into how NESO’s spending provided consumers with value for money. The Panel reflected that NESO must balance the need to attract talent with lean efficiency with its spending decisions.

The Panel also suggested that NESO should seek to improve its ability to proactively horizon scan to tackle industry challenges earlier and faster.

1.Role 1: Control Centre Operations

This Role requires NESO to balance the National Electricity Transmission System in a safe, reliable, and efficient way. This includes contracting and trading with energy market participants as well as working with network owners to optimise physical network configurations. Other key functions under this Role include coordinating with network operators on outage plans and network planning, short-term energy forecasting, restoration and emergency response as well as managing and sharing system data and information.

Key messages

The Panel concluded that, in general, NESO **met expectations** in this role. However, this overall assessment hides inconsistencies in performance, with NESO exceeding expectations in some areas, and underperforming in others. Plan delivery and progress of the Open Balancing Platform (OBP) was highlighted as particularly strong performance, whereas skip rates and demand forecasting and operational metering were the areas most below expectations.

Rationale

The Panel noted strong performance in NESO’s delivery of almost all its BP2 plan, with key deliverables such as the OBP and the updated Platform for Energy Forecasting being highlighted as important successes. The Panel pointed out that the stakeholder survey results reflected this, with the Operational Transparency Forum continuing to receive positive feedback from industry stakeholders.

Several Panel members highlighted the benefits this strong delivery brought. OBP resulted in a five-fold increase in battery dispatch volumes and additional system changes led to an estimated £380m in benefits being delivered, alongside strong progress towards a zero-carbon system, as shown by being able to operate the system with 93.5% zero-carbon generation. The Panel noted that annual balancing costs of £2.7 billion for 2024/25 were running just below the target benchmark, meeting expectations.

Despite good progress being made on delivery of several DD&T projects, the Panel noted that some delays were still being experienced. The Network Control Management System transition was more complex than expected, and delivery of some forecasting capabilities were delayed.

Forecasting exemplified the Panel’s discussion on how Role 1 performance was mixed. The Role 1 metrics showed strong improvements in wind forecasting but this was countered by below expectation performance in demand forecasting. The Panel noted that there is scope for significant consumer benefit to be delivered through improving the accuracy of NESO’s demand forecasts.

Panel members strongly focussed on NESO’s performance related to tackling skip rates. Several Panel members noted strong industry frustration around NESO’s engagement and transparency over the BP2 period. A major concern for several Panel members was NESO’s evolving narrative, which at first sought to downplay the materiality of industry’s concerns and only belatedly, in the final months of BP2, appeared to grasp the significance of the issue (this scenario was also highlighted when the Panel discussed NESO’s approach to operational metering). Panel members described NESO’s behaviour as reacting to industry pressure, rather than being proactive. Furthermore, NESO’s lack of transparency and effective, open stakeholder engagement during the development of the LCP Delta methodology to calculate skip rates was a key factor in the Panel’s assessment.

The Panel noted stakeholder concerns about NESO’s lack of transparency and collaboration concerning operational decisions, including network access planning. The Panel considered that NESO must focus on increasing industry trust by improving their internal coordination and the transparency of their operational and planning decisions. Concerns remain around repeated queries, internal coordination inefficiencies, and the need for the operability strategy to clearly reflect stakeholders’ licence obligations. Another Panel member questioned whether the limited delivery of BP2 control training deliverables had consequences for NESO’s ability to drive a culture shift through all levels of the organisation. It was suggested that NESO could seek to increase trust and understanding of operational decisions through providing greater transparency and sharing of their control room operating procedures.

2.Role 2: Market development and transactions

This Role requires that NESO develops and procures balancing services to operate the system in a safe, reliable, and efficient way. NESO administers, and is party to, various codes. It can propose changes to these codes, provide input to aid industry discussions, and influence the final recommendations submitted to the Authority. It is also the Electricity Market Reform (EMR) delivery body involved in the administration and auction processes for the Capacity Market (CM) and Contracts for Difference.

Key messages

The Panel concluded that NESO **met expectations** for Role 2. The Panel’s discussion and conclusions echoed the sentiments shared in Role 1, that although NESO overall met expectations, there were substantial inconsistencies in performance. Again, delivering a significant proportion of the BP2 plan milestones was highlighted by the Panel as a signal of strong performance, but the consistent quality of the on-the-ground delivery was questioned by the Panel and was a signal of underperformance.

Rationale

The Panel welcomed the strong performance in NESO’s delivery of the majority of Role 2 milestones during 2024/25. This was a notable step up from previous years.

Underpinning this strong performance was delivery of the Enduring Auction Capability, which the Panel noted as having successfully increased market access, liquidity, and competition and delivered significant benefits of £330 million through a reduction in the costs of NESO’s Dynamic Response services. Panel members pointed out additional examples of good performance, such as an increase of 20% in prequalification applications (and thus competition) in the CM Portal contributing to additional benefits delivered by improving access to the CM. However, the Panel also noted that there were delays in delivering some digital solutions, new reserve products and whole system services.

The Panel also noted strong performance from NESO when delivering code changes for connections reform, supported by extensive engagement and implementation planning. However, Panel members noted a lack of transparency, slow communication and responsiveness with how NESO handled Business-As-Usual code modifications during BP2.

The Panel had mixed views on NESO’s stakeholder engagement under Role 2. Several Panel members commended the work NESO undertook on the Constraints Collaboration Project, noting that NESO included industry at the point of developing its problem

statement, which was welcomed by stakeholders. One Panel member strongly disagreed, with the perspective that the Project had moved slowly and produced few outputs. The divergence of views emphasises the importance of NESO continuing its momentum within this space and ensuring that all stakeholder groups are effectively engaged with targeted communication.

Further inconsistencies were raised by Panel members in relation to the EMR Delivery Body providing changing advice on industry queries with the CM portal. Although the portal was finally delivered, stakeholders reported teething problems and indicated that this did not deliver the hoped-for step change in service levels with industry still experiencing user challenges and barriers to entry for participants.

Panel members noted reservations about the effectiveness of NESO’s Markets delivery. Reserve reform had been a long, drawn-out process and NESO’s constant stream of changes in response and reserve product design had not created the optimal environment to support commercial parties to make investment decisions. Moreover, although NESO’s Markets Strategy work promised barrier-free market access and technology neutrality, Panel members noted that that NESO’s markets implementation had not always matched this.

3.Role 3: System insight, planning and network development

Under Role 3, NESO performs a variety of system insight, planning, and network development activities. It publishes key insight documents to identify credible long-term pathways for the energy sector and key electricity system requirements. It also produces the annual Network Options Assessment (NOA), wider NOA methodologies and examines long-term operability solutions via the Network Service Procurement activities.

NESO coordinates offshore network development and works with Distribution Network Operators to ensure efficiency and coordination in network development activities to maximise whole system benefits across network boundaries. NESO is also responsible for the network connections process and for managing the impact that new offshore and distribution-level connections have on the electricity transmission system.

Key messages

The Panel concluded that NESO **exceeded expectations** in Role 3, with a notable step up in performance compared to the mid-scheme point of BP2. Underpinning this strong performance was NESO’s milestone delivery, strong stakeholder feedback and good demonstration of leadership during the Connections Reform process. The Panel noted that NESO’s ability to horizon scan, anticipate and respond quickly to change was concerning, and that this is an important area for improvement going forwards.

Rationale

Once again, the Panel highlighted the success NESO had over BP2 in meeting its milestone targets. Role 3 performed well in this regard, and the Panel noted that delays or missed milestones e.g. Regional Development Plans, were generally well justified. Several Panel members noted strong NESO performance within the major area of connections reforms, which was seen as transformational. The Panel pointed to additional substantial outputs delivered through the transitional Centralised Strategic Network Plan 2 (tCSNP2) and noted positive stakeholder feedback on NESO’s Centralised Strategic Network Plan methodologies. However, Panel members also noted concerns from industry about less effective engagement and delivery by NESO on offshore network coordination.

The Panel highlighted the positive Role 3 work NESO has demonstrated under its RIIO-2 zero carbon operation ambition, which had shown evidence of consumer benefits during BP2. The Panel highlighted the substantial benefits being delivered by the Network

Services Pathfinders, which the Panel recognised as an example of NESO delivering tangible benefits to customers.

Though most of the discussion on Role 3 was positive, the Panel indicated NESO should strive to improve some areas going forwards. The first key theme was that NESO could focus more on joining up workstreams. For example, several Panel members felt that the links between Future Energy Scenarios, tCSNP, and Holistic Network Design Follow-up could have been stronger. Secondly, though stakeholder feedback was strong overall, one Panel member pointed to challenges faced by some stakeholders who were willing to engage with NESO but this was hindered by too short consultation periods on detailed/difficult topics, and examples of engagement forums that appeared set up to provide dense information flows from NESO to industry, without opportunity for industry to return views to NESO.

Finally, the Panel discussed the need for NESO to improve its horizon scanning to anticipate and be more proactive in delivering change. The Panel has repeatedly raised concerns about NESO’s connection performance - the need to radically reform the Connections process should’ve been identified and pursued earlier by NESO. This need for better responsiveness by NESO is also linked to the Panel’s Role 1 concerns about requiring greater NESO ownership and proactivity in tackling skip rates and operational metering challenges. The Panel suggested that enabling and facilitating greater flexible electricity resources for Clean Power 2030 (CP2030) is an example of an upcoming challenge that NESO should dedicate more attention to in the near-term.

4. NESO transition activities

NESO carried out extensive work during BP2 to facilitate the transition from the ESO to NESO, and to establish NESO’s new and enhanced capabilities. These activities included NESO’s Advisory Functions, its Whole system security and resilience roles, development of the Strategic Spatial Energy Plan (SSEP) and work related to the implementation of the Regional Energy System Planners (RESP).

Key messages

The Panel concluded that NESO **met expectations** overall in these transition activities. Key points of discussion for the Panel included NESO’s transition from ESO to NESO, its Clean Power advice and outputs, new Strategic Planning work, NESO’s cultural transformation at the leadership level and NESO’s non-electricity work.

As with Roles 1 and 2, the Panel highlighted that although NESO met expectations, this masked a degree of inconsistency within BP2 performance.

Rationale

Generally, the Panel were positive about NESO’s transition from the ESO, with no noticeable impact on service delivery. The Panel reflected positively to the delivery of NESO’s CP2030 Advice, with Panel members pointing to the tight timelines and highly political environment that NESO had to work within. The Panel noted that the pace of development for this work was impressive and the targets NESO developed seemed reasonable and provided greater external clarity. The Panel noted that while industry may not have agreed with all the assumptions made by NESO, the outputs were generally accepted.

The Panel commented on NESO’s cultural transformation, noting that it has made significant progress at the leadership level. However, this cultural shift had not appeared to have fully permeated through the whole organisation, with Panel members highlighting that stakeholder (and employee) feedback showed room for improvement in some operational areas. Several Panel members felt that NESO’s new statutory duties were not widely understood at a working level which has resulted in inappropriate stakeholder responses. Embedding understanding of statutory duties, along with top to bottom cultural change will be a key area of Panel focus going forwards. In some of NESO’s new roles and activities, the Panel highlighted mixed feedback on stakeholder engagement. NESO’s SSEP and RESP work was noted for being challenging to engage on, with interactions often feeling one-way information dissemination from NESO and with limited opportunities for industry to input. Panel members also raised concerns that NESO’s non-electricity work (for example, work on gas and heat) was not given

sufficiently external visibility and that this may have undermined confidence that NESO is able to fully step up into these new areas – especially given the scale and complexity of the challenges ahead.

Recommendations

Finally, the Panel shared recommendations for NESO going forwards. These may not necessarily be role specific but draw on evidence provided to the Panel and by the Panel members’ discussion.

- To underpin NESO’s new responsibilities and organisation, and to guide detailed implementation, NESO should seek to articulate externally how the organisation plans to deliver its statutory duties, including whole system and consumer outcomes.
- Reinforce leadership culture change and promulgate culture change throughout the organisation, reflecting NESO’s key public sector role.
- Focus on raising the consistency and quality (rather than quantity) of all stakeholder engagement throughout NESO’s organisation, ensuring engagements offer effective two-way channels to exchange views and information, and act as needed. Improve targeted communication to relevant stakeholder groups.
- Improve how NESO demonstrates externally that it’s spending provides cost efficiency and value for money. While progress has been made in the BP2 report, improvements are needed to the way NESO financial benefits are calculated and presented, ensuring they are clearly defined, easily measurable and widely recognised as an effective measure of performance. This includes internal operating costs, such as people, property and consultancy spend.
- Proactively seek to anticipate and address potential future ‘problems’ by using strategic horizon scanning to shape near-term priorities.
- Consider and apply the lessons from the connections reform process to inform future transformational efforts to industry processes.
- Ensure ambitious, deliverable plans are in place to tackle the most significant areas of underperformance, such as skip rates, small-MW inclusion in markets, demand forecasting and markets delivery.

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- Robert Hull (Independent Panel member)
- John Carnwath (Independent Panel member)
- Citizens Advice (represented by Andy Manning)
- Energy UK (represented by Kathryn Evans)
- Energy Networks Association (represented by Michael Rieley and Kevin Feeney)
- Association of Decentralised Energy: Demand (represented by Sarah Honan)