

# Consultation on the enduring regulatory framework for NESO

## *National Grid Plc response*

This response to Ofgem's "Consultation on the enduring regulatory framework for NESO" dated 27 May 2025 (the consultation) is from National Grid (NG), on behalf of our transmission business, National Grid Electricity Transmission (NGET), our electricity interconnector business, National Grid Ventures (NGV) and our electricity distribution business, National Grid Electricity Distribution (NGED).

### Executive Summary

The National Energy System Operator's (NESO) role at the centre of energy system planning and operation has the potential to create strong customer value across three key areas:

- **System operation, balancing and constraints management.** As the electricity sector transforms with high penetrations of variable wind, new demands (e.g. EVs, heat pumps, data centres) and new sources of flexibility there is a critical need and opportunity for NESO to improve the efficiency of system operation. This includes reforms to the design of balancing markets to maximise the participation of small assets (e.g. batteries) and how they re-dispatch 'two way' and cross-border assets (e.g. storage, interconnectors); and working with Network Owners to deploy and use innovative new technologies to reduce constraints (e.g. Dynamic Line Ratings). This role is critical to affordability. To put this into context, balancing and constraint costs (BSUoS) could be over £8bn/year and two to four times as much as overall Transmission costs (TNUoS) by 2030.
- **System planning, access and connections.** Forward system plans (e.g. Strategic Spatial Energy Plan (SSEP) Centralised Strategic Network Plan (CSNP), Regional Energy Strategic Plans (RESPs)) have huge potential to reduce the long-term costs of the system and accelerate delivery (e.g. by underpinning planning and regulatory approvals). The success of this will depend on: (i) the robustness and quality of the plans themselves; and (ii) how effectively they flow into decisions (e.g. regulatory approvals, system access, connections prioritisation).
- **Delivering major industry reforms** (e.g. connections, market development). Reforms are critical as the sector evolves and an independent NESO with strong expertise is central to driving these forwards.

NESO is undergoing a major transformation programme to enhance its delivery in these areas. It is critical that the regulatory framework provides sufficient funding and incentives to achieve this transformation.

### Managing trade-offs is fundamental to NESO's role.

In carrying out these critical roles NESO needs to weigh up and advise on the impacts and trade-offs from a strategic, whole energy system perspective.<sup>1</sup> We recognise the major challenges and trade-offs that need to be managed by NESO in delivering ambitious outcomes where **speed of delivery, affordability and energy security must be balanced**. It is essential that the regulatory framework supports NESO to fully achieve this complex role and **creates an environment that best serves current and future customers and businesses**.

At the highest level this is achieved by maintaining and potentially enhancing energy reliability and resilience for customers and connecting customers in a timely fashion, to facilitate economic growth. In turn, affordability is a central pillar of the enduring regulatory framework as this underpins economic growth and competitiveness. Specifically, this should include the delivery by NESO of pathways that can achieve Government ambitions **supported by a transparent assessment of how it has balanced the trade-offs across the short, medium and long term**. Reliability and affordability are pre-requisites for successful decarbonisation and therefore need to sit alongside the NESO's decision making on the clean energy transition. **Surfacing these trade-offs will also support NESO in its role as an independent body** with a statutory duty to advise Government, helping to shape the decisions that will determine the energy system of the future.

### Given the scale of influence NESO has, upside incentives are critical to drive performance and innovation.

National Grid is supportive of an enduring regulatory framework that drives ambitious thinking, innovation and delivery to support realisation of the benefits of the energy. Given the scale of impact that NESO has, and will continue to have, on system costs, reliability and meeting policy goals, adequate funding and incentives on performance are critical.

---

<sup>1</sup> As described in the [Strategy and Policy Statement for Energy Policy in Great Britain](#).

Making NESO a public sector ‘not-for-profit’ body will not, on its own, ensure it is focussed on delivering the best outcomes for its stakeholders and customers. There is a risk that incentives to perform are weakened with only pay and reputational incentives, and a reduced scope for corporate-level financial incentives. We therefore suggest **Ofgem considers the use of corporate-level financial incentives** as well as remuneration and reputational incentives. These can drive excellent performance and help fund higher-risk investment/innovation. In the past, corporate-level financial incentives such as the ‘Balancing Services Incentive Scheme’ drove innovation and lower costs. And given the increases in system costs and constraints expected, even small improvements in performance can have big impacts. Incentives can provide strong value for money for customers. Importantly these should be more ‘carrot’ (i.e. upside financial incentive) than ‘stick’ (i.e. downside incentive) given the major challenges facing NESO, and to avoid cutting critical allowances.

### Three areas key to NESO regulation: the right Strategic Aims; robust performance monitoring and incentives

We view the following areas as critical to the successful regulation of NESO:

1. **Ensure NESO has Strategic Aims that focus on what matters for consumers and society** and that balance the trade-offs. NESO’s central focus should be helping **accelerate Net Zero and economic growth while reducing whole system costs and maintaining reliability** over the long-term. Within this it is critical that NESO manages trades offs between long-term and short-term value. For example, **system access** is critical to accelerating connections and network re-enforcement – which in turn is critical to system resilience, promoting growth and reducing long-term system costs. But we have a concern that if too much weight is placed on NESO’s short-term resilience and constraint cost performance, then it will be discouraged from providing the system access critical to unlocking delivery of the T3 plan and the associated major long-term benefits.
2. **Robust monitoring and measurement of performance.** The regulatory framework must focus on adequate measurement and monitoring to identify developing performance issues. As currently drafted in NESO’s Business Plan 3 (BP3), it is unclear how NESO will deliver on some of its Performance Objectives, with Success Measures that are vague and focussed more on deliverables as opposed to the outcomes delivered. **Future BP development cycles should ensure that Success Measures are meaningful and tangible.** For example, clearly reporting on, and measuring where possible, NESO’s actions to reduce long term system costs is essential. This could include, for example, establishing a working group and regular reporting on SO-TO code requirements around reducing constraint costs. More generally, we would welcome more **transparency on NESO’s transformation and digital roadmap to allow constructive challenge on prioritisation/ordering.**
3. **The regulatory framework must strongly incentivise performance and have strong accountability** on the Performance Objectives. Without a profit motive or corporate-level financial incentives, it is critical there is a strong link between NESO’s performance and senior staff remuneration. Reputational incentives through regular and transparent performance reporting is also crucial. While we understand the reasons for removing corporate-level financial incentives, now NESO is a not-for-profit organisation, we encourage Ofgem to consider these for the future. For example, incentives on reducing long-term systems costs could help drive innovation and allow NESO to retain ‘freedom funds’ to reinvest into further high risker innovation (e.g. new systems).

Finally, it is also important to recognise that the establishment of the NESO, with its broader remit, represents a significant change in energy system governance, with wide reaching impacts in terms of roles and responsibilities. Therefore, it is essential that roles and accountabilities are clear between parties. **NESO, with critical input from industry stakeholders, should be accountable for independent advice on system planning and holistic network design** - allowing Ofgem to focus on assuring the process and making final decisions. Crucially, the roles of both NESO and Ofgem need to recognise that Transmission Owners (TOs), Distribution Network Owners (DNOs) and interconnector developers are best placed to identify solutions, conduct early-stage development activities and detailed network design, and project delivery. **Strategic energy plans should not stray into very detailed central planning and approvals processes from NESO. This will discourage and reduce the scope for networks and other developers to innovate on design,** and which risks prescribing solutions that are less deliverable.

### Key points on the enduring regulatory framework

Overall, we think that the proposals for the enduring regulatory framework are appropriate, recognising that the levers available for not-for-profit entities are limited. However, in some cases we would welcome a strengthening of the levers available, alongside considering corporate level financial incentives. In summary:

- We welcome the proposal to **strengthen the link between NESO performance and senior staff remuneration.** As a ‘not-for-profit’ body this is key to incentivising high performance. We agree with the proposal for NESO to formally have regard to performance evaluations in deciding bonuses.
- We agree that **the objectives for Ofgem’s regulation of NESO are appropriate.** In particular, a **focus on stakeholder engagement and quality of outputs** is essential. However, to strengthen delivery of these objectives we suggest:

- **Implementing further measures to promote stakeholder trust.** Stakeholder engagement and transparency are identified as two of the foundational pillars of successful Independent System Operator (ISO) performance (Anaya and Pollitt, 2017)<sup>2</sup>. To achieve further transparency, we suggest publishing the minutes of monthly NESO Ofgem performance continues and that details and outcomes of senior level engagements between Ofgem and NESO are also socialised. Visibility of how Ofgem and NESO are considering and addressing stakeholder concerns is vital to build trust. We are yet to see the BP3 performance tracker and would welcome confirmation that this approach will be kept under review.
- **Clarity on how Ofgem will hold NESO accountable.** While there are reputational incentives for NESO to avoid any licence breaches, it is unclear how Ofgem will consider and escalate instances of poor performance. A transparent route to address poor performance with clear escalation routes, milestones, and corrective actions is essential to give stakeholders confidence in the regulatory framework. We would also welcome clarity on senior ownership in NESO for each of the Performance Objectives to support accountability and transparency. Where there are areas of serious concern, we think there is value in a public route to scrutiny such as Select Committees, a route that exists for other 'not-for-profit' entities (e.g. HS2).
- We are supportive of the commitment to implement **enhanced stakeholder feedback mechanisms**. As above, effective stakeholder engagement is fundamental to achieving a high performing NESO and to promoting trust. However, **we do not agree with the proposal for an Independent Challenge Panel that merges the existing Performance Panel and Independent Stakeholder Group**. This creates a risk that conversations purely focus on backward looking performance, and not enough consideration is given to how NESO evolves its future delivery. We believe that clearer delineation between the backward-looking performance conversations, and more forward-looking performance requirements, linked to relevant Strategic Aims, will deliver the best outcomes. We would also like to see a formal relationship between the Challenge Panel and the NESO Board as a mechanism for feedback.<sup>3</sup>
- We **broadly agree with the proposals for the Business Planning approach**. Creating a Business Plan every two years should strike the balance between giving stakeholders certainty, while also allowing flexibility for NESO to respond to evolving challenges and changes. However, given the importance of the Performance Objectives we think **Ofgem should require that NESO consults on its draft business plans**. This gives all stakeholders a formal and transparent route to provide feedback outside of the NESO-run forums and will improve stakeholder trust. We are also supportive of the proposed cascade of organisational focus from the longer-term Strategic Aims through to shorter-term Performance Objectives, Success Measures and Major Deliverables. **We recommend that Ofgem gives NESO more time to develop and consult on its Strategic Aims and the Business Plan in the case of this first cycle under the enduring framework**. Giving stakeholders and NESO sufficient time to develop and iterate these key documents is essential to ensure that delivery is focussed on the right areas and that performance can be effectively incentivised and measured.
- **Success Measures must be meaningful and tangible, thereby providing a clear route to evaluate performance**. The current BP3 does not achieve this. Clearly reporting on and measuring, where possible, NESO's actions and the associated outcomes is essential. Suitable Success Measures could include establishing working groups, and publishing and regularly reviewing methodologies.
- We welcome **Ofgem's commitment to maintain an ongoing call for evidence**. We would welcome further clarity on Ofgem's proposals for the ongoing call for evidence approach to ensure that this provides a useful route for constructive feedback and does not become overly burdensome. Linked to the above point on accountability, understanding what the thresholds are for stakeholders to submit information or evidence to Ofgem, how Ofgem will digest this feedback and what the escalation routes are will be important to build trust. We would encourage Ofgem to look at section 206 of the Federal Power Act, which allows stakeholders to raise concerns with the Federal Energy Regulation Commission (FERC) about the actions/inactions of an Independent System Operator (ISO) in the US.<sup>4</sup>
- We agree with the proposal **for NESO to continue to operate under a 'pass-through cost' mechanism**. We are content that the checks and balances around this, including the backstop licence condition not to incur any inefficient expenditure, are sufficient to ensure that NESO delivers value for money, while maintaining flexibility to respond to wider changes. **NESO can create significantly more value through levers to manage whole system costs than it can through minimising internal costs**. This is why **reducing long-term system costs must form one of NESO's Strategic Aims** and actions to deliver this should be a central part of NESO's Performance Objectives.
- **We agree with the proposal for NESO to continue to access innovation funding through the existing innovation funding mechanisms**. To deliver the best outcomes for consumers, NESO must champion innovative approaches and be able to access the right support to do so.

<sup>2</sup> Anaya, K. & Pollitt, M., 2017. "Regulating the Electricity System Operator: Lessons for Great Britain from around the world," Cambridge Working Papers in Economics 1755, Faculty of Economics, University of Cambridge.

<sup>3</sup> For example, in NGED the Distribution System Operator Panel provided a [report to the NGED Board](#).

<sup>4</sup> FERC (2025). *Formal Complaints Section 206*. [online] Federal Energy Regulatory Commission. Available at: <https://www.ferc.gov/enforcement-legal/legal/complaints/formal-complaints>.

Annex 1 below includes detailed responses to the questions posed in the consultation. We are keen to maintain an open dialogue with both Ofgem and NESO on the design and implementation of the regulatory framework, as well as the development of future Business Plans. We are happy to discuss the details of our response further.

## Annex 1: Detailed responses to consultation questions

### Performance incentives

1. **Do you agree with our proposal to continue with an evaluative performance assessment that is aligned with our BP3 approach?**

**We agree with the proposal to continue with an evaluative performance assessment, which continues to build on the approach taken for Business Plan 3 (BP3).** Moving to a more strategic assessment of NESO performance will support a longer-term vision for the organisation, and the sector, as we transition to a zero-carbon economy. NESO's longer-term vision must be underpinned by clear plans and activities to deliver the transition and be accompanied by a regulatory framework that incentivises ambitious delivery and excellent performance. We have provided further feedback on the specifics of the Business Plan and plan assessment in our response to Question 2 below.

We welcome the commitment from Ofgem to keep this approach under review and Ofgem and NESO should take forward any learnings from BP3 to the enduring framework. We would welcome further detail on the within-scheme performance reporting expected in the enduring regime, both in terms of frequency and how it will be socialised with stakeholders. This will be particularly important to ensure that there is a clear route of communication and justification where NESO is diverging from its original plans and commitments.

To aid transparency and to build stakeholder trust, Ofgem should continue publishing the minutes of regular Ofgem NESO performance meetings. This will demonstrate to stakeholders that Ofgem is raising stakeholder concerns with NESO and working with them to define and implement corrective actions where necessary.

While recognising that the regulatory levers are limited for a not-for-profit organisation, we would welcome **further consideration of corporate-level financial incentives** such as the 'Balancing Services Incentive Scheme'. In addition to the reputational and remuneration incentives, financial incentives could help to drive excellent performance and delivery for consumers, and support NESO to take an ambitious and proactive approach to its critical role at the centre of the energy transition. Where the use of such incentives drives excellent performance, NESO could use the financial reward to inwardly invest in riskier projects with the potential for significant consumer benefit.

### Business Plan and plan assessment

2. **Do you agree with our proposals for the Business Plan and plan assessment (including the specific proposed requirements in our draft NESO Business Plan Guidance document)?**

We welcome the additional clarity contained in Business Plan guidance document detailing the expected process for developing and assessing NESO's Business Plans in the future. We broadly agree with the proposals for the Business Planning approach – creating a Business Plan every two years should strike the balance between giving stakeholders certainty, while also allowing flexibility for NESO to respond to evolving challenges and changes in the energy sector.

We look forward to further engagement with NESO on a new set of Strategic Aims ahead of the next Business Plan cycle. **We would like to see a clearer commitment to reducing system costs, which is currently covered under the banner of consumer value.** Affordability is high on the political agenda and poses a risk of derailing progress towards delivering CP2030 and Net Zero: ensuring that there is clear reporting on NESO's activities to address forecasted increases in system costs is essential to build stakeholder trust and maintain buy in for the energy transition.

NESO's Performance Objectives must focus on what matters for consumers and society: helping accelerate Net Zero and economic growth while reducing whole system costs over the long-term. Within this it is critical that NESO manages trades offs between long-term and short-term value. For example, system access is critical to accelerating connections and network re-enforcement – which in turn is critical to system resilience, promoting growth and reducing long-term system costs. We are concerned that placing too much weight on NESO's short-term resilience and constraint cost performance will discourage it from providing the system access critical to unlocking major long-term benefits. **The interaction here between the Strategic Aims and Performance Objectives will be key to giving clarity to stakeholders and helping NESO to manage trade-offs where it can point to longer-term ambitions to reduce constraint costs.**

**In terms of the development of Success Measures, we would welcome more quantitative/clearer approaches to measuring performance.** As currently drafted in NESO's Business Plan 3 (BP3), it is unclear how NESO will deliver on some of its Performance Objectives, with Success Measures that are vague and focussed more on deliverables rather than the outcomes delivered. We would like to see this addressed in future BP development cycles. For example, and noting that system costs are not entirely within NESO's control, clearly measuring and reporting NESO's activities to reduce long term system costs is essential to enable stakeholders to make a judgement on performance. Success



Measures should also capture Service Level Agreements (SLAs) to ensure that queries from stakeholders are resolved in a timely manner. In recent months within our Distribution business there have been long delays with regards to query resolution leading to an increase in customer complaints and dissatisfaction.

We are supportive of including Major Deliverables for each Performance Objective in the Business Plan and recognise that in some cases, these dates will need to change to reflect wider changes/challenges across the sector. There is a risk that by mandating delivery by a specific date in the licence leads to perverse incentives to deliver by that date, rather than considering the benefits of changing delivery dates where that will result in a better outcome overall. As such, **we recommend that any specific dates included in the licence are removed and transferred into the Business Plan.** Any changes to NESO delivery dates must be suitably justified and clearly communicated to stakeholders. In-scheme reporting by NESO can deliver this; we look forward to seeing further details on this in the consultations on associated guidance documents later this year.

In terms of Ofgem's determinations on the Business Plan we would welcome confirmation that Ofgem will consider the Performance Objectives in terms of how they deliver the Strategic Aims. Currently paragraph 5.5 refers to the key areas and priorities – this should also specifically state the Strategic Aims.

We note the requirement for NESO to publish its Business Plan by the 15th working day in October or at another time agreed with Ofgem. With the Business Plan requirements and details of the enduring regulatory framework only set to be finalised during Summer 2025, and the requirement to develop and consult with stakeholders on its Strategic Aims before publishing its Business Plan, **we recommend that Ofgem specifies a later date in the case of this first Business Plan cycle under the enduring framework.** Giving stakeholders and NESO sufficient time to develop and iterate these key documents is essential to ensure that delivery is focussed on the right areas and that performance can be effectively incentivised and measured. We are also **strongly in favour of introducing a requirement for NESO to consult formally on its Business Plans and Strategic Aims.** A public consultation gives all stakeholders a formal and transparent route to provide feedback outside of the NESO run forums and will support achievement of the objective to promote stakeholder trust. With its increased remit and the associated increase in stakeholders, NESO must ensure that engagement is transparent, timely and fair so that stakeholders have the same information at the same time. This applies to both the development of the Business Plans and NESO's wider engagement. For example, NESO must ensure that Distribution Network Operators (DNOs) are engaged at the same time as transmission connecting customers with any stakeholder engagement and changes. It is imperative that DNOs get the same customer service experience as directly connected customers.

As per paragraph 5.6 in the Business Plan guidance document, close working between NESO and Ofgem in the development of the Business Plan can help to mitigate any possible delays to the Draft and Final Determinations where a date other than the 15<sup>th</sup> working day in October is specified.

## Cost regulation

### 3. Do you agree with our overall approach to cost regulation and reporting?

**We agree with the proposal for NESO to continue to operate under a 'pass-through cost' mechanism.** We are content that the checks and balances around this approach to costs, including the backstop licence condition not to incur any inefficient expenditure, is sufficient to ensure that NESO delivers value for money, while also maintaining flexibility to respond to wider changes. NESO can create significantly more value through managing system costs than it can through minimising internal costs. Ofgem should keep the approach to cost regulation under review as NESO roles and responsibilities, and associated capacity and capability, become established, and in future we enter a more 'business-as-usual' phase.

Noting our feedback above relating to an increased focus on reducing long-term system costs, understanding the costs of NESO actions in this area compared to the associated benefits delivered to consumers should be a key part of Ofgem's cost regulation to ensure value for money.

## Stakeholder mechanisms

### 4. Do you agree with our proposal for a new NESO stakeholder challenge panel?

**We do not agree with the proposal for an Independent Challenge Panel (ICP) that merges the existing Performance Panel and Independent Stakeholder Group.** This creates a risk that conversations focus on backward looking performance, and not enough consideration is given to how NESO needs to continue to evolve in its ongoing delivery. We believe that clearer delineation between the backward-looking performance conversations, and more forward-looking performance requirements will deliver the best outcomes. We would welcome further consideration from Ofgem, NESO and wider stakeholders of how best to fulfil these two distinct but equally important roles in the most efficient and effective way.

We are also concerned with the proposal for NESO to administer the ICP in future. While we acknowledge Ofgem's role in developing the parameters for this group, and being an observer, this approach risks undermining the independence and value of the resulting performance reports. Given the limited other levers to incentivise performance, we believe **maintaining an independent assessment of NESO performance is important.**

**5. Do you agree with our changes suggested to within-scheme stakeholder feedback?**

**We are supportive of the commitment to implement enhanced stakeholder feedback mechanisms.** Effective stakeholder engagement is fundamental to achieving a high performing NESO and to promoting trust. Ofgem has identified stakeholder trust as one of the key objectives of the regulatory framework.

We recognise Ofgem's commitment to support an ongoing call for evidence, however, we are concerned that this could be overly burdensome. Understanding what the thresholds are for stakeholders to submit information or evidence to Ofgem, how Ofgem will digest this feedback and what the escalation routes are will be important to build trust. We would welcome further discussion with Ofgem to ensure that this provides an effective route to support excellent performance. Effectively identifying and addressing stakeholder concerns in a timely manner is critical. We would encourage Ofgem to look at section 206 of the Federal Power Act, which allows stakeholders to raise concerns with the Federal Energy Regulation Commission (FERC) about the actions/inactions of an Independent System Operator (ISO) in the US.<sup>5</sup>

**6. Do you have any suggestions for new and additional mechanisms or licence obligations that could improve NESO's accountability to stakeholders?**

Linked to our response to Question 5, it is unclear how Ofgem will escalate concerns that NESO is not delivering on its commitments. We believe that continuing to publish the minutes of Ofgem NESO performance meetings will help to give stakeholders clarity on what actions are agreed to address any poor performance and the timescales for completion. In addition to the regular working level performance meetings, we would suggest **strengthening the relationship between the NESO Board and the stakeholder groups evaluating NESO performance.** Formally defining this interface will give confidence that NESO is hearing stakeholder priorities and concerns, and that NESO is taking appropriate action. We recommend a regular public session with the NESO board and stakeholders to support increased trust and transparency.

In cases where NESO performance does not improve despite Ofgem's best efforts, **we think that a route to public scrutiny would provide a strong incentive for NESO to address areas of concern.** For example, senior board members could be questioned by a select committee to share the reasons for ongoing poor performance and to confirm a route to resolution. We do not envisage using this route frequently but believe that the existence of a public backstop provides a strong incentive.

### Licence obligations and enforcement

**7. Do you agree with our overall approach to NESO's licence obligations and enforcement?**

**We agree with the proposal for NESO's license obligations to become more outcomes based** giving NESO the flexibility it needs to deliver the best outcomes for consumers. We look forward to further details on implementation when Ofgem consults on the Licence Expectations document later this year.

In line with our response to Question 2, we are supportive of including Major Deliverables, including timelines for delivery, under each Performance Objective in the Business Plan. **Further, we recommend that any specific dates included in the licence are removed and transferred into the Business Plan.** We recognise that amending dates will, in some cases, be necessary to align with wider industry processes or changes. There is a risk that mandating delivery by a specific date in the licence could lead to perverse incentives to deliver by that date. NESO is uniquely positioned to identify these types of interactions and opportunities to better phase separate workstreams. NESO should have flexibility to consider the benefits of changing delivery milestones where that will result in a better outcome overall. Any changes to delivery dates must be suitably justified by NESO and clearly communicated to stakeholders, for example, through the in-scheme reporting by NESO. We look forward to seeing further details on the in scheme reporting in the consultations on associated guidance documents later this year.

---

<sup>5</sup> FERC (2025). *Formal Complaints Section 206*. [online] Federal Energy Regulatory Commission. Available at: <https://www.ferc.gov/enforcement-legal/legal/complaints/formal-complaints>.

## Senior staff incentives

### **8. Do you agree with our proposal for NESO senior-staff level incentives?**

**We agree with the proposal to link performance more strongly to senior staff level incentives.** As a not-for-profit body this mechanism is key to incentivising excellent performance. Option 2 looks to strike the balance between ensuring increased transparency on how bonuses are arrived at in relation to the outcomes of Ofgem's performance assessment, without detailing the exact methodology for how performance assessments are taken into consideration. We look forward to further detail on how Option 2 would work in practice in upcoming consultations.

## Regulatory finance

### **9. Do you agree with our overall approach to NESO's financial regulatory framework and reporting?**

We agree with Ofgem's proposals for the financial regulatory framework and reporting, where NESO's change in status to a not-for-profit entity means that many of the previous reporting processes are no longer relevant.

## Innovation

### **10. Do you agree with our proposal for innovation funding for NESO?**

We agree with the proposal for NESO to continue to access innovation funding through the existing SIF and NIA mechanisms, using the same process and timings as other network companies for RIIO-3. To deliver the best outcomes for consumers and industry, encouraging and supporting NESO to champion innovative approaches is essential.