



**8 July 2025**

Dear NESO Framework Development team,

We welcome the opportunity to respond to Ofgem's consultation on the enduring regulatory framework for NESO. Citizens Advice is responding as the statutory consumer advocate for energy consumers in Great Britain.

### **Executive summary**

This section highlights the main themes of our consultation response. More specifically:

1. We support Ofgem's proposal for a bespoke regulatory framework aligned with BP3 for NESO's performance assessment. Effective reputational incentives must include clear benchmarking against previous years, timely performance reporting and a strong focus on consumer outcomes.
2. We broadly support the proposal for a two-year Business Plan cycle for NESO and the introduction of long-term Strategic Aims. In order to ensure they remain relevant and useful, Ofgem should have the ability to request NESO to review the Strategic Aims at any point, in addition to NESO having the discretion to do so.
3. We disagree with the proposal for a single NESO Challenge Panel. As they perform distinct roles, which would be compromised by combining, versions of the current Independent Stakeholder Group and Performance Panel should be maintained. We do not believe the current role of stakeholders should be reduced.
4. Finally, we support NESO accessing innovation funding through existing NIA and SIF mechanisms for now, but Ofgem should further explore whether a more tailored long-term model that better fits the unusual and very broad role that NESO plays in the market.

### **Responses to selected 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 Ofgem's assessment that regulating NESO (a not-for-profit public company with a wide strategic remit) is unlike any other existing model, therefore the regulatory framework should be

bespoke. Given NESO's not-for-profit model, we support the move to a more streamlined assessment of NESO's delivery of strategic outcomes and value for money for consumers. This should help to remove some of the regulatory burden for Ofgem, and the consultation process on setting NESO's key outcomes will encourage wide-ranging stakeholder engagement and insights.

We agree with the principles that Ofgem has laid out for their regulation of NESO, in particular the principle to 'ensure accountability'. Ofgem must therefore ensure that its reputational incentives are effective by effectively benchmarking against previous years, with consumer impacts (particularly financial) considered as a primary indicator of good or poor performance. We note that Ofgem places a strong importance on reporting, and would stress that timely receipt and publication of performance metrics are key to ensuring that reputational incentives work as intended to improve and embed strong performance.

## **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 support the proposed approach to NESO's Business Plan and plan assessment process. The transition to a two-year Business Plan cycle on a permanent basis addresses stakeholder concerns about the administrative burden of annual planning under BP3, and the introduction of the Strategic Aims document provides long-term guidance. In addition, retaining key components such as performance objectives, success measures and a formal determination process is key for NESO and Ofgem to ensure transparency and accountability.

Strategic Aims could become out of date quickly due to a fast-changing external environment, so the requirement that Strategic Aims should be reviewed at least every 6 years is not sufficient in isolation. In addition to the discretion the NESO will have to review Strategic Aims, Ofgem should have the ability to request the NESO to do so at any point.

## **Stakeholder mechanisms**

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

We do not agree with the proposal for a new NESO stakeholder challenge panel. We have been represented on both the Independent Stakeholder Group (ISG) and Performance Panel. We believe these groups have distinct functions and that both groups have been successful features of the regulatory framework. The effectiveness of these functions would be compromised by consolidating. We also do not believe the current role of stakeholders, including those representing the interests of consumers, should be reduced.

A key role of ISG has been challenging NESO on its level of ambition, including its approach to prioritisation. Some examples<sup>1</sup> of the impact of this are the increased focus on balancing costs and connections, and the headline commitment to being able to run a zero-carbon electricity system by 2025. A key role of the Performance Panel, when assessing performance, is to review the level of ambition of plans delivered by the NESO and how well NESO has prioritised. Consolidating the two groups would effectively ask the group to assess its own judgment and effectiveness in challenging the ambition of the NESO. This will compromise the group's ability to challenge NESO or its ability to assess performance (or both).

Rather than consolidating the groups, Ofgem should review how the two groups (and other groups such as NESO's various representative councils) can effectively work together, taking into account the experiences of current arrangements, to avoid any overlaps or duplication. Citizens Advice would be pleased to take part in such a review. It would also be useful for Ofgem to mandate that NESO has an ISG. Given the nature of NESO's funding, where significant changes in activity can be expected in between Business Plans, there is a much stronger argument for NESO to have a permanent ISG in place than for energy network companies, where the scope for changes in between price controls is more limited.

In any case, the group responsible for assessing NESO's performance should be kept fully independent from NESO, to ensure independence and the perception of independence. Ofgem should retain responsibility for this activity.

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

We overall agree with the proposed suggestions to within-scheme stakeholder feedback, including more frequent surveys, ongoing evidence reporting and a closer relationship with the Panel assessing performance. To ensure these mechanisms are effective, NESO should publish how they have responded to feedback and demonstrate a clear line between stakeholder views and operational decisions.

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

We recommend that NESO and Ofgem explore a minimum transparency standard for all major decisions, with clear explanations and assumptions that can be communicated by public reporting. Citizens Advice aims to respond to the consultation on proposed licence condition changes later this year and would welcome early engagement with Ofgem and NESO.

---

<sup>1</sup> [Stakeholder Group BP2 report](#)

## **Licence obligations and enforcement**

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

Generally, we support the proposed shift towards primarily outcome-based obligations for NESO since it aligns with their independence goal set out in the consultation, although retaining Ofgem's established enforcement approach to ensure continuity. The plan to remove approvals that add little value will also help to reduce unnecessary regulatory hassle and enable NESO to focus on delivery for consumers. However, there are no details on how these areas of little value are selected, therefore Ofgem's strategic thinking on these decisions needs to be clearly communicated.

We would encourage Ofgem and NESO to ensure that this flexibility in NESO's operation will not result in loss of accountability or clarity for stakeholders and consumers, meaning that transparency measures such as regular public reporting or measures of underperformance or consumer harm should be in place.

## **Senior staff incentives**

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

We agree in principle with NESO's proposal to proceed with option 2. We feel that there should be a clear and meaningful link between senior management remuneration and Ofgem's assessment of NESO's performance to drive high performance and ensure the credibility of the regulatory framework. This is particularly important because Ofgem indicates that using senior-staff incentives will at least in part replace enforcement action that could result in penalties.

If Ofgem proceeds with option 2, we recommend that NESO publishes aggregated information about their incentives, including salary, bonuses and pension, for anyone earning more than £90,000.

## **Innovation**

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

For this price control period, we support Ofgem's proposal for NESO to access innovation funding through the existing Network Innovation Allowance (NIA) and Strategic Innovation Fund (SIF) mechanisms. This approach helps maintain consistency across the regulatory framework, avoids the immediate need to design new governance structures, and facilitates collaboration and knowledge-sharing during a period of institutional transition.

However, we are also concerned that Option 1, as currently framed, does not provide the enduring regulatory framework Ofgem intends to establish. Specifically, it fails to clarify how NESO's innovation role differs from that of Distribution and Gas Network Operators (DNOs and GDNs). NESO's responsibilities—focused on system-wide planning, market design, and strategic coordination—are different from the more operational and asset-based roles of network companies.

Without clearly defining NESO's innovation scope, priorities, and boundaries, the proposed approach risks short-term alignment at the expense of long-term coherence, leading to potential duplication of effort and inefficient use of public funding. The approach to innovation funding should be further reviewed to see if a more differentiated approach is appropriate.

Yours sincerely,

Citizens Advice