

7 July 2025

Response to Ofgem's Consultation on the enduring regulatory framework for NESO

Contact: Tom Luff (tom.luff@es.catapult.org.uk)

Summary

To be successful, NESO must go beyond technical delivery and act as a collaborative, strategic integrator – aligning with government policy, engaging consumers, and working across the system to drive innovation and deliver net zero.

Energy Systems Catapult was set up to accelerate the transformation of the UK's energy system and ensure UK businesses and consumers capture the opportunities of clean growth. The Catapult is an independent, not-for-profit centre of excellence that bridges the gap between industry, Government, academia, and research. We take a whole systems view of the energy sector, including in policy design and implementation, helping us to identify and address innovation priorities and market barriers, to decarbonise the energy system at the lowest cost.

In this response to [Ofgem's Consultation on the enduring regulatory framework for NESO](#), our key points are:

- NESO's strategy must align with national and devolved policies, and its impact should be measured by outcomes for consumers, innovation, and whole-system coordination.
- Effective collaboration is critical. NESO should co-develop plans with policy bodies, DNOs/DSOs, and innovators, and be assessed on the quality of these relationships.
- Clear governance and public accountability mechanisms (like strategic statements and stakeholder panels) are essential to ensure transparency, regional inclusion, and delivery of net zero goals.

We provide a response to the detailed consultation questions below in the annex. We would be happy to further discuss this topic with you.

Sincerely,

Tom Luff, Practice Manager (Electricity Markets, Policy and Regulation) Energy Systems Catapult

Response to detailed consultation questions

Performance incentives

Q1: Do you agree with continuing an evaluative performance assessment aligned with BP3 approach?

We support a qualitative, principles-based assessment focused on overall system outcomes. We recommend broadening the framework to include metrics on system-wide innovation, cross-sector collaboration, and consumer engagement effectiveness.

Business Plan & plan assessment

Q2: 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)?

Submission every two years is appropriate. Guidance should require NESO to:

- Map business plans to national/devolved energy strategies, Net Zero targets, and regional energy priorities (e.g. SSEP, RESP).
- Include risk assessments for key uncertainty areas (e.g. hydrogen, flexibility, CCUS).
- Articulate dependencies and expected deliverables tied to partner organisations, including: DESNZ, Ofgem, NESO, DNOs/DSOs, National Infrastructure and Service Transformation Authority, Energy Systems Catapult, industry bodies (e.g. Energy UK, ENA), research institutions, consumer groups and community energy groups.
- Ensure stakeholder inputs are clearly evidenced and integrated.

Assessment panels should involve cross-sector representation to review alignment and realism.

Cost regulation

Q3: Do you agree with the overall cost regulation and reporting approach?

Further enhancements are needed:

- Maintain pass-through but require NESO to attribute costs to systemic outcomes (e.g. enabling constraints reduction, LCT integration).
- Publish performance benchmarks for NESO's various functions and cost centres against suitable comparators from the energy sector and beyond.
- Require transparent quarterly cost-outcome reporting.

Stakeholder mechanisms

Q4: Do you agree with our proposal for a new NESO stakeholder challenge panel?

We support the proposal for an Independent Stakeholder Challenge Panel, which should include innovators, consumer reps, local government, and emerging tech bodies. It should meet at least quarterly.

Q5: Do you agree with our changes suggested to within-scheme stakeholder feedback?

Could complement surveys with "deep-dive workshops" on key themes (e.g. hydrogen system; flexibility markets).

Q6: Do you have any suggestions for new and additional mechanisms or licence obligations that could improve NESO's accountability to stakeholders?

Introduce a requirement for NESO to publish a structured "Stakeholder Delivery Plan" showing stakeholder inputs, integration, and outcome tracking.

Licence obligations & enforcement

Q7: Do you agree with our overall approach to NESO's licence obligations and enforcement?

Also require NESO to publish remediation plans for any underperformance.

Senior staff incentives

Q8: Do you agree with our proposal for NESO senior-staff level incentives?

Not answered.

Regulatory finance

Q9: Do you agree with our overall approach to NESO's financial regulatory framework and reporting?

Not answered.

Innovation funding

Q10: Do you agree with our proposal for innovation funding for NESO?

NESO's use of innovation funding should prioritise areas where consumer and system benefits may not align with the commercial interests of network companies. Its cross-vector mandate provides a strong rationale for this role and positions NESO to help overcome barriers where incumbent networks may resist change – particularly in cases where innovation serves the public good but not the networks' bottom line (e.g. novel approaches to gas network decommissioning).

Given the evolving role of NESO, we support:

- A dedicated innovation pot reviewed in between formal price controls.
- Requirement for open challenge processes to prioritise projects based on value to consumers and system resilience.
- Reporting on innovation outcomes and learning generated (as part of business-plan assessment).