

Octopus Energy response to Ofgem's consultation on the enduring regulatory framework for NESO

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Sent by email to: NESORegulation@ofgem.gov.uk

About Octopus

The Octopus Energy Group is the UK's largest domestic electricity supplier and a global leader in innovative smart tariffs and products that harness and reward consumer demand flexibility. With over half a million customers on smart tariffs and exponential growth, we are pioneering the future of energy. As the owner of Kraken, a platform that connects all parts of the energy system—from customer billing to the flexible management of renewable generation, energy storage, and consumer devices such as EVs, home batteries, and heat pumps—we are at the forefront of energy technology. [Kraken](#) currently has 42.43GW of assets contracted. As a key player in renewable investments, Octopus Energy manages over £6.7bn in assets globally, including more than 2GW of offshore and onshore renewables in the UK.

Introduction

We welcome the opportunity to respond to Ofgem's consultation on the enduring regulatory framework for the National Energy System Operator (NESO).

We support the intention to strengthen regulatory oversight in line with NESO's growing responsibilities. However, we believe further improvements are required to ensure NESO is held to a high standard of performance, transparency, and engagement.

The stakes in BP3 are high: achieving the UK Government's Clean Power 2030 objective will require a fundamental shift in how the system is planned and operated. Delivering 12GW of consumer-led flexibility is a critical component of that goal, and one that cannot be met if the current slow pace of change and lack of accountability persists. BP3 must be more effective in holding NESO accountable for repeated delays in progress, including implementing mechanisms to scale successful innovations and remove outdated market rules that hinder advancement.

We support the introduction of outcome-based incentives for NESO's senior leadership, but these must be underpinned by clear, measurable KPIs linked to publicly named individuals. We welcome iterative stakeholder feedback

mechanisms, but they are not a substitute for formal consultation processes with defined timelines and expectations. The proposed stakeholder panel must remain truly independent, It is not appropriate to delegate performance oversight or the appointment of panel members to NESO itself.

Ultimately, Ofgem must set out a clear process for what happens if NESO fails to deliver. Accountability must be real, enforceable, and visible. We also propose the introduction of quarterly public Town Halls, where NESO's CEO and Executive Team report openly on progress, an important step to build trust and strengthen reputational incentives.

Octopus Energy would particularly like Ofgem to set KPIS for NESO performance around the following areas:

- **Constraint Costs:** As NESO highlighted in its Annual Balancing Cost Report 2025, balancing costs increased by 10% in FY2024/25 and are expected to rise to £8bn in 2030 - which will add around £74 to an average bill. As the largest cost, NESO has direct influence over we expect clear and ambitious KPIs in this space to drive towards lowering these costs.
- **Wind Curtailment:** In addition to a constraint cost KPI, NESO should also track wind curtailment through a dedicated KPI. This should measure how often wind curtailment could have been avoided by using available demand, offering consumers free electricity to resolve the constraint, but this option was not taken. This could function similarly to a 'skip rate' for demand turn-up opportunities.
- **Skip Rates:** Reporting should include skip rates across all technologies, including Demand Side Response (DSR), which has historically been overlooked in this context. The target should be set to align with the least 'skipped' technology type. Potential consumer savings should also be reported and made accessible to industry.
- **Low Carbon Flexibility Roadmap Targets:** Including how many GW of consumer flexibility we are seeing in various NESO markets vs what flex is on the system but currently unable to participate due to strict entry requirements. To assist with measuring this, the Association for Decentralised Energy (ADE) is creating an industry dashboard.
- **Data transparency:** NESO should ensure that data is not only made available, but also accessible and user-friendly for market participants. For example, enabling downloadable datasets across flexible date ranges (rather than month-by-month exports) would significantly improve usability.
- **Planning Function:** NESOs enduring regulations must incorporate KPIs, minimum standards and clarify NESOs planning function. This is particularly important given the newly centralised, wide-ranging, and long-term approach to planning that NESO is responsible for delivering across

CSNP, SSEPs and RESPs. The regulations should cover key areas such as: proactive engagement, incorporating flexibility into planning methodologies and assumptions, removing barriers to other workstreams dependent on NESO planning outputs, and the blurred responsibilities introduced by this new remit. This Planning Role context is explained further below.

- **Engagement with other global system operators:** It is currently unclear how NESO identifies and incorporates international best practice. Greater transparency on how NESO engages with other best in class system operators - particularly in areas such as metering requirements - would support continuous improvement and global alignment.

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

Octopus Energy supports the need for a continuation of an evaluative assessment. However, we are very concerned that the current framework lacks sufficient operational detail to enable effective scrutiny.

We strongly recommend that Ofgem require the publication of specific, measurable KPIs linked to each Performance Objective. This will enhance transparency, improve accountability, and provide a clearer framework against which stakeholders can assess NESO's progress.

Given Ofgem's move towards individual financial incentives for NESO's leadership, it is essential that named individuals are publicly accountable for each Performance Objective. This is the only way to facilitate more direct engagement, reinforce personal responsibility, and ensure the reputational element of incentives is meaningful.

Question 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 proposal for NESO to submit a Business Plan every two years. This strikes an appropriate balance between providing certainty and allowing plans to evolve as system needs change.

However, we are concerned by the lack of a formal requirement to consult with stakeholders. Ofgem's current proposal refers only to "meaningful engagement," which lacks clarity and enforceability. We strongly recommend that a formal consultation process be mandated as part of NESO's plan development. We also

note the need for clear minimum timelines for consultation to ensure stakeholders have adequate opportunity to respond.

Question 3: Do you agree with our overall approach to cost regulation and reporting?

We are broadly supportive of the continued use of a pass-through model for NESO's costs. However, greater transparency is needed regarding the planned use of resources. We recommend that cost forecasts be broken down by Performance Objective and accompanied by clear justifications and value-for-money assessments. Ofgem's proposal to streamline reporting must not reduce the visibility or granularity of cost information.

However, if a passthrough approach is adopted, it must be accompanied by clear, ambitious KPIs on balancing and constraint costs. As NESO highlighted in its 2025 Annual Balancing Cost Report, these costs rose by 10% in FY2024/25, with wind curtailment accounting for a significant share. Last year alone, NESO spent over £1 billion turning off wind generation in the north and ramping up fossil fuel plants in the south - wasting clean energy that could instead have been offered for free to consumers in Scotland and the north of England. With balancing costs projected to reach £8 billion by 2030, adding around £74 to the average household bill, this is the single largest cost NESO can directly influence.

We expect clear, measurable KPIs to drive action and accountability in this area. Publishing these metrics will also create strong reputational incentives, ensuring NESO is publicly held to account for reducing waste and delivering better value for consumers

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

We support the continuation of a stakeholder panel to provide the necessary independent feedback on NESO's performance. However, we have serious concerns around the intention to have NESO as the administrator of the panel.

To preserve independence, NESO should not be responsible for selecting the chair or members, managing the panel's processes, or overseeing the publication of its reports. These functions should remain independent and clearly governed by Ofgem.

We are also concerned about the merger of the existing Performance Panel and the Independent Stakeholder Group. The remits of performance evaluation and strategic oversight are distinct, and there is a risk that one may dominate to the

detriment of the other. We encourage Ofgem to ensure both functions are adequately supported and resourced.

Question 5: Do you agree with our changes suggested to within-scheme stakeholder feedback?

We support the introduction of a real-time feedback mechanism that enables stakeholders to raise concerns directly with Ofgem on a continuous basis. However, more detail is needed on how this process will be managed to ensure feedback is acted upon effectively and does not exceed Ofgem's capacity. Clear protocols and appropriate resourcing will be essential. We recommend pairing this with formal review checkpoints to ensure feedback is captured, tracked, and addressed in a timely and structured way. It would also be helpful to clarify how this approach differs from existing feedback channels and what improvements it aims to deliver?

We support the continuation of stakeholder surveys but believe they should be conducted independently of NESO to preserve objectivity.

To further enhance transparency and engagement, we propose the introduction of a quarterly public 'Town Hall' style meeting. This would involve NESO's Executive Leadership Team, including NESO CEO Fintan Slye, presenting progress against KPIs and Performance Objectives in an open forum. It would provide an additional layer of public accountability and complement the individual performance incentive regime.

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

We would like to reiterate our proposal for a quarterly industry 'Town Hall' style meeting, led by NESO's CEO, Fintan Slye and a member of the Executive Team, to present progress and take questions from stakeholders. This would improve transparency, build trust, and strengthen the reputational incentives tied to delivery.

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

We support the move towards outcomes-focused licence obligations. However, more clarity is needed on which regulatory approvals Ofgem intends to remove, and what governance process will be followed, following this change.

We also encourage Ofgem to commit to regular reviews of its own guidance documents to ensure they remain current, relevant, and subject to appropriate stakeholder input.

In addition to this, Ofgem must clearly set out what will happen if NESO fails to meet its performance objectives, including a transparent enforcement process to ensure accountability and prompt corrective action.

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

Given NESO is now a public body, we support the introduction of outcomes-based financial incentives for NESO's senior leadership. However, in order to be effective, these incentives must be backed by clear lines of responsibility.

We strongly support the requirement for each Performance Objective to be associated with a named accountable individual. This would improve transparency, enable direct engagement, and ensure that incentives are clearly linked to performance outcomes. It is important to ensure that NESO are empowered to act in an agile way should certain projects go off track or outcomes need to change.

We would welcome clarification as to what happens if NESO fails to deliver against its performance objectives. There must be a clear, transparent enforcement process led by Ofgem to ensure accountability and timely corrective action.

Question 9: Do you agree with our overall approach to NESO's financial regulatory framework and reporting?

We broadly agree with the proposed approach. However, NESO's not-for-profit status means the financial framework must align with the principles of public accountability and transparency. We recommend Ofgem consider whether additional reporting or disclosure obligations are appropriate in this context.

We would welcome greater public reporting on NESO's performance from Ofgem on a regular basis, this could coincide with the Town Halls or for when the Performance Panel meets.

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

We support the continuation of innovation funding for NESO on the same basis as other network companies for RIIO-3. Going forward, we would welcome

greater emphasis on whole-system innovation, particularly projects that are cross-vector, cross-industry, and consumer-focused.

Annex: Planning Role Context

NESOs Planning Function role has expanded and now covers CSNP, SSEPs and RESPs, which all have long-term horizons of 25 years or out to 2050. This form of centralised planning is a new remit of responsibility for NESO and novel in its approach to such wide-ranging, long-term and centralised planning. It is essential that NESO's enduring regulatory framework reflects this and there is no overly "light-touch" approach from Ofgem for such a critical role. For instance:

- **Proactive, iterative engagement:** NESO must ensure transparency in its methodologies, approach, engagement and outputs. NESO must avoid developing these assumptions and methodologies in silos only to present a final, long paper at the end. The engagement should be ongoing, iterative and proactive and its enduring regulations should ensure it is assessed and held to account on such engagement. This is particularly key for new remits of responsibility where a KPI should be used, such as with the example below of flexibility assumptions in RESPs.
- **Flexibility assumptions and methodologies:** RESPs will be core to determining the level of network capacity required at the distribution level. Here, the assumptions NESO makes about flexibility from different types of assets and different customer profiles will be a core factor in determining the level of network build out required. It is therefore critical that NESO engages early and openly with flexibility providers in the UK to ensure the assumptions underpinning their methodologies capture the potential accurately or in a variety of scenarios that include at least one high flex scenario. The enduring regulations should ensure there are minimum standards for NESO engagement and flexibility scenarios developed.
- **Remove barriers from planning interdependencies:** the planning structure and timeframes of NESO has impacted the ability to successfully implement other NESO-led initiatives. For instance, the "needs case" for the first onshore transmission project put forward by NESO to be competitively tendered was rejected by Ofgem due to the proposal coming ahead of the timeframes of tCSNP2 Refreshes and SSEPs. NESO must ensure that the approach, timeframes and delivery of its planning responsibilities do not act as a barrier to wider progress that could save consumer bills. In this case, there was wide support from the initiative from Ofgem and Government since 2013 and the specific project was required in all four FES 2024 tCSNP2 scenarios.

- **Clarify blurred responsibilities:** Ofgem must ensure there is a clear designation of responsibility for consumer bills across NESO, Ofgem and DNO/DSO remits, as with centralised planning this will become increasingly blurred. For instance, RESPs will be a key determinant of network capacity requirements and therefore network build. However, it is unclear whether NESO's planning role will incorporate customer bills and affordability impacts, to what extent and where ultimately this responsibility lies given the new shared remit for planning.