Decision

End-scheme assessment of NESO's BP2 performance – Evidence chapters

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The RIIO-2 price control for National Energy System Operator (NESO) covers the period 2021-26. The price control includes two-year business planning and incentives scheme periods, the second of which ran from April 2023 to March 2025.

As part of NESO's price control, an independent Performance Panel and Ofgem assessed NESO's performance at the end of each two-year cycle. The Performance Panel's report has already been published, and its views informed our assessment. This report provides the evidence base underpinning Ofgem's end-scheme assessment of NESO's performance during the second Business Plan (BP2) period, 2023-2025. This period included the transition of National Grid Electricity System Operator (NGESO) to NESO, and so our views on NESO's performance in that transition are included in addition to evidence on NESO's core performance.

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Introduction

Background to NESO's regulatory framework

In April 2021, we[1] introduced the RIIO-2 price control for National Grid Electricity System Operator (NGESO), covering the period April 2021 to March 2026. This consisted of a pass-through funding approach supported by performance based incentives to deliver value for consumers. In October 2024, NGESO became National Energy System Operator (NESO), a public corporation with extended responsibilities. Although many elements of the original RIIO-2 price control design were retained (including the pass-through funding approach), the financial incentive was replaced by a reputational-only incentive.

An independent Performance Panel (the "Panel") plays a central role in NESO's price control. The Panel and Ofgem periodically assess NESO's performance, identifying areas where NESO has performed in line with expectations, where it has exceeded expectations and where it has not met expectations.

For RIIO-2, we integrated our annual assessment[2] of the Electricity Market Reform Delivery Body's (EMR DB) performance of its functions in relation to the Capacity Market (CM) within the overall performance assessment process. Our assessment of the EMR DB for 2024/25 is included in Appendix 1.

Our approach to assessing performance

The RIIO-2 price control is composed of three separate business plan cycles. This document sets out our assessment of NESO's performance over the second business plan period, known as BP2, which ran from April 2023 to March 2025.

We evaluated NESO's combined performance on delivery and costs, across three distinct roles. We followed the process described in Chapter 3 of the Performance Arrangements Governance Document (PAGD) to assess NESO's performance in relation to each role. To inform our decision we considered:

- the NESO Roles Guidance that set out our expectations for NESO's activities;
- feedback provided to NESO in our BP2 Final Determinations (including our *ex ante* delivery schedule grading and view of Value for Money);
- feedback we provided to NESO throughout the scheme, including at the mid-scheme assessment stage;

[1] The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.
[2] Required under Regulation 83(a)(ii) of The Electricity Capacity Regulations 2014.

- the views of the Panel in their assessment of NESO performance;
- and the views of wider industry stakeholders, collected through NESO's stakeholder surveys, our calls for input, and evidence we gathered from stakeholders over the two-year period.

We split our consideration of NESO's activities for this period into three roles:

- Role 1 – Control centre operations (comprising System operation; System restoration; and Transparency, data and forecasting);
- Role 2 – Market design and transactions (comprising Market design; Electricity market reform; and Industry codes and charging);
- Role 3 – System insight, planning and network development (comprising Connections and network access; Operation strategy and insights; and Optimal network investment).

In our assessment, we scored each of these NESO roles between 1 and 5, with 1 being the lowest and 5 being the highest score NESO could achieve. In determining an overall score for each role, we used five criteria to evaluate NESO's performance: Plan Delivery, Quality of Outputs, Stakeholder Evidence, Metrics,[3] and Value for Money.

Following the establishment of NESO in October 2024 we added a supplementary assessment of NESO's performance in relation to the transition from NGESO to NESO (including establishing the new NESO responsibilities, such as, Strategic Spatial Energy Planning, Regional Energy Strategic Planning and the Advisory function). This performance was assessed qualitatively, in line with Chapter 3 of the PAGD.

Our BP2 Determinations

In our determinations for BP2 we provided an ex-ante assessment, per role, of both the ambition of NESO's two-year delivery schedule and the Value for Money of the BP2 business plan.

We scored each of the three roles 4 out of 5 for the two-year delivery schedule ambition. Therefore, in all three roles, if NESO successfully delivered its BP2 plan it could expect to exceed our expectations. For Role 1, this represented a reduction in ambition from BP1. Our assessment of the Role 2 and Role 3 ambition remained consistent from BP1 to BP2.

All BP2 planned activities or investments proposed by NESO were considered to be worth proceeding with and were therefore eligible for cost recovery. However, in assessing Value for Money, the evidence provided at the time of our determinations process was not sufficient for us to conclude that all activities and investments were going to be

[3] Role 3 does not have Metrics and so this criterion does not apply in Role 3.

delivered in the most efficient way possible. As a result, we scored Role 1 and Role 2 as below expectations and Role 3 as meeting expectations.

Our original BP2 Value for Money assessment was supported by a third-party IT consultant (Zuhlke) who conducted an in-depth assessment of NESO's DD&T portfolio. This assessment considered whether: each IT investment was required from an effective ESO; the chosen IT solutions were effective at achieving the specified business outcomes; and the IT investment was proposed to be delivered at an efficient cost. This assessment was a key contributor to the below expectations scores for Role 1 and Role 2, where NESO had not fully evidenced that the chosen IT solutions were effective at achieving the specified business outcomes or effectively evidenced that the IT investment was proposed to be delivered at an efficient cost.

At our BP2 mid-scheme assessment we commissioned a third-party IT consultant (Coforge) to assess progress in the delivery of each investment within NESO's DD&T portfolio. The findings from this assessment showed that NESO had made strong progress and addressed many concerns raised during our BP2 determinations. As a result, we had greater confidence in the processes NESO had in place and its ability to deliver its RIIO-2 DD&T plan. The consultants' report was published alongside our mid-scheme assessment.

Our BP2 performance decision

We reviewed NESO's performance over the 2-year period and overall, we consider that, on balance, NESO met our expectations of a competent and effective System Operator for Roles 1 and 2, and exceeded our expectations in Role 3.

Role 1 score: 3 out of 5, met expectations.

Criteria	**Ofgem's assessment**
Plan Delivery	Met expectations
Quality of Outputs	Met expectations
Stakeholder Evidence	Met expectations
Metrics	Met expectations
Value for Money	Below expectations

Role 2 score: 3 out of 5, met expectations

Criteria	**Ofgem's assessment**
Plan Delivery	Met expectations
Quality of Outputs	Met expectations
Stakeholder Evidence	Met expectations
Metrics	Exceeded expectations
Value for Money	Below expectations

Role 3 score: 4 out of 5, exceeded expectations

Criteria	**Ofgem's assessment**
Plan Delivery	Exceeded expectations
Quality of Outputs	Exceeded expectations
Stakeholder Evidence	Met expectations
Metrics	N/A
Value for Money	Met expectations

The remainder of this document sets out the evidence base and rationale underpinning these scores.

1. Role 1 – Control centre operations

General Comments

Our overall assessment of Role 1 is that, on balance, NESO met our expectations scoring a 3 out of 5. NESO met our expectations for an efficient system operator under the Plan Delivery, Quality of Outputs, Stakeholder Evidence, and Metrics criteria but fell slightly below expectations under the Value for Money criterion. Our assessment that NESO's performance generally met expectations for Role 1 aligned with the view of the Panel.

We considered that while NESO's performance in Role 1 met expectations, performance was varied within each criterion. NESO exceeded our expectations in some areas such as the new control room IT systems being delivered and management of the system during difficult periods. However, NESO fell short of our expectations on certain issues such as skip rates, forecasting performance and in restoration outputs not providing us sufficient assurance that NESO was on track to meet the Electricity System Restoration Standard (ESRS).

Plan Delivery

NESO met our expectations for Plan Delivery.

NESO set out a BP2 plan that was ambitious, as reflected in our *ex-ante* assessment which scored a 4 out of 5. This meant that had NESO delivered this plan well, it could have expected to exceed expectations in Role 1. Our assessment was that NESO fell short of this original ambition and thus met our expectations.

We considered that NESO did not deliver the full extent of its plan, with 24% of planned milestones, including several large activities, reported as not completed. We recognised that in several cases, the reason for some non-delivery was either outside NESO's control or for the benefit of the consumer.

NESO originally took a decision to delay the Network Control Management System (NCMS) project to enable greater consumer benefits. However, since then, NESO did not demonstrate that it was able to effectively manage the complexity of the work, which we understand led to additional delays. Moreover, we understand that the further delays impacted the delivery of other tools such as the Restoration Decision Support Tool (RDST), control room simulators and integration of new platforms such as the Open Balancing Programme (OBP) and Data Analytics Platform (DAP), which undermined NESO's Plan Delivery score.

We noted that the Panel reported positively on the quantity of NESO delivery and highlighted key deliverables such as OBP and Platform for Energy Forecasting (PEF) as being important successes. Whilst we agreed that NESO exceeded expectations with the

delivery of OBP lite, we were not aligned with the Panel's view that the updated PEF was as positive a success. Although these milestones were noted by NESO as "complete", we do not consider that the full ambition of these milestones was achieved. At the end of BP2 the Solar and Demand forecasting tools were still in the prototype phase and had yet to provide material benefits.

We noted examples where NESO exceeded expectations by showing an agile approach to delivery. The Balancing Programme was a key example of this, where NESO tailored its delivery plan to meet the needs of stakeholders. NESO held regular engagement events with industry which enabled it to co-create this programme. As a result of its agile approach, NESO did not deliver some milestones that were planned for delivery in BP2; however, we considered NESO's delivery of items that were not in the initial plan and concluded delivery was positive in the round. We note that full delivery of the Balancing Programme is due by March 2027, and we expect NESO to deliver its original ambition.

Another area of strong NESO performance was seen in its provision of better awareness and insights into balancing costs and challenging system conditions. For example, in BP2 NESO created a balancing cost strategy team who delivered the first edition of NESO's annual balancing cost review. This gave industry awareness of NESO's initiatives that aimed to reduce balancing costs and the expected impact of these. NESO also shared an improved understanding of the future by providing a projection of balancing costs out to 2035, which has fed into key workstreams such as the Review of Electricity Market Arrangements (REMA) and Clean Power 2030 (CP2030).

NESO met expectations in several areas of its Plan Delivery, such as work on delivering new control room tools to improve monitoring of Sub Synchronous Oscillations. NESO also delivered key restoration milestones, such as the implementation of ESRS code modifications and several restoration tenders that included the procurement of Distributed Energy Resources (DER) utilising findings from the successful Distributed ReStart project.

There were areas where the level of evidence provided by NESO impacted our ability to fully assess delivery. The primary example of this related to co-ordination with DNOs to improve DER visibility. In our BP2 Final Determinations we noted that the BP2 milestones for this were difficult to assess and lacked specificity. This continued to be the case at the end of BP2. While we understand that NESO broadened the initial scope to include Consumer Energy Resources (CER), NESO did not provide sufficient evidence on what actually had been delivered to improve DER/CER visibility. While NESO progressed the Transformation to Integrate Distribute Energy project over BP2, this appeared to consist mainly of scoping and lacked material outputs. Although we commended NESO's efforts in improving the quality and breadth of its industry engagement, the timeline for

achieving DER and CER visibility remained unclear. While we acknowledge that this project was not fully in NESO's control to deliver, as substantial engagement with DNOs was required, we expect significant progress to be made in BP3 given the anticipated rise in DER and CER to meet CP2030 goals.

Quality of Outputs

NESO met our expectations for Quality of Outputs due to mixed performance, with some areas exceeding expectations and others falling below expectations.

NESO exceeded our expectations for the quality of its output delivery and engagement with the Balancing Programme. The delivery of the OBP platform had a materially positive impact on how the Control Room dispatched batteries and small Balancing Mechanism Units (BMUs). We also saw a step change in how NESO engaged with industry on its Balancing Programme, with numerous events and webinars held throughout the BP2 period. Stakeholders praised this engagement, noting that NESO took them on the journey and gave them the opportunity to feed into the work NESO was doing to improve its Control Room IT.

NESO also successfully and safely operated the system, avoided any major frequency or voltage excursions and maintained system security during several challenging periods. One such instance was 14 March 2025; NESO experienced a significant loss of infeed of approximately 1.9GW but managed this loss effectively, with no demand or generation interrupted. This demonstrated that previous projects such as NESO's Dynamic Response products and the Frequency Risk and Control Report (FRCR) policy had a positive impact on NESO's ability to respond to such events. Compared to the previous event of this scale in August 2019, it was clear that NESO was more resilient in managing similar incidents having implemented learning from previous experiences.

NESO's Balancing Cost Strategy and Market Monitoring teams provided Ofgem and industry with high-quality outputs that enabled a better understanding of the costs to balance the system. NESO's work to provide Wind BMUs with guidance on the standards NESO will use to monitor accuracy of final physical notifications (FPNs) was a key example of this. The guidance showed clear benefits, as Wind BMU FPNs improved in accuracy following its introduction. However, consumers missed out on these benefits for several months, as issues were identified in the guidance document by industry to which NESO was slow to respond.

Stakeholders continued to recognise the Operational Transparency Forum (OTF), and we agree that there was an improvement in the OTF throughout BP2. NESO reviewed the effectiveness of the OTF and clearly took onboard feedback given by industry.

However, there were also several areas where NESO provided lower value than we expected over the BP2 period. Skip rates provided a clear example of where NESO's openness and engagement with industry during the first 18 months of BP2 was substantially below our expectations and the needs of industry. NESO was too slow to act on concerns being raised and failed to communicate clearly to industry on key points, such as reasons why skips occurred and how NESO planned to tackle the issue. Transparency over the delayed consultancy report also caused concern for industry stakeholders regarding the independence of the work. Moreover, NESO provided inconsistent messaging on the dispatch of storage behind a constraint which caused confusion for industry. We noted a marked improvement in NESO's transparency and performance on skip rates from December 2024. NESO published skip rate data based on its new methodology and held numerous webinars, OTF deep dives and drop-in sessions on how industry could use this data. In addition, the "defining, measuring and addressing skip rates" document provided a clear roadmap, to provide awareness of the initiatives NESO planned to deliver to resolve skip rates. We expect the increased transparency and collaboration regarding skip rates to continue in BP3 and for NESO to deliver a substantial reduction in skip rates.

NESO's restoration assurance framework showed insufficient evidence of progress towards meeting the ESRS by December 2026. This showed that the work done throughout BP2 had not had the desired impact. NESO was dependent on various industry parties in order to move towards compliance, however, we expected NESO to show stronger leadership and take proactive steps with key partners to ensure further progress towards compliance. We did not see sufficient evidence of this over the BP2 period.

NESO's performance was also below expectations in transparency with industry on major system events and operational decision making. NESO could have been much more proactive in sharing key areas of information with industry when system notifications were issued. NESO also could have provided clearer explanations when these types of events occurred; however, it should be noted that we saw notable improvement in the latter part of the BP2 period.

We also assessed NESO to be below our expectations when sharing data with industry. During BP2 NESO delivered its data sharing function, however, stakeholders raised concerns to us regarding NESO's responsiveness to data requests. Some stakeholders noted that NESO rejected requests on grounds that did not seem appropriate, whilst others highlighted issues with NESO's handling of data which impacted industry decision making. We were also made aware of datasets that were incomplete or erroneous and

that the format of some of the data was not user-friendly. Therefore, we considered that the benefits from the data sharing function were not fully realised during BP2.

Stakeholder Evidence

NESO met expectations against Stakeholder Evidence in Role 1.

In NESO's end-scheme stakeholder survey 54% of respondents indicated that NESO performed in line with expectations, and 30% and 17% of stakeholders stated that they believed NESO to have exceeded or fell below expectations, respectively. This is an improvement from the mid-scheme survey which saw 67% of stakeholders indicate that NESO met expectations, and 18% and 15% of stakeholders responded that NESO exceeded or fell below expectations, respectively.

The feedback we received directly, and the detailed stakeholder responses to NESO's final BP2 survey highlight a mixed view of performance. NESO's engagement around the Balancing Programme generally received positive stakeholder commentary. Additionally, the introduction of OBP was commonly mentioned as a success. Stakeholders also welcomed the improvement of OTF, the recently improved engagements with battery storage providers, and acknowledged that the control room managed the system well during challenging periods.

Stakeholders continued to raise concerns on skip rates. They highlighted that despite positive recent steps, the pace of change during BP2 had been too slow, with NESO taking over a year to publish the consultancy report which then did not include key information such as Demand Side Response skip rates and consumer savings. Similar messages were raised in NESO's BP1 feedback showing NESO had still not managed to appropriately address this issue.

Stakeholders further noted concerns with NESO's delayed DD&T projects, lack of consistent open data sharing, the slow pace of operational metering work, forecasting inaccuracies and issues with restoration tenders. These are all vital issues that support a low-cost transition to a clean power system. We therefore expect NESO to act on this stakeholder feedback and make marked progress on these issues in BP3.

Metrics

NESO met expectations against the Role 1 Metrics.

Under Metric 1A, NESO's balancing costs performance met expectations. Total spend was £5,141m against a cost benchmark of £5,424m. This represented a decrease compared to the BP1 period, where total spend was £6,996m. We note that a reduction in wholesale electricity prices impacted prices in the balancing mechanism, and this was the main driver of the reduction in balancing costs. However, it was evident that past

NESO initiatives had an impact on balancing costs as well: reserve, response, voltage and stability costs all decreased over the BP2 period showing that initiatives such as NESO's Dynamic Response products, reserve service improvements, network service procurement tenders and the FRCR policy drove down balancing costs.

However, there was a large increase in thermal constraint costs, as volumes of actions taken to resolve thermal constraints increased by 81% from 2023-24 to 2024-25. This was driven by planned outages in the north of Scotland and wind generation Connections in constrained regions that outpaced network build. NESO projected that thermal constraint costs could be approximately £7bn in 2030,[4] therefore in BP3 we expect NESO to look closely at the ways it can drive down thermal constraint costs, in coordination with Ofgem, DESNZ and industry.

Under Metric 1B, NESO's performance in year 1 of BP2 met expectations, whilst performance in year 2 was below expectations. Given the investment NESO made towards improving forecasting and the limited evidence of improvement since BP1 (where performance was also below expectations), we consider that overall NESO fell below expectations on this Metric over BP2.

Under Metric 1C, NESO's performance was below expectations in year 1 but exceeded expectations in year 2. NESO demonstrated a clear turnaround in wind forecasting performance following the release of the new wind forecasting product in November 2024. We therefore consider that NESO met our expectations for this Metric over BP2.

Finally, under Metric 1D, NESO's short notice changes to planned outages met our expectations over the two-year period. Out of the 15,338 outages, NESO had 20 delays or cancellations due to a NESO process failure (1.3 outages delayed or cancelled per 1,000 outages). We noted that this performance improved over BP2 as in year 1 there were 1.74 outages delayed or cancelled per 1,000 outages, and this decreased to 0.89 per 1,000, which exceeded expectations in year 2 of BP2.

Value for Money

NESO was below expectations against the Value for Money criterion in Role 1.

This assessment aligns with our *ex-ante* assessment where we considered NESO's plan indicated below expectations performance based on the evidence NESO provided. Our *ex-ante* assessment was mainly driven by uncertainty over DD&T investments, which

[4] 2025 Annual Balancing Costs Report

comprised a large majority of Role 1 spending.[5] Although NESO addressed our initial major concerns over BP2, there remained areas where we lacked sufficient evidence to be confident that NESO delivered Value for Money. Moreover, the drivers for NESO's underspend in this Role often appeared to be largely due to changes in plans resulting in non-delivery, rather than by NESO delivering more efficiently.

Overall, it was difficult to assess NESO's performance for the Value for Money criterion as there was a lack of evidence provided on how NESO had driven down costs yet still delivered value to the consumer. For example, there was noted underspend in BP2 for investments 120, 130, 140 and 190. This represented a total underspend of £8m but it was not clear from NESO's reporting (including the cost monitoring framework) whether this underspend was due to efficiencies, changes in scope or to delays and non-delivery.

Overall, NESO underspent on DD&T investments in BP2 with planned spend of £165m compared to an actual spend of £132m. For several investments this underspend was largely due to changes in plans resulting in non-delivery. The underspend (£12.5m) on investment 110 (network control) was due to a re-baselining of the project that resulted in a six-month delay (pushing spend into BP3). However, the project was intentionally delayed to align with a new product and so negated the need for another large-scale project in the future. NESO also anticipate that this delay will deliver an efficiency saving of £3.6m, whilst still delivering the full scope.

Underspend on investment 510 (Restoration and RDST) was largely explained by a change in scope to the upgrading of Optel and Telephony, which was a direct result of the NESO implementation, rather than an efficiency improvement that delivered additional Value for Money. The remaining underspend came from deferred spend due to delayed delivery of NCMS.

While NESO spent in line with its projections for investment 260 (forecasting enhancements), we considered that there was under-delivery on these investments, including under-delivery of new demand and solar forecasting tools.

Within Role 1 there were also examples of overspend that did not appear to be matched by additional benefits being delivered. For example, spending on investment 180 (Enhancing Balancing Capabilities) was £10.8m above its projected costs. NESO attributed this to underspend in the BP1 period which was subsequently pushed into BP2. However, we noted that total spend on investment 180 was above what had been

[5] We commissioned an independent third party (Zuhlke) to assess NESO's governance of its DD&T investments. 71% of DD&T investments (by cost) in Role 1 were marked "red", indicating that for those investments NESO had not provided sufficient information or demonstration that investments were required for an effective system operator and / or effective for achieving specified business outcomes and / or that the investment is planned to be delivered at an efficient cost.

planned and at the end of BP2 several milestones were yet to be delivered, suggesting this investment could exceed its projected costs. While we note that good value initiatives, such as OBP, were delivered under this investment, NESO provided limited evidence to suggest that additional spending delivered additional value.

2. Role 2 – Market development and transactions

General comments

Our overall assessment of Role 2 is that NESO's performance met expectations, scoring a 3 out of 5. NESO met our expectations for an efficient system operator under the Plan Delivery, Quality of Outputs and Stakeholder Evidence criteria, slightly exceeded expectations on the Metrics criterion, and fell slightly below expectations on the Value for Money criterion. Our assessment that NESO's performance generally met expectations for Role 2 is aligned with the view of the Panel. Stakeholder feedback showed a range of views for NESO's Role 2 activities, indicating variability in NESO performance and high ambition not matched by pace of delivery, and therefore also aligned with our overall assessment.

An overarching theme of our assessment of NESO's performance in Role 2 was that while NESO delivered larger strategic work well, this coincided with notable instances where the quality of NESO's delivery of core BAU functions was not up to the required standards. While it is clear that large benefit can be delivered through high-profile projects, industry relies on NESO being a competent and reliable service provider and NESO will quickly erode industry trust if the day-to-day basics are not delivered consistently well.

We noted large improvement from BP1 in NESO's performance as the EMR DB. Generally, under this activity, NESO performed in line with the exceeds expectations criteria of our Roles Guidance, particularly around EMR policy engagement and support to EMR parties. This may have had an even greater positive influence on our overall score, but for delays and overspend on the EMR portal, which occurred despite reduced scope.

Plan Delivery

NESO met our expectations through delivery of its Role 2 plan.

NESO set out a BP2 plan that was ambitious, as reflected in our *ex ante* assessment scoring it a 4 out of 5. This meant that had NESO delivered this plan well, it could have exceeded expectations in Role 2. Our assessment is that NESO fell short of this original ambition and thus met our expectations.

We considered that NESO did not deliver the full extent of its plan, with 22% of planned milestones, including several large activities, reported as not completed. We recognised that in several cases, the reason for non-delivery was out of NESO's direct control, however there was little evidence of NESO pushing delivery on these items as far as

possible within its control nor of NESO pivoting to deliver alternative work despite spending the same budget.

We noted that the Panel reported positively on the quantity of NESO delivery of the milestones within its control. However, we noted some instances where, in our view, NESO did not deliver its full plan ambition, for example DD&T issues led to further delays to the roll out of planned reserve services.

We considered that there were some instances where NESO showed an agile approach to delivery, which aimed to align with NESO business viability and industry needs. Delivery of a Single Market Platform (SMP) was a positive example of this, where NESO held regular "show and listen" events, opening genuine dialogue with industry on priorities between NESO and market participants. Some planned SMP deliverables were not realised within the BP2 period, but we considered that the programme of work as a whole (including additional delivery of off-plan items) represented a good outcome in line with original BP2 ambition.

Quality of Outputs

NESO met our expectations for the quality of its outputs in Role 2, albeit with quite mixed performance, with some areas exceeding our expectations and others falling below expectations.

On the positive side, NESO showcased its ability to pick up and drive new large deliverables effectively. Examples of this include the Routes to Market Review work and its subsequent alignment into the government led Flexibility Roadmap and policy input into REMA. NESO provided resource to these items and effectively communicated its activities and aims for addressing the problems associated with market access.

NESO also delivered changes to the Demand Flexibility Service. In particular, in its third and more enduring form, we consider that NESO effectively accessed consumer flexibility at scale to the benefit of all consumers both through improved system security and economic benefit. NESO achieved this in the face of significant interest and lobbying from across the industry and managed to balance many competing views. Demand side flexibility was shown, though NESO's economic merit order procurement, to be able to compete with traditional alternative actions in cost and effectiveness. We consider this can set the groundwork for future service design and broader market access reforms.

NESO's performance as the EMR DB was a marked improvement from BP1. We considered that NESO was an effective strategic delivery body for EMR activities in BP2. This has been shown in a number of areas of delivery, though NESO's improved engagement with and support of market participants increased the value of CM and Contracts for Difference (CfD) outcomes. NESO provided high-quality input on relevant

EMR activities as they related to REMA and CP2030 policy led by government. Further, we considered that NESO's capacity adequacy modelling significantly enhanced over BP2, leading to publications and other outputs which added value to the industry.

We also noted that NESO delivered a new CM portal and stakeholders generally provided favourable views of their experience with the new portal compared to the one which it replaced. While there were teething problems for some users, we recognised that NESO developed clearer communication and engagement with portal users that supported them in transitioning, and this was clearly identifiable in user feedback. We also noted that NESO decided to maximise deliverable value in BP2 by changing the scope of the new portal[6] based on stakeholder feedback on priorities. This also avoided loss of value as otherwise upcoming CfD allocation rounds (considered critical in attainment of CP2030 goals) may have been placed at risk. Although we considered that delays earlier in the delivery of the portal led to a need to make this choice, we understand NESO's justification for this decision based on REMA and CP2030 policy developments. Finally, we recognised that NESO continued to try to identify the best value-adding actions for further development of the portal in line with user-identified needs, coupled with useful communication of a change programme through the change delivery roadmap.

However, there were a similar number of areas which NESO provided lower value than we expected over the BP2 period. In particular, we consider that NESO missed value on delivery of critical core business functions.

We identified that NESO could have done better in its management of industry charging processes. NESO is responsible for the management of significant flows of industry money; however, there were occasions over BP2 where we consider that NESO fell short of our expectations for competent management and maintenance of the charging process. We noted stakeholder feedback which supported this, including remarks relating to billing and settlement delays and issues. However, one area where NESO did perform in line with expectations was on Use of System forecasts, where NESO showed good accuracy on Transmission Network Use of System forecasting (reported under RRE 2E), and while Balancing System Use of System forecasting performed less well, we noted improved accuracy in forecasts over BP2, driven by NESO's investment in the tools, data, and methodology, as evidenced by reporting under RRE 2E.

Similarly to industry charging, for much of the BP2 period NESO fell below our expectations for both administration of, and wider organisational input and support to, codes changes. We noted in our BP2 mid-scheme decision that we expected to see

[6] That is, to delay CfD integration into the portal.

better governance and assurance in NESO's management of code change. Following this, NESO provided an update to us on how this feedback had been taken onboard. We considered that the steps NESO outlined in that update could enable improvements in this area, and indeed, our view is that latterly in BP2 (ie post Connection and Use of System Code hiatus), NESO's performance better aligned to our expectations. NESO delivered some important code modifications in BP2 as planned, such as ESRS and Competitively Appointed Transmission Owners modifications, and we also recognised Connections Reform modifications were delivered at pace.[7] We had concerns that NESO did not always have sufficient focus on the wider rules and requirements, for example, the work to review the GB position on an automated Frequency Restoration Process was underdelivered leading to high-pressured work in tight timelines, despite plenty of notice to avoid this.

We found several instances where NESO provided input to code modifications, whether NESO led or otherwise, that did not meet the standard set out in our guidance. GC0117, GC0154, CMP402 represented examples where NESO failed to provide analysis or modelling of sufficient quality. The impacts of sub-optimal code inputs included delays to decision making and change, potentially less beneficial modifications being proposed, and a set of industry rules which have not offered the most efficient system operation and market arrangements. We expected to see NESO be more front footed in identifying the need for change, and providing better supporting analysis and rationale for change, alongside managing the code change process.

We also highlighted issues at the mid-scheme point of BP2 with regard to how NESO communicated market change, particularly with respect to managing delays or changes to delivery plans, and with getting stakeholder buy-in. While we think this remained an issue for some areas of NESO activity, we recognised examples of significant improvement in the BP2 period, such as, much improved two-way communication (mostly via interactive webinars) on the drivers of change and understanding of provider needs for static recovery and other frequency response service development. NESO's Routes to Market Review publication in December 2025 was also viewed as a well-communicated articulation of issue prioritisation. We still require NESO to showcase how this will be embedded as best practice across market change delivery as well as how it plans to ensure programmes of work such as Net Zero Market Reforms, Flexibility

[7] However, we note that a hiatus was required to ensure delivery could be achieved, seemingly aligned with our holistic Role 2 feedback that NESO appeared to divert resource into delivering large projects at the cost of BAU or other projects. NESO must now ensure that this does not put pressure on progress of important modifications in other areas of industry. We do not expect that this will become standard practice in order for NESO to be able to deliver important pieces of work.

Strategy and Market Change Delivery all work together in practice to deliver one coherent industry experience.

Finally, we considered that there was some lost opportunity over BP2 from delays to the roll out of some NESO services and service updates. Particularly, while NESO was able to procure network services such as reactive power and inertia in an efficient manner through ad-hoc tenders (covered in Role 3), we do not think NESO's progress in establishing this in embedded market processes met its planned ambitions.

Stakeholder Evidence

NESO met expectations against Stakeholder Evidence in Role 2.

In NESO's end-scheme stakeholder survey 62% of respondents indicated that they felt NESO performed in line with expectations, and there was no clear bias in performance views outside of this with 21% and 17% of stakeholders stating that they believed NESO to have exceeded or fell below expectations, respectively. This shows very little change from the mid-scheme survey which also saw 62% of stakeholders indicated that NESO met expectations, 16% responding that NESO exceeded expectations, and 22% stated NESO fell below expectations.

Detailed responses to NESO's stakeholder survey and feedback we received directly also indicated inconsistent NESO performance. There were few identifiable themes in the stakeholder feedback which highlighted areas of NESO performance that were consistently strong or weak, rather, stakeholders identified areas (such as pace of delivery and stakeholder communications and engagement) across NESO performance that were positive or negative in seemingly equal proportions. It appeared from feedback that stakeholder experience varied depending on the NESO representative they engaged. We considered that this balanced but mixed stakeholder experience is in line with meeting expectations.

Generally, there was positive commentary in industry feedback related to the more reactive areas of NESO's performance, for example, in NESO's response to requests for clarification. However, NESO's proactivity was commonly questioned, (for example, in making information available in easily accessible format and easily identifiable location). This suggested NESO had the capability to deliver and communicate but did not consistently find the effective manner to do so in line with customer requirements.

Concerningly, as mentioned in the section above, a number of stakeholders expressed frustration with NESO's ability to process settlement and billing in a timely and accurate manner. It is vital that NESO can effectively manage this important aspect of the efficient functioning of markets.

Several stakeholders raised that NESO's markets design pushed the boundaries of what they observe across markets in other countries / regions and therefore reflected positively in their views was that NESO unlocked procurement of new services in response to the trajectory of changing system conditions. We agreed with this feedback and considered that, in line with the ambition of its original plan, NESO strived for innovative and impactful markets delivery. However, in addition to feedback through the stakeholder survey, we heard from stakeholders throughout the BP2 period who felt that NESO's markets developments were too slow and that engagement with industry occurred too late in the process. Further feedback noted that while NESO launched new markets or amended market rules, rules were not always sufficiently monitored or implemented from launch, which led to less efficient functioning of these markets.

Metrics

NESO slightly exceeded our expectations against the Role 2 Metrics.

Under Metric 2Ai, NESO reported how its balancing services procurement aligned with the intent for competition within markets. For its frequency response and reserve services, NESO showed strong performance under this metric in both years, in line with exceeding our expectations. We consider that NESO took deliberate and targeted action over the period to achieve this performance, increasing the amount of reserve and response energy available through competitive procurement means.

NESO also reported values that exceeded expectations for its thermal constraint management services. However, we considered that NESO generally relied on actions taken outside of the calculation for this metric,[8] and so our view of performance is lessened. We considered that while NESO did have some competitive procurement mechanisms in place to help support thermal constraint management (and thus help to drive down this cost category), it could have done more to develop and expand such services to gain greater coverage and impact.

In contrast to its thermal constraints and frequency response and reserve services, NESO reported below expectations figures for reactive power procurement against Metric 2Ai. NESO explained that a key driver of this underperformance was a delay to delivery of a reactive power market leaving it exposed to non-competitive procurement opportunities (such as the Obligatory Reactive Power Service). Based on the data available, it was clear that competitive procurement provided a far more economic

[8] That is, NESO generally used BM BOAs to address thermal constraints, and these are not included within the calculation methodology due to complexity and volume of these actions.

outcome,[9] reinforcing the importance of NESO delivering on its "competition everywhere" RIIO-2 ambition and market development commitments.

Finally, under Metric 2X, NESO reported how its balancing services procurement aligned with close to real-time procurement. NESO showed performance that exceeded expectations over all of BP2, with performance explicitly exceeding expectations in year 1 and meeting expectations in year 2. We considered that NESO made intentional efforts to drive procurement into the day-ahead (or earlier) timeframe, and strong BP2 performance resulted from this. However, there were some areas where NESO could have gone further, for example with greater levels of co-optimisation of procurement,[10] which might have led to performance that exceeded expectations in both years. Outside of the direct metric reporting, NESO evidenced cost savings of moving its Static Fast Frequency Response service to day-ahead procurement (from month-ahead). We expect NESO continue to deliver programmes to improve this and access the associated benefits in BP3.

Value for Money

NESO was below expectations against the Value for Money criterion in Role 2.

This assessment aligns with our *ex-ante* assessment where we considered NESO's plan indicated below expectations performance based on the evidence NESO provided. Our *ex ante* assessment was mainly driven by uncertainty over DD&T investments.[11] Although NESO indicated some areas of headcount increases between BP1 and BP2, we were satisfied by our BP2 Final Determinations that this spend was rationalised.

We considered that, over BP2, NESO improved our confidence in its general management of Role 2 DD&T investments sufficiently to align with meeting our expectations. However, NESO's delivery of investments 320 (EMR & CfD Improvements) and 610 (Charging, Billing and Settlements) far exceeded projected costs. We further understood that NESO's design led to an inflexible product whereby if changes to the product were needed these incurred high costs and lengthy delivery periods. Given the importance of these two investments, we considered this negatively under value for money performance.

[9] Volume weighted cost of procurement of a GVArh competitively: £666.03. Volume weighted cost of procurement of a GVArh non-competitively £4,382.62.
[10] Through its Enduring Auction Capability. Co-optimisation can ensure maximally beneficial procurement across a number of NESO services.
[11] We commissioned an independent third party (Zuhlke) to assess NESO's governance of its DD&T investments. 88% of DD&T investments (by cost) in Role 2 were marked "red" or "amber", indicating that for those investments NESO had not provided sufficient information or demonstration that investments were required for an effective system operator and / or effective for achieving specified business outcomes and / or that the investment is planned to be delivered at an efficient cost.

While NESO reported £12.8m underspend against investments 270 and 280 (EU & GB Regulatory Changes), we considered that this difference in actual spend versus projections was due to initial over-scoping of the work. While we supported NESO not spending this money (as there would have been no consumer benefit in doing so), this is not strong evidence of value for money, and we took a neutral view on its impact on this score.

Whilst a bulk of a £4.8m underspend by NESO on Market Frameworks is reported as being through delayed recruitment, we note that some of that had been realised through efficiencies (reduced team sizing requirements). This is viewed as evidence of positive Value for Money benefit in Role 2.

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

General Comments

Our overall assessment of Role 3 is that NESO's performance exceeded expectations, scoring a 4 out of 5. NESO met our expectations under the Stakeholder Evidence and Value for Money criteria and exceeded our expectations under the Plan Delivery and Quality of Outputs criteria.[12] Our assessment that NESO's performance generally exceeded expectations for Role 3 is aligned with the view of the Panel. Stakeholder feedback showed a range of views for each of NESO's Role 3 activities suggesting there was some inconsistency in NESO performance, but we noted a positive trend in feedback from the mid-scheme to end-scheme survey.

NESO delivered most of its original plan while producing additional outputs largely through the same business functions. However, we believe NESO could have further exceeded our expectations through better management of the existing Connections process and applying earlier oversight to, and more consistent delivery across, key planning activities.

Plan Delivery

NESO exceed our expectations through delivery of its Role 3 plan.

NESO set out a BP2 plan that was ambitious, as reflected in our *ex ante* assessment scoring it a 4 out of 5. This meant that had NESO delivered this plan well, it could have exceeded expectations in Role 3. Our assessment is that NESO delivered well on this original ambition, including through delivery of substantial additional activities, and thus exceeded our expectations for Plan Delivery.

NESO delivered 93% of originally planned milestones, however there were some milestones which were delayed or not delivered. We are content that the reasons for the delays were largely out of NESO's control and / or well justified. Therefore, this has not negatively impacted our assessment.

Milestones on improving identification of network needs (D11.2 and D11.3), were delayed due to delays in delivery of the Data and Analytics Platform (DAP) and thus recorded as internal delays. Although integration with DAP was not completed, NESO developed automation tools, enabling NESO to deliver most of the initially scoped

[12] There are no metrics in Role 3.

benefit. We expect NESO to deliver DAP integration within the BP3 timeframe ensuring full benefits are realised.

Despite some delays, NESO successfully developed the commercial framework required to enable the launch of the early competition tender and completed all necessary design elements for Ofgem's decision. NESO has since agreed a revised delivery plan with Ofgem and will progress the remaining milestones in BP3. In addition to its core responsibilities, NESO created additional value by providing legal support to assist Ofgem in drafting the generic Competitively Appointed Transmission Owner licence.

NESO successfully delivered the 2024 Future Energy Scenarios (FES) and associated publications on time, showcasing enhanced modelling capabilities and marking a strategic shift from scenarios to pathways bringing NESO and industry closer to a centrally planned energy system in line with government objectives. NESO also delivered two Operability Strategy Reports (OSRs), which both demonstrated a clear and structured approach to providing system operability insights.

Substantial additional unplanned activities, including the CP2030 report, Strategic Spatial Energy Planning (SSEP), and Regional Energy Strategic Planning (RESP) were also delivered by NESO over BP2, further contributing to our view that NESO's Plan Delivery exceeded expectations.

Quality of Outputs

NESO exceeded our expectations for the quality of its outputs overall in Role 3, albeit with some key areas which did not perform to that standard.

During BP2, NESO made significant and commendable progress in driving forward Connections Reform, with the TMO4+implementation representing a major step forward in meeting connection reform objectives. NESO accelerated the development and publication of reform methodologies to tackle the growing Connections backlog, aligned with targets under the Connections Action Plan (CAP) and CP2030, and delivered the final code modification on time within tight timeframes. As noted in our BP2 Final Determinations, we considered that delivery of this reform should enable significant consumer benefit. Therefore, within the BP2 period, NESO exceeded our expectations by delivering Connection Reform at pace. We recognise, however, that there have been challenges for customers using the new Connections portal. This work largely falls outside of the BP2 period but will be fully considered as part of our assessment of NESO's BP3 performance.

In our mid-scheme assessment, we stated that NESO had performed below our expectations in delivery of nearer-term tactical Connections reforms. However, we consider that NESO made notable progress on some of these tactical initiatives over the

second year of BP2. NESO generally maintained a good standard of delivery, with timely updates to the Connections Delivery Board. However, while CAP implementation broadly met expectations, some of the actions were delayed by several months, and it is unclear what actions NESO took to resolve this. Conversely, while we noted instances where actions in NESO's five-point plan for Connections delivered lower value than anticipated earlier in BP2, NESO did appear to course correct on some of these.

NESO delivered strong performance in offshore coordination, particularly in its contributions following the Offshore Transmission Network Review. The development of the Innovation and Targeted Oil & Gas and Celtic Sea network designs were well received, with the latter standing out as a positive model of early-stage collaboration. NESO's partnership with The Crown Estate enabled design work to progress ahead of leasing decisions. These activities built on the Holistic Network Design Follow-Up Exercise (HNDFUE), which provided substantial contribution.

Over the BP2 Period, NESO demonstrated strong delivery against our expectations for Network Service Procurement (NSP), notably by delivering tenders for voltage and stability services and establishing the Constraint Management Intertrip Scheme. We also recognise NESO's efforts in proactively reserving substation bays to mitigate delivery risks and provide greater project certainty. Moreover, NESO developed the code and criteria for enabling participation of grid-forming units, and secured contracts with parties for this cutting-edge approach to transmission network service provision. Going forward, we expect to see NESO provide greater transparency (through workstreams such as strategic planning, OSR, and new markets) about how NESO will meet its network services requirements, including where NSP tendering is not a preferred option.

NESO made notable progress in delivering MW Dispatch solutions, enabling infrastructure for DER Connections to the Balancing Mechanism and Active Network Management schemes in NGED and UKPN regions. NESO also advanced integration with the control room and automated key data exchanges, improving operational flexibility.

NESO demonstrated strong performance by remaining on track to achieve its zero-carbon system operation (ZCO) target. Over BP2, NESO delivered several projects across network services, RDPs, and DER workstreams which were essential contributors to NESO's ability to operate a carbon free system. We consider that NESO remains on track to deliver 100% ZCO by 2025 due to its delivery of these and other key projects.

In Network Planning, NESO met its core obligation by publishing the transitional Centralised Strategic Network Plan 2 (tCSNP2) report. From a delivery standpoint, the report was delayed from its original deadline, to allow for delivery of the HNDFUE workstream in the same timescales and enable alignment of the NOA with the HNDFUE.

Due to the low design maturity of the options submitted by TOs for the tCSNP2 report, we determined that an additional update (referred to as the tCSNP2 Refresh) was necessary. While this design immaturity was to some extent unavoidable due to the need to develop a large number of new network reinforcement options in a short timescale, this provided a learning opportunity for NESO. Going forward (for example, within the tCSNP2 refresh), we expect NESO to continue to engage with TOs to share clear expectations for the content required and the deadlines to provide this. NESO should provide scrutiny of plans as a consumer advocate, supporting TOs to submit more developed plans or strongly flagging concerns, risks and dependencies where TO plans are not sufficiently developed.

Furthermore, the tCSNP2 report was intended to guide strategic network planning with consideration for future offshore wind generation (OWG). However, we found that its scenario planning approach did not adequately account for uncertainties in OWG deployment, which posed a risk of underutilised assets. Additionally, the proposed investment scale lacked thorough sensitivity testing. These gaps in execution also informed our request for more in-depth analysis in the upcoming tCSNP2 Refresh.

NESO showed leadership in developing the CSNP methodology, which constituted a new and improved approach to network planning. This demonstrated growing confidence and independence in developing policy areas, particularly as NESO had to prioritise additional (out of BP2 plan) workstreams such as CP2030, HNDFUE, the tCSNP2 Refresh and added hydrogen network planning to the scope of the CSNP methodology. However, we note NESO made slower progress than expected on development of the CSNP Methodology despite our 2022 decision requiring NESO to develop the CSNP and the 2023 expectations we set out for the methodology. This may have an impact on the final submission in BP3.

NESO also progressed several Security and Quality of Supply Standard (SQSS) modifications in line with the prioritised sequence of changes and has met the plan ambition stated in its BP2 plan. However, we believe it could have done more to modernise the core SQSS framework. Given NESO's enhanced role, we expect it to show greater leadership in progressing the framework's holistic development over BP3.

NESO's performance fell significantly below our expectations in managing the BAU Connections process. While we acknowledged NESO's contributions to wider Connections reform, some workstreams were not implemented effectively which worsened the BAU process. For instance, the transitional arrangements and the subsequent pause lacked the required planning and presented proposals at short notice. This caused undue confusion to the industry as rules and processes for connection applications kept

changing. Moreover, although we acknowledged that the volume of offers NESO had to manage was higher than expected, NESO failed to meet the timelines and objectives of the two-step process for managing connection offers.

NESO also submitted an unprecedented amount of connection offer extension requests to Ofgem between early 2022 and October 2024. Of these, several offers missed their deadlines for extension request. In May 2024, we published a direction expressing that NESO should take a more proactive approach and ensure submission of extension requests occurred ahead of deadlines. However, this expectation was not met, and NESO did not resolve the causes of the delayed requests in a timely manner.

Stakeholder Evidence

NESO met expectations against Stakeholder Evidence in Role 3.

In NESO's end-scheme stakeholder survey 62% of respondents indicated that NESO performed in line with expectations, and there was no clear bias in performance views outside of this as 16% and 21% of stakeholders stated that they believed NESO exceeded or fell below expectations, respectively. This shows some improvement from the mid-scheme survey which saw 46% of stakeholders indicate that NESO met expectations, while 33% stated NESO was below expectations, and 21% responded that NESO exceeded expectations.

NESO's general communication, engagement, and technical expertise received mixed views. While some stakeholders praised the professionalism, foresight, and responsiveness of NESO's teams, others cited inconsistent communication and limited visibility of decision-making. Calls were made for quicker responses, more timely updates, and stronger communication, particularly in Scotland and around issues such as outage management. This was supported by consistent feedback in Role 3 for improved transparency, particularly with respect to sharing and usability of data.

We considered that, in some areas of Role 3, NESO demonstrated good stakeholder engagement, communication and transparency. For instance, NESO worked constructively with DESNZ and the Holistic Network Design Board on complex offshore impact assessments and working level interactions demonstrated a responsive and pragmatic approach to handling queries and suggesting improvements. In the latter part of BP2, NESO showed consistent improvement in stakeholder engagement and collaboration by maintaining regular communication with Ofgem and other stakeholders and managed to fulfil expectations in data sharing. NESO also improved wider understanding of the FES through stakeholder webinars and publication of the assumptions log and strengthened engagement on Connections with smaller parties through targeted webinars and information seminars.

Although some stakeholders raised concerns about the pace of NESO's network development work (highlighting that this risks longer term clean power ambitions), there was generally positive feedback around how NESO coordinated with TOs and other key stakeholders on outputs such as CP2030 advice. Further, NESO was viewed as having provided effective support for wider transmission work and coordination of network outages, with some stakeholders suggesting this as evidence of where NESO exceeded expectations.

We also received complaints over BP2 from connection customers who cited substandard documentation, including basic errors, missing data, and unclear firm / non-firm offer status. These stakeholders reported slow communication and delayed error correction, compounding their poor view of NESO's performance.

Value for Money

NESO met expectations for Role 3 performance against the Value for Money criterion.

This assessment aligned with our *ex-ante* assessment where we considered NESO's plan indicated meeting expectations performance based on the evidence NESO provided. Our *ex ante* assessment reflected greater confidence in Role 3 DD&T investments[13] compared to other roles.

Over the BP2 period, NESO's spend was broadly in line with its plan, with £82.5m spent against a planned £80.2m, representing a £2.3m increase overall. However, this was balanced against significant areas of additional delivery which we expect to bring material benefits. We believe NESO demonstrated good Value for Money by delivering high-quality outputs which were well received by stakeholders. NESO delivered greater consumer value than originally planned as resources also contributed to CP2030 outputs while also delivering planned Role 3 work, thus improving our view of Value for Money in this role.

NESO demonstrated reprioritisation and delivery adjustments across several areas through making considered trade-offs to preserve or improve consumer value, especially where additional spend enabled stronger delivery outcomes. For instance, NESO re-prioritised the 2030 Resource Adequacy Assessment and delayed the OSR to better align with CP2030 report.

[13] We commissioned an independent third party (Zuhlke) to assess NESO's governance of its DD&T investments. 99.8% of DD&T investments (by cost) in Role 3 were marked "amber", and there were no "red" rated projects. This indicated only some concerns attributed to NESO having not provided sufficient information or demonstrated that investments were required for an effective system operator and / or effective for achieving specified business outcomes and / or that the investment is planned to be delivered at an efficient cost.

NESO reported additional spend on the Connections Platform (£3.5m). However, as this was primarily to align with the DD&T changes required for Connections Reform we consider this additional spend provided positive Value for Money. Moreover, the platform also delivered enhanced modelling capabilities for FES and supported CP2030 decisions.

NESO also showed additional spend (£1.2m) to expand its network modelling team. As this was done in response to rising workload from new Connections, CSNP support, and system oscillation analysis we recognise that this added value.

NESO underspent (£4.4m) on Connections team resource. Given the volume of work to deliver Connections Reform and the core BAU Connections processes, we consider better value could have been provided had this area been fully resourced.

NESO utilised external consultants to expedite development of some areas of the CSNP Methodology, such as the Environmental and Community Assessment, which we consider an appropriate decision in the context. However, overreliance by NESO on external support is an emerging concern, and we consider that NESO must improve its internal capabilities to ensure that consumers can benefit from future efficiency savings.

4. NESO transition assessment

The transition from NGESO to NESO occurred relatively late in the BP2 scheme, however, given the significance of this organisational change we have included a supplementary qualitative evaluation of how well NESO performed against our expectations for establishing NESO.

Separation Programme

We commend NESO for delivering its transition and separation programme on time and with minimal complications. This was a substantial and complex programme of work which NESO accommodated well, with minimal disruption to its existing commitments. NESO displayed strong collaboration throughout the process with clear communication of progress risks and interdependencies, including by strategically managing changes to industry codes in preparation for Day 1.

Whilst we did not identify any major costs concerns, we consider that NESO Transition spending was an area where NESO could have done more to demonstrate Value for Money. At times it appeared that NESO saw its funding cap as a budget rather than the upper range of cost scenarios, which it should have strived to remain below. Subsequently NESO's outturn expenditure on Transition activities was greater than first expected and above its original high-case scenario. Some of this can be explained by unavoidable scope and timing changes, but we considered that NESO could have done more to build confidence that it was actively putting maximum downward pressure on the costs of the NESO Transition.

New Roles

NESO established its new activities with strong commitment and walked a sensitive path between independence and wider collaboration with Ofgem and Government. NESO's progress in delivery of the Advisory and Whole System Security and Resilience roles demonstrated NESO's ability to deliver high quality work at pace. Delivery of the CP2030 advice to government, the National Gas Transmission Business Plan advice and the North Hyde Substation Review were all well delivered and received widespread positive feedback. Lessons learned sessions revealed potential improvements, such as the need for more effective prioritisation to ensure that a single high-profile request or review does not place all else on hold.

NESO made significant progress in developing SSEP, managing a complex and politically sensitive set of requirements effectively, while maintaining an independent and collaborative approach under pressure. However, despite NESO's extensive engagement efforts, including formal structures like the industry working group, industry stakeholders

raised concerns that feedback was not always acted upon by NESO. We consider that NESO should seek to improve its communication regarding the rationale behind its engagement approach and to strengthen interactions where genuine gaps exist.

We observed strong performance from NESO's enduring RESP team in delivering key outputs at pace. Communication and engagement was positive, with NESO showing a collaborative and responsive approach across the workstream. NESO's communication and engagement during the early phases of the transitional RESP (tRESP) were also constructive, however delivery of the tRESP did not fully meet the expectations set out at the start of the process. Certain components were of high quality, but the tRESP outputs did not fully align with the originally agreed-upon scope. We also noted some challenges related to project management and delivery oversight, including limited visibility into progress at key points. A more structured and transparent approach to tRESP reporting could have enabled earlier identification of gaps and driven the delivery of outcomes closer to our expectations.

We noted significant feedback from stakeholders that NESO did not develop its gas capabilities as quickly as expected and a general view that NESO should make gas a more prominent part of its identity. Stakeholders also revealed a preference for NESO to engage a greater variety of stakeholders and be more transparent in its sharing of plans regarding gas activities.

There is room in BP3 for better coordination across the different strands of NESO's network planning activities to better ensure consistency and for insights to be shared across different system planning activities.

Across all the new NESO activities, there appeared to be insufficient focus on Value for Money in the BP2 period. Headcount notably increased, as did reliance on third party consultancy. While this was often understandable given the new roles NESO was undertaking at pace, we expect NESO to provide higher quality information regarding its Value for Money over the course of BP3, particularly in how NESO is seeking to optimise the delivery of maximum benefits at least cost.

Appendices

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Appendix 1 : Annual report on EMR Delivery Body performance in relation to the Capacity Market

Regulation 83(a)(ii) of The Electricity Capacity Regulations 2014 requires Ofgem to provide the Secretary of State with an annual report on the Electricity Market Reform Delivery Body's (EMR DB) performance of its functions in relation to the Capacity Market (CM). During the RIIO-1 period we published stand-alone annual reports covering the EMR DB's performance against the EMR incentives. However, in RIIO-2, EMR DB performance is included in NESO's wider incentive scheme within Role 2.[14] Therefore, this section of the report covers the EMR DB's performance during the period from 1 April 2024 to 31 March 2025, which includes the Capacity Auctions held in February 2025. We have used the guidance set out in the ESORI Guidance Document[15] to assess the performance of the EMR DB.

Overview

Considering all criteria, we have assessed that the EMR DB's performance was above expectations for this period. This is based on delivery of the new EMR portal in line with revised deadlines and having performed end-to-end testing and provided familiarisation sessions for industry users with the new portal to derisk the launch of the new system. NESO also provided extensive and valuable contributions to both the Capacity Market Advisory Group and to the Review of Electricity Market Arrangements (REMA) policy development work and contributed to policy development in a proactive manner that went beyond the expectations set out in BP2.

Plan Delivery

One of the major critiques in our review of NESO's[16] performance for BP1 was the slow progress on the new EMR portal. The new portal was planned to be delivered by the end of BP1, but due to a number of internal issues, NESO was unable to deliver this milestone. Although NESO also delayed initial BP2 deadlines for delivery, the new portal for Capacity Market prequalification was eventually delivered, with the 2024 prequalification round completed successfully. Users noted some incidences of issues with the new portal in terms of technical glitches that caused concern that their prequalification information had not been correctly uploaded, and issues with ease of access for users who uploaded a large number of smaller assets. However, given that

[14] Following NGESO's transition to NESO on 1 October 2024, we have made changes to NESO's regulatory incentive scheme - NESO's performance as the EMR DB continues to contribute to NESO overall performance, but this report reflects the scheme in place for 2024-25.
[15] Value for Money of EMR DB activities is not included specifically within this Annex but is covered as part of the overall Role 2 Value of Money assessment.
[16] Then National Grid Electricity System Operator (NGESO).

none of the Capacity Market disputes for the 2024 prequalification round involved issues with the portal, we do not consider these to be major issues in terms of functionality or ability to participate. A technical solution was also provided for an issue facing those who had to access the portal on behalf of several difference companies to simplify their access to these portfolios under the new system.

NESO also regularly updated the other EMR delivery partners on the progress of the portal and shared user feedback. In the 2025 NESO Capacity Market Customer Satisfaction Survey, users marked the new portal as 8.28 out of 10, which we consider a positive outcome. We also acknowledge that some participant feedback noted frustration around the complexity of the prequalification process. However, this appeared to be due to the complexity of the Capacity Market rules themselves and not an issue NESO could resolve independently.

The EMR DB received a total of 1,433 Capacity Market prequalification applications for the 2024/25 T-4 and T-1 Capacity Market Auctions and prequalified 767 of them. The EMR DB reviewed 501 requests for a reconsidered decision and approved 488 of these. Of the remaining 13 disputes, 10 submitted an appeal to the Authority, and NESO's decisions were upheld for all of them.

NESO contributed significantly to efforts to develop and improve upon Capacity Market and Contracts for Difference policy. NESO engaged actively in the Capacity Market Advisory Group (CMAG) and worked with Elexon and CMAG members to develop rule changes that effectively resolved problems. NESO also proactively took steps to enable implementation of rule change at short notice, including contingency planning and developing changes at risk. We note that NESO also engaged significantly with the broader REMA work that the Department for Energy and Net Zero (DESNZ) undertook and exceeded expectations in the level of input and analysis provided.

Stakeholder Evidence

The EMR DB's 2025 Customer Satisfaction scores for the Capacity Market increased from 7.43/10 in 2024 to 8.29/10 in 2025. Scores for individual areas were consistently in this range: guidance (8.18), communication (8.42), query management (8.73), and the new category "New CM Portal" (8.23). Customers appreciated NESO's level of engagement, clear documentation, improved portal experience and the timeliness and level of expertise provided during query resolution.

Quality of Outputs

The Quality of Outputs for the EMR DB exceeded expectations for this period. The new Capacity Market portal was delivered, which was identified as a key concern by several customers and was previously a major impediment to improving the experience of EMR

participants. NESO also contributed proactively to many government consultations on ways to improve the Capacity Market and Contracts for Difference, particularly in relation to medium term capacity adequacy and CP2030 goals.