

Guidance

(Draft) NESO Performance Arrangements Governance Document

Publication date:	11 December 2025
Contact:	NESO Framework Development
Team:	NESO Framework Development
Telephone:	020 7901 7000
Email:	nesoregualtion@ofgem.gov.uk

This Governance Document sets out the detailed arrangements for National Energy System Operator (NESO)'s performance incentives. This includes the process and methodology we use for our annual assessment of NESO's performance and the associated reporting requirements on NESO.

This Governance Document is issued by Direction pursuant to Part B of Condition G2 (Performance reports and assessment) of the [Electricity System Operator Licence](#) and the [Gas System Planner Licence](#).

This is a draft version of the NESO Performance Arrangements Governance Document for consultation. In March 2026, we plan to issue a final version of the document to take effect from 1 April 2026.

Guidance (Draft) NESO Performance Arrangements Governance Document

© Crown copyright 2025

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the Open Government Licence.

Without prejudice to the generality of the terms of the Open Government Licence, the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to psi@nationalarchives.gsi.gov.uk.

Guidance (Draft) NESO Performance Arrangements Governance Document

Version History

Versions applicable to NESO¹:

Version	Summary of the document	Publication date	Release date
1	Changes to reflect the introduction of NESO, including NESO's transition to a not-for-profit body.	12 September 2024	1 October 2024
2	Changes to implement our decision on NESO's performance framework for the third business plan cycle (BP3) in the RIIO-2 price control.	1 April 2025	1 April 2025
3 (Draft)	Changes to implement our August 2025 decision on NESO's enduring regulatory framework.	11 December 2025 (for consultation)	1 April 2026 (subject to consultation)

¹ For the previous Governance Document see: [The NESO Performance Arrangements Governance Document \(PDF, 613.84KB\)](#)

Guidance (Draft) NESO Performance Arrangements Governance Document

Contents

(Draft) NESO Performance Arrangements Governance Document	1
Version History	3
1. Introduction.....	5
Purpose of document.....	5
Compliance.....	6
2. Performance assessment process.....	7
Overview of the NESO Performance Arrangements.....	7
Stage 1: Setting performance expectations.....	7
Stage 2: Within-year assessment and feedback	8
Stage 3: End of year assessment processes.....	9
3. Performance assessment methodology	11
Summary of performance assessment approach	11
Part 1: NESO's achievement of Performance Outcomes	12
Part 2: NESO's delivery of value for money	14
Overall NESO Performance Assessment.....	17
Performance Assessment Report.....	18
4. The Independent Challenge Panel.....	19
Background	19
ICP's role and responsibilities.....	19
ICP membership	22
ICP administration	22
Responsibilities of the ICP Chair	23
Requirements on NESO	24
5. Reporting requirements.....	27
Summary of reporting schedule	27
Reported Metrics	28
Performance Outcomes Progress Reports	28
Value for Money Report	29
NESO Cost Template.....	29
Data, Digital and Technology (DD&T) Reports.....	30
Stakeholder Survey	31
End of Year Report	32
General standards on reporting.....	32
Send us your feedback	34
Appendices.....	35
Index.....	35
Glossary of terms.....	36

Guidance (Draft) NESO Performance Arrangements Governance Document

1. Introduction

Purpose of document

- 1.1 National Energy System Operator (NESO) is an independent, public corporation which has key responsibilities across the energy system. NESO has a leading role in driving a secure and cost-effective transition to a clean energy system, and its overarching duties and objectives are unpinned by legislation.²
- 1.2 We³ regulate NESO, to ensure it is accountable for its performance delivering its duties and to ensure its actions align with the interests of consumers. A key part the regulatory framework for NESO is its performance incentives. This Governance Document explains the processes and requirements that govern NESO's performance incentives, including the methodologies we use to carry out an annual assessment of NESO's performance, and the associated reporting requirements we place on NESO.
- 1.3 In August 2025, we decided on an enduring regulatory framework for NESO, including an enduring approach to performance incentives. For more details on the overall framework, please see our [decision document](#). We intend to keep this framework under review and will consider and consult on further changes to this Governance Document as and when necessary.
- 1.4 The NESO Performance Arrangements Governance Document is issued by direction from the Authority under Part B of Condition G2 (Performance reports and assessment) of both the Electricity System Operator (ESO) Licence and the Gas System Planner (GSP) Licence. As set out in the Condition G2, the Authority may include provisions about, or impose requirements in the NESO Performance Arrangements Governance Document, which may include, but will not be limited to:
 - reports the licensee must publish on its website to demonstrate its performance in carrying out the ISOP Business (including with respect to its delivery of Business Plan outcomes and its expenditure);
 - the process and procedures that will be in place for assessment of the performance of the licensee by the Authority;
 - the requirements the licensee must fulfil as part of any such assessment process;

² See sections 163-165 of the Energy Act 2023 for more details: [Energy Act 2023](#)

³ The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day-to-day work. In this document, 'we', 'Ofgem', and 'Authority' are often used interchangeably.

Guidance (Draft) NESO Performance Arrangements Governance Document

- how any such assessment of the performance of the licensee will be published by the Authority;
- requirements in relation to licensee gathering feedback from its stakeholders;
- the arrangements for the Independent Challenge Panel, and the licensee's obligations in relation to the Independent Challenge Panel; and
- any other matters relating to the regulation, governance, or administration of the licensee's regulatory performance incentives.

1.5 This document may be revised and reissued in accordance with Part B of Condition G2 (Performance reports and assessment) of both licences.

Compliance

- 1.6 Where provisions of this Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the Governance Document were part of Condition G2 (Performance reports and assessment) of the ESO Licence and the GSP Licence.
- 1.7 For the avoidance of doubt, this document is subordinate to the licences. This document does not change any definition or obligations contained within the licences and in the event of any ambiguity over the Governance Document, the licences will take precedence.
- 1.8 The contents of this Governance Document do not alter or supplement NESO's compliance with its wider obligations under legislation, its licences or industry codes.

2. Performance assessment process

Section summary

This chapter provides an overview of the NESO Performance Arrangements. It provides guidance on the processes, procedures and timings involved in the assessment of NESO's performance.

Overview of the NESO Performance Arrangements

- 2.1 The NESO Performance Arrangements are a set of processes and requirements designed to create accountability and incentives on NESO to deliver excellent performance for the energy sector and consumers. The framework involves an annual, public evaluation of how well NESO has delivered the Performance Outcomes associated with its Business Plan and delivered value for money for consumers. This is supported by regular reporting by NESO on its progress against its Business Plan, spending and performance.
- 2.2 Stakeholder feedback has a key role in the NESO Performance Arrangements. An important part of the framework is the Independent Challenge Panel (ICP). This is an independent, industry-led panel established to enhance engagement between NESO and its stakeholders on NESO's performance, and to inform our performance assessments. For further details on the ICP see Chapter 4.
- 2.3 There are three key stages in the NESO Performance Arrangements (described further in the sections below):
 - Stage 1: Setting performance expectations
 - Stage 2: Ongoing reporting, assessment and feedback
 - Stage 3: The end of year assessment process

Stage 1: Setting performance expectations

- 2.4 The first stage of the process is establishing the performance expectations NESO must meet as part of our assessment, a key component of which is NESO's Performance Objectives. The Performance Objectives reflect the major outcomes that NESO plans to achieve by the end of each 2-year Business Plan Cycle (BPC). Each Performance Objective has associated Success Measures and Major Deliverables, which should help provide clarity, potentially alongside other indicators, on what successful achievement of a Performance Objective looks like. The Performance Objectives are developed by NESO, in consultation with stakeholders, and defined in its Business Plan for each BPC.
- 2.5 Where necessary, we will establish additional up-front performance expectations through our determinations of NESO's Business Plan (the 'Ofgem Expectations'). This could be expectations related to the achievement of a specific outcome in a

Guidance (Draft) NESO Performance Arrangements Governance Document

Performance Objective or additional outcomes beyond those proposed in NESO's Business Plan, including cross-cutting outcomes. The combination of NESO's Performance Objectives and the Ofgem Expectations will set the major outcomes that NESO will be measured against in Part 1 of NESO's end of year assessment (together called the 'Performance Outcomes'). These Performance Outcomes should establish a stretching set of outcome-focussed expectations, that if delivered well, would merit a positive performance assessment.

- 2.6 Through our determinations we will aim to provide clarity on the strength of the individual Performance Objectives. Where an Ofgem Expectation alters or supersedes a Performance Objective, the Ofgem Expectation will be the primary determinant for our assessment against that Performance Objective.
- 2.7 As part of our determinations, we will also assess the value for money of NESO's forecast expenditure in its Business Plan. This upfront assessment will set further performance expectations that are a key input to Part 2 of NESO's end of year assessment (delivery of value for money).
- 2.8 The Business Plan process sets expectations that NESO should achieve by the end of a two-year BPC. For the first year of the two-year BPC ('Year 1'), the annual assessment will focus on NESO's progress towards achieving those expectations. For the second year of the BPC ('Year 2'), the annual assessment will focus on whether those two-year expectations have been achieved. This will be supported by clear Success Measures, Major Deliverables and cost forecasts for both Year 1 and Year 2 of the BPC, as required by the [NESO Business Plan Guidance document](#).
- 2.9 Within our Business Plan determinations, we may establish further details around the reporting required from NESO to demonstrate its performance, building on the overarching performance reporting requirements contained within Chapter 5 of this governance document.
- 2.10 For more information on the Business Plan and Ofgem Business Plan Determinations process, please see the [NESO Business Plan Guidance document](#).

Stage 2: Within-year assessment and feedback

Reporting

- 2.11 To demonstrate progress against the performance expectations established in Stage 1, NESO must produce and publish regular reports. This includes reports on its progress against the Performance Outcomes, stakeholder satisfaction, as well as costs and value for money. The detailed reporting requirements and timings can be found in Chapter 5.

Guidance (Draft) NESO Performance Arrangements Governance Document**Stakeholder feedback and engagement**

- 2.12 As required by Condition G2.4 of NESO's licences, NESO must put in place arrangements that enable stakeholders to provide regular and coordinated feedback on the licensee's performance.
- 2.13 Whilst this should enable stakeholders to provide feedback on any relevant areas of NESO's performance, NESO must also ensure it is specifically collecting feedback which may be required to demonstrate the achievement of a Performance Objective or Ofgem Expectation.
- 2.14 In addition to NESO's mechanisms for gathering feedback, we will maintain an 'open call for evidence' policy. This means stakeholders can provide input on NESO's performance or raise any concerns to us at any stage during each assessment year. We will consider all feedback received as part of our assessment of NESO's performance and, where relevant and appropriate, bring it to the attention of NESO and/or the ICP.
- 2.15 NESO must also take steps to understand the feedback received and provide transparency to stakeholders on how any key themes of feedback are being addressed. This could include, for example, NESO holding open sessions with stakeholders to discuss feedback received (including the feedback received through the Stakeholder Satisfaction Survey) and providing updates on the actions being taken in response.
- 2.16 NESO must also engage with the ICP within each performance year to discuss performance feedback, in line with the requirements in Chapter 4.

Ofgem engagement and feedback

- 2.17 NESO must meet with Ofgem monthly to discuss the contents of the performance reports and highlight any key developments. Ofgem will provide specific feedback where possible. NESO must respond promptly to any questions raised by Ofgem.
- 2.18 On a quarterly basis, we expect to hold senior, executive-level, engagement with NESO, to discuss the major performance themes emerging from the performance reporting, stakeholder feedback and our ongoing monitoring. At the six-month stage, Ofgem will aim to provide an indicative steer on NESO's general performance trajectory for the end of year assessment, including feedback on any key areas of success or any key issues that should be resolved.

Stage 3: End of year assessment processes

- 2.19 By 30 April, or another date agreed with Ofgem, NESO will publish on its website a report containing final evidence of its performance achieving the performance expectations set through Stage 1 over the performance year. This report is known as the End of Year Report. For more information, please see Chapter 5.

Guidance (Draft) NESO Performance Arrangements Governance Document

- 2.20 In parallel to NESO's End of Year Report, the ICP will produce an independent assessment of NESO's performance for the performance year and submit its findings to Ofgem in the ICP Report, as described further in Chapter 4.
- 2.21 We will take into consideration the information gathered through Stage 2, the End of Year Report, the ICP Report, and other relevant information to carry out NESO's annual performance assessment. The assessment methodology we will use is explained in Chapter 3.
- 2.22 We will summarise our assessment within a public report (the Performance Assessment Report), which will be published, along with the ICP Report, on our website. We will aim to publish these reports as soon as reasonably practicable following the completion of our assessment.
- 2.23 In line with NESO's licences requirements,⁴ Ofgem's annual assessment will need to be taken into consideration by NESO when deciding on its annual performance-related pay for senior staff. Where feasible, Ofgem will provide senior-level feedback (including where appropriate, feedback directly to the NESO Board) on the grades and key outcomes from the annual assessment, in advance of the Ofgem Performance Assessment Report being published.

⁴ In line with Condition F7 in the ESO Licence and F5 in the GSP Licence.

3. Performance assessment methodology

Section summary

The purpose of this chapter is to explain the methodologies we will use to carry out our assessment of NESO's performance each performance year. This includes the criteria we use to assess NESO's achievement of Performance Outcomes and value for money. It also describes our approach to the Performance Assessment Report.

Summary of performance assessment approach

- 3.1 There will be two parts to our overall assessment of NESO's performance for each performance year:
 - Part 1: NESO's achievement of Performance Outcomes
 - Part 2: NESO's delivery of value for money
- 3.2 Part 1 of the assessment will focus on the extent to which NESO is on track to achieve (for a Year 1 assessment) or has achieved (for a Year 2 assessment) the outcomes within the Performance Objectives and Ofgem Expectations. This will be informed by NESO's regular reporting against the Performance Outcomes and other information gained through stakeholder mechanisms and monitoring that is relevant to NESO's achievement of the Performance Outcomes.
- 3.3 Part 2 of the assessment will consider NESO's delivery of value for money for energy consumers. This will be informed by NESO's regular reporting of its expenditure and the associated justifications. It will also consider how well NESO has responded to any key areas of feedback on value for money included in our Business Plan determinations.
- 3.4 For each part of the assessment, NESO's performance will be graded on a scale of 'Exceptional'; 'Strong'; 'Satisfactory'; or 'Poor' in line with the criteria provided in paragraphs 3.7 and 3.14 below.
- 3.5 We will then consider the two parts holistically to determine an overall assessment of NESO's performance for the performance year. The combination of the grades will result in an overall performance grade on the same scale of 'Exceptional'; 'Strong'; 'Satisfactory'; or 'Poor'. We will publish our conclusions in the Performance Assessment Report.
- 3.6 The following sections describe the method we will follow to conduct this assessment and distinguish between grades.

Guidance (Draft) NESO Performance Arrangements Governance Document**Part 1: NESO's achievement of Performance Outcomes**

Grading criteria

3.7 We will grade NESO's performance according to the following guidance:

- Exceptional: NESO has shown exceptional overall performance in achieving the outcomes set though the Performance Objectives and Ofgem Expectations. For example, NESO has demonstrably achieved the vast majority of Performance Outcomes, and NESO's performance is to a high standard across the board.
- Strong: NESO has shown strong overall performance in achieving the outcomes set though the Performance Objectives and Ofgem Expectations. For example, NESO has demonstrably achieved the clear majority of Performance Outcomes, and areas of high performance clearly outweigh areas of weak performance.
- Satisfactory: NESO has shown satisfactory overall performance in achieving the outcomes set though the Performance Objectives and Ofgem Expectations. For example, NESO has broadly mixed performance achieving the Performance Outcomes, and areas of high performance are broadly balanced by areas of weak performance.
- Poor: NESO has shown poor overall performance in achieving the outcomes set though the Performance Objectives and Ofgem Expectations. For example, NESO has demonstrably failed to achieve the majority of Performance Outcomes, and areas of weak performance clearly outweigh areas of high performance.

Further guidance

3.8 For a Year 1 assessment, we will consider NESO's progress towards achieving the Performance Outcomes for the BPC. For a Year 2 assessment we will consider the final achievement of the Performance Outcomes for the BPC.

3.9 We will consider the following information and evidence when reviewing NESO's overall performance and assessing the extent to which it has achieved the Performance Outcomes:

- NESO performance reporting: We will consider the strength of evidence in NESO's regular reporting against the Performance Objectives and Ofgem Expectations, including the extent to which NESO has demonstrated the achievement of the Performance Outcomes through its reporting against Success Measures.

Guidance (Draft) NESO Performance Arrangements Governance Document

- Stakeholder feedback: In addition to any stakeholder feedback reported by NESO as part of its Performance Outcomes Progress Reports, we will consider all broader stakeholder feedback received within the relevant performance year. This will include the results of NESO's Stakeholder Survey, responses to our open call for evidence, the ICP's report, and any other feedback derived from other stakeholder engagement. This feedback will be a material factor in our consideration of the quality of delivery of NESO's commitments and aims. We will also consider how NESO has responded to key themes of feedback provided over the year and the context for this feedback (for example, the extent to which feedback is driven by NESO's performance, or whether there are mitigating factors).
- Supplementary reporting: As part of our Business Plan determinations process, we may require NESO to publish certain Reported Metrics or other additional reports to create transparency on NESO's activities. If trends or themes emerge from this reporting that we consider have a material impact on the outcomes in the Performance Objectives and Ofgem Expectations, this may become a more prominent feature of our assessment.
- New, emerging or unforeseen developments: There may be developments that occur throughout a BPC that were not foreseen when the Performance Outcomes were established. This could include new important activities, priorities or factors that were not listed as Success Measures or Major Deliverables, but which we consider have a material impact on NESO's achievement of the Performance Outcomes, nonetheless. It could also include developments that mean previous Success Measures or Major Deliverables are no longer key contributors to the achievement of the Performance Outcomes.
- Other relevant performance themes: We will consider any other information that is relevant to NESO's overall performance, including any key cross-cutting trends or performance themes that are indicative of the extent to which Performance Outcomes are being achieved across the board.

3.10 There is no explicit weighting associated with the evaluation of each of the Performance Objectives, Ofgem Expectations or any other factor when assessing NESO's achievement of Performance Outcomes. This is because not all factors may be of equal importance/impact and because there will be a degree of overlap between the Performance Outcomes in practice.

3.11 The different components will instead be considered holistically to assess NESO's performance. We will apply discretion to consider the relative strength of performance in different areas when forming an overall view. For example, exceptional performance against one Performance Objective or Ofgem Expectation, which has led to significant benefits for industry/consumers, could be weighted more strongly than adequate or inadequate performance against

Guidance (Draft) NESO Performance Arrangements Governance Document

multiple other Performance Objectives or Ofgem Expectations. Similarly, performance which has had a very detrimental impact on industry/consumers could be weighted more strongly than good performance in multiple other areas.

- 3.12 In instances where there are competing positive and negative areas of performance, we will use our expertise and informed judgement to evaluate where the overall balance of performance lies. For example, this may include consideration of the level of confidence in the evidence provided by NESO against a Performance Outcome (for example, how robust a certain mitigating factor is) or whether specific areas of performance are more consequential for consumers than others.
- 3.13 We will use our monthly and quarterly meetings with NESO to provide ongoing feedback and highlight any areas of performance which we consider could become a material part of our End of Year assessment. Equally, NESO should use these opportunities to highlight any relevant development or changes.

Part 2: NESO's delivery of value for money

Grading criteria

3.14 We will grade NESO's performance according to the following guidance:

- **Exceptional Performance:** NESO has clearly demonstrated that it has sought to strike the optimal balance between maximising benefits delivered from its activities whilst minimising costs. This includes but is not limited to:
 - NESO has shown exceptional initiative and innovation in its delivery of value for money with multiple well-evidenced examples of material cost mitigation or benefit maximisation because of proactive actions taken by NESO that go beyond normal business operations.
 - Clear evidence that NESO operated to the highest standards, followed best industry practice in planning and delivery, and took all reasonable steps to maximise the value of its delivery through ongoing improvement.
 - NESO has clearly responded to all areas of ex-ante feedback on value for money Ofgem provided in the respective BPC determinations.
 - NESO provided a high level of transparency over its expenditure to both Ofgem and stakeholders, and proactively provided information and reasoning needed to demonstrate value for money.
 - Changes from the forecast expenditure, throughout the year, are clearly explained and justified, with the consumer value (such as, cost savings or benefits delivery) of deviations clearly demonstrated.

Guidance (Draft) NESO Performance Arrangements Governance Document

- Very limited/immaterial examples throughout the year of expenditure that did not provide clear value for money.
- Strong Performance: NESO has clearly demonstrated that it has sought to strike a strong balance between maximising benefits delivered from its activities whilst minimising costs. This includes but is not limited to:
 - Evidence that NESO has adopted best industry practice for the majority of its planning and delivery and has taken significant steps to ensure overall value in its delivery through ongoing improvements.
 - NESO clearly responded to the vast majority of areas of ex-ante feedback on value for money that Ofgem provided in the respective BPC determinations.
 - NESO provided a good level of transparency over its expenditure to both Ofgem and stakeholders and there are very few examples of Ofgem requiring further information due to a lack of explanation/justification.
 - Changes from the forecast expenditure, throughout the year, are clearly explained and justified, with the consumer value (such as, cost savings or benefits delivery) of deviations clearly demonstrated.
 - Few, low-impact examples throughout the year of expenditure that did not provide clear value for money.
- Satisfactory Performance: NESO has demonstrated that it has sought to strike a reasonable balance between maximising benefits delivered from its activities whilst minimising costs. This includes but is not limited to:
 - Evidence that NESO has adopted good industry practice in planning and delivery and has taken reasonable steps to ensure overall value in its delivery through ongoing improvements.
 - NESO has adequately responded to the key areas of ex-ante feedback on value for money Ofgem provided in the respective BPC determinations.
 - NESO is transparent over its expenditure to both Ofgem and stakeholders and there are infrequent examples of Ofgem requiring further information due to a lack of explanation/justification.
 - Changes from forecast expenditure throughout the year are adequately explained and justified, with the consumer value (such as, cost savings or benefits delivery) of deviations adequately demonstrated.
 - Examples throughout the year of expenditure, that were not value for money, do not have a material overall impact and do not point towards a systematic issue with NESO's governance of its costs.

Guidance (Draft) NESO Performance Arrangements Governance Document

- **Poor Performance:** NESO has failed to demonstrate that it has sought a reasonable balance between maximising benefits delivered from its activities whilst minimising costs. This includes but is not limited to:
 - Inadequate evidence that NESO has adopted good industry practice in planning and delivery or has taken reasonable steps to ensure overall value in its delivery through ongoing improvements.
 - NESO has inadequately responded to the key areas of ex-ante feedback on value for money that Ofgem provided in the respective BPC determinations.
 - NESO is not transparent over its expenditure to Ofgem and stakeholders and there were frequent examples of Ofgem requiring further information due to a lack of explanation/justification.
 - Changes from the forecast expenditure, throughout the year, are inadequately explained and justified, with the consumer value (such as, cost savings or benefits delivery) of deviations inadequately demonstrated.
 - Multiple and material examples throughout the year of expenditure that is not value for money, indicating a systematic problem with NESO's governance of its costs.

Further guidance

3.15 Our value for money assessment will be cross-cutting across NESO's activities.

3.16 To demonstrate value for money and cost efficiency, NESO should share the general methodology and key assumptions it has used to establish any cost forecasts (including full-time employee (FTE) numbers and rationale for that number of FTEs). NESO should outline the level of certainty and confidence it has in its forecasts, as well as the processes and mitigations it will adopt to avoid expenditure that results in poor value for money in activities where there is lower confidence.

3.17 Whilst our assessment will focus on actions and decisions taken by NESO within the respective BPC, delivering value of money for consumers requires NESO to strike an effective balance of nearer and longer term spend. For example, reducing expenditure on certain activities or investments during a BPC period may not deliver value for money if the lifetime costs of an activity or investment are subsequently higher. NESO should also consider the relative impacts and benefits across the energy sector when considering value for money.

3.18 Good industry practice will differ across activities. For example, where best practice is referenced for IT investment delivery, NESO is expected to be able to provide evidence of the referenced best practice and performance in line with that

Guidance (Draft) NESO Performance Arrangements Governance Document

practice. For NESO's non-IT activities, best practice is likely to be more general and include, but not be limited to, demonstration of:

- consideration and assessment of a wide range of options for delivering a desired outcome, with clear rationale for the choices made;
- consideration of monetised and non-monetised consumer benefit; and
- consideration of the distribution of the benefits/costs across different groups/stakeholders/participants.

3.19 We will also consider the context for costs provided by NESO. Our assessment will consider, but will not be limited to, criteria such as:⁵

- Business suitability – whether spend is necessary and has been appropriately prioritised against other activities;
- Resilience and adaptability – whether future uncertainty has been appropriately considered;
- Ongoing efficiency – whether value is being managed throughout the life of the work; and
- Governance, including delivery and management of risk – whether spend is controlled, risks are managed, and robust oversight and accountability is maintained.

3.20 For the avoidance of doubt, unless specified otherwise in the respective BPC determinations, Ofgem will not determine whether NESO's forecast costs represent an efficient benchmark or budget. Similarly, our assessment will not automatically deem any overspend or underspend against the Business Plan forecasts as demonstration of poor or good value for money. In the assessment of value for money, we will consider the relevant context, the quality of the rationale and evidence provided for cost deviations, and NESO's achievement of its Performance Outcomes and consequently benefits.

Overall NESO Performance Assessment

3.21 Once we have assessed the two parts of NESO's performance, we will consider these holistically to determine an overall assessment grade.

3.22 In practice, NESO's possible performance falls on a spectrum rather than into four distinct categories. It may not always be the case that a grade was clear-cut and there could be instances where we consider performance is borderline between two grades.

⁵ Specific technical criteria may also be considered where appropriate. For example, for IT investments it may be suitable to consider aspects such as the foundational capability of those investments.

Guidance (Draft) NESO Performance Arrangements Governance Document

- 3.23 When combining the two parts of the assessment into one overall assessment grade, we will consider the relative strength of performance in each part, including whether the grades were clear-cut or borderline. As an example, NESO could receive a 'Strong' grade in one part of the assessment and a 'Satisfactory' grade in the other. NESO's performance could still be graded as 'Strong' overall if the areas associated with 'Strong Performance' clearly outweighed the areas associated with 'Satisfactory Performance'.

Performance Assessment Report

- 3.24 Following our assessment, we will record our conclusions in a report which will be published on our website.
- 3.25 In addition to the overall assessment grade, our report will include the individual grades for each of the two assessment components. It will also provide transparency on the key factors that have led to our gradings for NESO, including any areas where there has been particularly strong or inadequate performance. This could include highlighting any Performance Outcomes or value for money considerations that we have weighted strongly in our overall assessment.
- 3.26 We intend for this report to act as a key reputational incentive on NESO. It will also provide a definitive and final Ofgem position on NESO's performance that must be taken into consideration by NESO for its decision on senior management performance-related pay, in line with Part A of Condition F7 of the ESO Licence and Condition F5 of the GSP Licence.

4. The Independent Challenge Panel

Section summary

This chapter provides guidance on the Independent Challenge Panel (ICP) and outlines its roles and responsibilities, membership, and administration processes. It also establishes the specific requirements on NESO in relation to the ICP.

Background

- 4.1 In our August 2025 decision on NESO's enduring regulatory framework, we decided to establish the ICP. The ICP will be an industry-led panel with members from across the GB energy sector who seek to represent the breadth of NESO's stakeholders. The ICP is designed to increase NESO's accountability to stakeholders and help ensure stakeholder perspectives are fed into our performance assessments.
- 4.2 The ICP will be established by Ofgem and self-administered by energy industry stakeholders. We expect the panel to operate independently from NESO and Ofgem, under the governance and oversight of an Ofgem appointed ICP Chair. NESO is required to engage with the ICP to enable the ICP to deliver its roles in accordance with Condition G2 (Performance reports and assessment) of the ESO Licence and the GSP Licence.

ICP's role and responsibilities

Purpose and objective

- 4.3 The overall purpose and objective of the ICP is to:
 - Enhance NESO's accountability to energy sector stakeholders;
 - Help ensure NESO has effectively considered stakeholder priorities when establishing and delivering its activities;
 - Facilitate ongoing dialogue between NESO and stakeholders on NESO's performance, and promote transparency on the actions NESO is taking in response to its feedback; and
 - Inform Ofgem's end of year performance assessment of NESO.

Responsibilities

- 4.4 The ICP's responsibilities will cover:

Guidance (Draft) NESO Performance Arrangements Governance Document

- **Business Plan review:**⁶ Reviewing and providing feedback on the draft Performance Objectives and Success Measures within NESO's Business Plans, to help ensure they appropriately reflect key industry priorities and are sufficiently well-defined and suitably stretching as a package.
- **Within-year feedback:** Meeting with NESO to discuss stakeholders' feedback on NESO's progress against its Performance Outcomes, as well as the quality of its general stakeholder engagement. These discussions should draw from the experiences of panel members and consider feedback received through NESO's incentives scheme processes, including the feedback received through the Stakeholder Survey.
- **End of year assessment:** At the end of each performance year, reviewing NESO's performance and producing an assessment report. The findings from this assessment will inform Ofgem's end of year assessment and will be published in a report (the 'ICP Report').

Meetings and meeting outputs

4.5 To deliver the above responsibilities, we expect the ICP to convene during each BPC at least at the milestones shown in Table 1: ICP meetings and expected outputs.

Table 1: ICP meetings and expected outputs

Stage	Meeting(s)	Expected timings	Expected outputs
Business Plan review	At least one meeting with NESO to provide feedback on NESO's proposed Performance Objectives and Success Measures.	Between June and September every two years, prior to NESO's Business Plan submission.	Direct feedback to NESO (either within the meeting or a written summary after the meeting).
Within-year feedback	At least one meeting with NESO to discuss NESO's progress against the Performance Outcomes and to discuss stakeholder feedback.	Between September and November each year.	Direct feedback to NESO (either within the meeting or a written summary after the meeting).

⁶ This responsibility will only come into effect for the Business Plans from April 2028 onwards, as NESO's 2026-28 Business Plan will have already been established by the time the ICP is formed.

Guidance (Draft) NESO Performance Arrangements Governance Document

Stage	Meeting(s)	Expected timings	Expected outputs
End of year assessment	At least one meeting with NESO to discuss NESO's progress against the Performance Outcomes and to discuss stakeholder feedback. One closed meeting (without NESO) to discuss the content of the ICP's report.	Between March and April each year.	A public ICP Report (see section below).

4.6 The ICP Chair may propose to convene additional meetings of the ICP where it believes additional discussion (with or without NESO) is necessary for the ICP to effectively carry out the roles and responsibilities outlined in paragraphs 4.3 and 4.4. This may include discussions with wider groups of stakeholders (or bodies that represent key stakeholder groups) where the ICP Chair believes a comprehensive overview of stakeholder perspectives is missing. In doing so, the ICP Chair should be mindful of resource impacts, discuss with impacted parties, and ensure any additional meetings have value and are not excessive.

ICP Report

4.7 The ICP should coordinate, gather, and disseminate stakeholder feedback through the production of its annual ICP report. When discussing NESO performance and producing the ICP report, the panel should consider not only the views of individual members, but also the feedback provided by stakeholders more widely. This includes the feedback provided through NESO's Stakeholder Survey.

4.8 The ICP Report should outline the ICP's views on:

- the extent to which NESO has achieved the Performance Objectives and Ofgem Expectations for the relevant BPC;⁷
- how well NESO has engaged with stakeholders, including whether NESO has been open, transparent and acted on feedback; and
- any other aspect of NESO's performance that the ICP considers relevant to Ofgem's performance assessment.

4.9 The ICP has discretion to determine the content and structure of the ICP report. However, the ICP Report should be clear and written with the objective of

⁷ For Year 1 of the BPC, this should be the extent to which NESO is on track to achieve the Performance Objectives and Ofgem Expectations.

Guidance (Draft) NESO Performance Arrangements Governance Document

providing a fair and accurate assessment of NESO's performance. The ICP Report should highlight (where relevant) both areas of strong performance and areas where NESO has not met stakeholder expectations.

- 4.10 The ICP should submit the report to Ofgem no later than 30 April or another date agreed between Ofgem and the ICP Chair.

ICP membership**ICP Chair**

- 4.11 The ICP Chair will play a key role in ensuring that the ICP delivers its roles and responsibilities effectively (as outlined in the 'Responsibilities of the ICP Chair' section below). The ICP Chair will be appointed by Ofgem. We expect that the ICP Chair will be appointed on a fixed-term contract with Ofgem, with the possibility of renewal.

Appointment of Panel Members

- 4.12 The ICP should include a diverse group of stakeholders that reflect the broad scope of NESO's activities and ensure balanced representation across relevant stakeholder groups. These may include, but are not limited to, industry entities such as distribution and transmission network companies, energy producers, energy suppliers, and other organisations actively involved in the GB energy system. The ICP should also include at least one consumer-focussed member. The membership should be large enough to represent a diverse and broad range of interests, but not too large that the management and operation of the ICP becomes overly burdensome and difficult.
- 4.13 The ICP Chair will be responsible for approving the process for appointing panel members, as well as approving the initial panel composition and any subsequent membership changes. Given NESO's unique understanding of its stakeholder and customer base, we expect NESO to work closely with the ICP Chair and provide administrative and logistical support to facilitate the appointment of a diverse panel that reflects the range of NESO's activities.

ICP administration**Overall administration**

- 4.14 We expect the ICP to carry out its own administrative tasks. This may involve the ICP Chair appointing one or more members of the ICP as technical secretaries. The technical secretaries would assist in drafting any feedback and the ICP Report, and in coordinating with panel members and NESO to agree on meeting timings and logistics.

Guidance (Draft) NESO Performance Arrangements Governance Document

- 4.15 The ICP may establish its own terms of reference to guide its operations and provide clarity on procedures. However, the ICP Chair should ensure this aligns with the expectations set out in this chapter.
- 4.16 Where the ICP lacks sufficient resources to self-administer its responsibilities, NESO or Ofgem may provide administrative or logistical support, subject to the ICP Chair's agreement that such assistance does not compromise the panel's independence.

Process to agree feedback and reports

- 4.17 The ICP Chair and panel members will be responsible for coordinating, drafting, and delivering the ICP Report and any written feedback to NESO. All ICP members should have an opportunity to comment on draft versions of the written feedback and ICP Report. The final versions should be approved by the ICP Chair, with the ICP Chair responsible for identifying areas of consensus, ensuring the key messages are captured, and explaining any key conflicting viewpoints from panel members or wider stakeholders.

Ofgem involvement and dispute resolution

- 4.18 The ICP should act independently from Ofgem, but Ofgem may be invited as an observer to key meetings with NESO to help build our understanding of the ICP's views and to inform our assessments.
- 4.19 As outlined in the sections below, we expect NESO to accommodate reasonable requests from the ICP that would be necessary for the ICP to discharge its roles and responsibilities. Where there is a disagreement between NESO and the ICP on topics like meeting frequency, attendance, information provision, or the membership appointment process, there should first be an attempt to resolve these issues through a discussion between a senior NESO representative and the ICP Chair. For unresolved issues, Ofgem may act as an independent arbitrator or mediator. We expect NESO and the ICP Chair to follow any decision reached by Ofgem.

Confidentiality and data protection

- 4.20 We expect the ICP to maintain the confidentiality of any information designated as confidential by NESO, and more generally to comply with all applicable data protection and privacy laws.

Responsibilities of the ICP Chair

- 4.21 The ICP Chair has the responsibility to ensure the overall effective operation of the ICP and to ensure that the ICP delivers the roles and responsibilities outlined in paragraphs 4.3 – 4.10.
- 4.22 Specifically, the Chair will have the responsibility to:

Guidance (Draft) NESO Performance Arrangements Governance Document

- Agree the process to appoint members, through discussion with NESO and Ofgem;
- Approve the initial ICP membership as well as any future membership changes;
- Chair the ICP meetings, ensuring all members have opportunities to provide views, and summarising the key meeting conclusions (including areas where members have reached a broad consensus and areas where there are significant differences in views);
- Ensure the meetings identified in Table 1 take place when required (which could be through delegation to other panel members or a nominated technical secretary);
- Determine whether any additional meetings are needed to deliver the ICP's roles and responsibilities and discuss this with impacted parties;
- Ensure that any written feedback shared with NESO is representative of the ICP's overall views;
- Ensure the ICP Report is submitted by the deadline in paragraph 4.10, and that the process in paragraph 4.17 is followed (which could be through delegation to other panel members or a nominated technical secretary);
- Approve the ICP Report, ensuring it aligns with the expectations in paragraphs 4.7– 4.10 and is to a publishable standard; and
- Communicate the panel's key end-of-year messages to senior leadership within both Ofgem and NESO, ensuring that stakeholder perspectives and performance insights are appropriately conveyed.

Requirements on NESO**Overarching obligation**

4.23 As required in Condition G2 of NESO's licences, NESO must engage and cooperate with the ICP to enable the ICP to effectively carry out its responsibilities. The sections below build on this overarching requirement to outline the minimum actions NESO is required to undertake.

Meeting attendance

4.24 NESO must ensure it is available to attend the minimum expected meetings outlined in Table 1, as well as any reasonable requests for additional meetings.

4.25 NESO must ensure that there is appropriate senior (executive-level) representation at any ICP meetings to discuss within-year and end of year performance, unless agreed otherwise with the ICP Chair.

Guidance (Draft) NESO Performance Arrangements Governance Document**Meeting contribution**

4.26 NESO must provide the ICP with the information necessary to support effective and informed discussions at each ICP meeting. This includes, but is not limited to:

- At the Business Plan Review stage:
 - Draft Performance Objectives and Success Measures, together with summary of how stakeholder feedback has shaped the latest version of the Business Plan.
- At the within-year and end of year performance assessment stages:
 - A summary of progress against the Performance Outcomes;
 - An overview of the results from (or provisional results from) the most recent Stakeholder Survey, a summary of major themes of feedback from stakeholders collected through the performance year, and a summary of NESO's actions taken in response to this feedback.

4.27 We expect NESO to verbally summarise and present this information to the ICP. Where feasible, NESO should share materials in advance to maximise meeting efficiency.

4.28 NESO should promptly and transparently respond to questions and reasonable requests from the ICP for further information, where that request is necessary for the ICP to effectively deliver the responsibilities out in paragraphs 4.3 and 4.4.

Membership and administrative support

4.29 NESO must provide the information and logistical support the ICP Chair needs to appoint ICP members. This includes NESO providing accurate and up-to date information of its stakeholders to help ensure that the ICP is representative of the breadth of NESO's stakeholders.

4.30 NESO must provide any other reasonable administrative and logistical support to the ICP when requested by the ICP Chair, subject to the ICP Chair's confirmation that such assistance does not compromise panel's independence.

Proactive and coordinated engagement

4.31 NESO should consider when and where it may be beneficial to share additional information or propose additional meetings with the ICP to promote transparency on its actions and performance. For example, where NESO considers there are emerging or ongoing performance issues that would merit further engagement with the ICP.

4.32 NESO must ensure there is effective coordination between its engagement with the ICP and other channels it uses to gather stakeholder feedback on its plans and performance (including any additional stakeholder groups established by

Guidance (Draft) NESO Performance Arrangements Governance Document

NESO). For example, this could be achieved by NESO explaining to the ICP what other key discussions have been held with stakeholders on its Business Plans or key performance themes. NESO should seek to avoid unhelpful duplication of activities or fragmentation of stakeholder views and give the ICP precedence in its engagements where there is the potential for overlap.

5. Reporting requirements

Section summary

This chapter outlines the reporting requirements on NESO as part of the NESO Performance Arrangements.

Summary of reporting schedule

- 5.1 This section provides an overall summary of the reporting requirements placed on NESO as part of the NESO Performance Arrangements. The subsequent sections expand on the specific content required in these reports.
- 5.2 Monthly reporting:
- Content required: Reported Metrics
 - Required by: 17th working day⁸ of the following month they are in relation to
- 5.3 Quarterly reporting:
- Content required: Performance Outcomes Progress Reports; Data, Digital and Technology (DD&T) Reports
 - Dates required by: 17th working day of July (Q1 report), October (Q2 report), January (Q3 report), and 30th April (Q4 can be part of the End of Year Report)
- 5.4 Six-monthly reporting:
- Content required: Value for Money Reporting; Stakeholder Survey Report
 - Dates required by: 17th working day of October and 30th April (Second half of the year can be part of the End of Year Report)
- 5.5 Annual performance reporting:
- Content required: End of Year Report; NESO Cost Template (provisional realised costs)
 - Date required by: 30 April
- 5.6 Consolidated cost reporting:
- Content required: NESO Cost Template (consolidated realised costs)
 - Date required by: 17th working day of October
- 5.7 Unless otherwise specified in the sections below, these reports must be published on NESO's website by the dates identified above.

⁸ Working days can be calculated based on the [UK bank holidays for England and Wales](#).

Guidance (Draft) NESO Performance Arrangements Governance Document

- 5.8 Where there is any confidential or commercially sensitive information, this should be redacted from any published documents.

Reported Metrics

- 5.9 NESO is required to regularly report on certain Reported Metrics. These are predominantly data-focussed reporting requirements which are designed to support transparency and NESO's accountability to stakeholders, whilst applying reputational incentives which are supplementary to our public performance assessment. In some cases, these may be associated with the achievement of a Success Measure, Performance Objective or Performance Outcomes.
- 5.10 Requirements related to Reported Metrics may require NESO to provide outturn metric performance data and supporting rationale to explain data trends.
- 5.11 We will consult and decide on the full list of any Reported Metrics, their timings, specific requirements, and methodologies as part of our Business Plan determinations, prior to the beginning of the respective BPC. This will allow us to regularly review the Reported Metrics to ensure they have value, reflect stakeholder needs, and reflect energy system developments.

Performance Outcomes Progress Reports

- 5.12 NESO is required to provide quarterly updates on its delivery of Performance Outcomes. These updates should outline, for each of the Performance Outcomes, the progress made in achieving that Performance Outcome, including evidence in relation to the Success Measures and any other information NESO considers will demonstrate progress against the Performance Outcomes. NESO should also provide an update on progress against the Major Deliverables and whether milestones have been achieved or remain on track. Where a Performance Outcomes is at risk of not being achieved, NESO should clearly highlight this, explain the reasons, and summarise the actions it is taking to resolve this.
- 5.13 Alongside or following our Business Plan determinations, Ofgem may issue NESO with a Performance Tracker. Where issued, the Performance Tracker will set out specific minimum information that NESO must provide as part of its Performance Outcomes Progress Reports.
- 5.14 For the avoidance of doubt, NESO is not restricted by these requirements and may choose to provide additional or more frequent narrative on its progress if it considers this beneficial. For example, NESO may wish to highlight successes or challenges that it would like to provide information on to Ofgem and stakeholders at the monthly stage, in advance of a quarterly report.
- 5.15 For each BPC, we do not expect the Business Plan to be revised once published. However, we expect NESO to remain flexible and adaptable throughout a BPC and respond to changing situations. NESO should deviate from its Business Plan where it identifies opportunities for greater consumer value. Equally, if a

Guidance (Draft) NESO Performance Arrangements Governance Document

commitment in the plan turns out not to be in consumers' best interests, then NESO should change its approach. NESO must explain key changes and the reasons for these changes through the Performance Outcomes Progress Reports.

Value for Money Report

5.16 NESO must produce a public report every six months, demonstrating its overall delivery of value for money. This should include as a minimum:

- NESO's latest forecast for its total expenditure over the current BPC and how that compares to its original forecasts for the same BPC;
- A clear explanation for any material deviations from the original BPC forecasts, including which areas of activity have driven these changes;
- Evidence to demonstrate how NESO is meeting the guidance on value for money assessment in Chapter 3 (including an update on how NESO is responding to any key feedback in the respective BPC determinations); and
- An update on progress and expenditure in relation to Data Digital and Technology (DD&T) investments, containing a summarised, non-confidential version of the information shared with Ofgem in the DD&T reports.

5.17 For the Value of Money Report submitted as part of the End of Year Report, NESO must ensure the values in its Value for Money Report clearly align with and link back to the latest published NESO Cost Template.

5.18 If necessary, following our review of NESO's Business Plan costs, Ofgem will set additional details on the reporting requirements for Value for Money reporting through our respective Final Determinations for the relevant BPC.

NESO Cost Template

5.19 The NESO Cost Template is a document, agreed with Ofgem, that contains a more detailed breakdown of NESO's realised and forecast costs over a BPC. NESO will publish the NESO Cost Template as part of its Business Plan with its full forecast costs for the two-year BPC. Throughout and following the BPC, NESO must re-submit and publish updated versions of the NESO Cost Template as follows:

- By the 30 April each year, alongside the End of Year Report, NESO must publish an updated version containing its latest forecast of costs over the relevant two-year BPC, including provisional values for its actual realised costs for the preceding performance year.
- By the 17th working day of October each year, NESO must publish an updated version containing its latest forecast of costs over the relevant two-year BPC, including final consolidated realised costs for the preceding performance year.

Guidance (Draft) NESO Performance Arrangements Governance Document

- 5.20 NESO must ensure its forecasts are as accurate as possible. Where there is a material difference between the provisional realised costs submitted at the end of April and the actual realised costs at the end of October, NESO must explain the reasons in supporting commentary.
- 5.21 NESO should provide the same level of transparency in the NESO Cost Template to stakeholders as to Ofgem. Any redacted information (e.g. confidential or commercially sensitive information) must be agreed with Ofgem.

Data, Digital and Technology (DD&T) Reports

- 5.22 Unless confirmed otherwise by Ofgem, NESO must submit specific reports to Ofgem each quarter on its DD&T investments. These reports must be in a format discussed and agreed with Ofgem.
- 5.23 These reports must contain, at both the DD&T portfolio-level and individual DD&T investment-level, the following information:
- Summary narrative: Summaries of the major developments over the previous quarter that could impact the scope, delivery and cost of DD&T investments.
 - Strategic decisions: An outline of any strategic decisions on DD&T investments made by NESO over the last quarter, which a clear explanation of the rationale and impacts of these decisions.
 - Risk and Issues: NESO's latest view of key risks, issues and mitigations across the DD&T portfolio and for each investment.
 - Milestone progress: An outline of progress against the DD&T investment roadmaps established in the most recent Business Plan, including an explanation for any deviations from the plan.
 - Finances: Updated values for forecast, actual, and sanctioned expenditure at the aggregated portfolio level and for each investment. Variances in values from the Business Plan and previous reports must be clearly shown and justified.
- 5.24 Due to the confidential and sensitive nature of some of the details in these reports, the DD&T reports do not need to be published. However, NESO must ensure it provides transparency to stakeholders on its progress and spending in relation to its DD&T investments, including through its public Value for Money Report.
- 5.25 Ofgem will keep the DD&T reporting arrangements under review and may, in consultation with NESO, decide on changes to requirements (for example, less detailed reporting may be introduced where NESO has built sufficient confidence).

Guidance (Draft) NESO Performance Arrangements Governance Document**Stakeholder Survey**

- 5.26 NESO is required to commission a Stakeholder Survey from an independent, reputable market research company. This must be designed to understand stakeholders' overall views on NESO's performance and the reasons behind it.
- 5.27 The survey must meet the following requirements:
- It must be designed with the aim of maximising engagement from a diverse range of stakeholders;
 - It must be targeted at senior managers, decision makers and experts, who have had material interactions with NESO;
 - It must include a primary question which asks for respondents' overall view on NESO's performance in delivering the Performance Outcomes over the preceding six-months which must be reported as consistent, measurable and trackable metric; and
 - It must ask a secondary question designed to understand the key reasons for the respondent's answer to the primary question.
- 5.28 For the avoidance of doubt, NESO is not limited by these requirements and may choose to gather additional stakeholder feedback it considers beneficial through these surveys (for example, trackable data on the overall level of trust or satisfaction stakeholders have in NESO).
- 5.29 The exact survey participants will be determined by NESO through its stakeholder contact database. NESO must maintain up to date contact details of its stakeholders and ensure that all stakeholders with material interactions have an opportunity to respond.
- 5.30 The key aspects of the Stakeholder Satisfaction Survey, including the specific questions asked, research methods, types of participants, and the methodology used to summarise survey result, must be approved by Ofgem. NESO must submit its proposal for approval no later than one month after the start of each BPC.
- 5.31 After NESO has collected and analysed the results of each survey, it must engage with the ICP and discuss the results of the survey. It must then publish the results from its Stakeholder Survey as part of its six-monthly / End of Year reports. NESO must also provide an anonymised summary of the key themes of feedback provided.
- 5.32 We expect the surveys to be designed such that key drivers and themes of feedback are recorded and can be tracked over the course of the Business Plan.

Guidance (Draft) NESO Performance Arrangements Governance Document**End of Year Report**

- 5.33 NESO must submit and publish an End of Year Report showing its overall performance over the preceding performance year. This should include all reports required as part of the quarterly and six-monthly reporting outlined in paragraphs 5.3 and 5.4, and it should look back over the full performance year.
- 5.34 The End of Year Report must provide a final summary of the extent to which NESO is on track to achieve (for Year 1 of a BPC) or has achieved (for Year 2 of a BPC) the Performance Outcomes. This should clearly highlight which aspects have been successfully delivered and any areas where there has only been partial achievement or delivery, and the reasons for this. It must also provide a summary of NESO's delivery of value for money over the BPC and the actions taken throughout the year to respond to Ofgem's feedback in the Business Plan determinations.
- 5.35 The report should also provide updated Stakeholder Survey results and clearly show any differences in results from the survey undertaken at the six-month stage. The report should include a summary of how NESO has responded to the feedback collected through this survey and cumulatively throughout the BPC.

General requirements for performance reporting

- 5.36 The reports outlined in this chapter should be consistent in their structure to allow comparison from the Business Plan (where applicable) to the within-scheme reports and End of Year Report. This is to ensure that stakeholders, the ICP, and Ofgem can clearly track, review, and assess NESO's performance throughout the BPC.
- 5.37 NESO must ensure, to the best of its knowledge, that the information provided in its reports is accurate and correct. Where NESO identifies that the information provided is not accurate or correct, NESO must notify Ofgem and publish or resubmit corrected information as soon as practically possible, unless otherwise agreed with Ofgem. Where material amendments are made to any information provided in a report, these amendments must be clearly shown and identified.
- 5.38 NESO must also ensure that:
- All reports are accessible and easy to understand, and give prominence to the most pertinent information;
 - All key public reports are easy to find and access on NESO's website;
 - All reports provide a fair and complete picture of NESO's performance, including both areas of success and difficulties/challenges; and
 - Any feedback provided by Ofgem and/or relevant stakeholders on the reports is factored into the development of future versions (or NESO should provide a reasonable explanation for why feedback cannot be included).

Guidance (Draft) NESO Performance Arrangements Governance Document

5.39 Where NESO provides estimates of delivered or forecast benefits in its report, it must in all cases:

- Include a transparent methodology showing how these benefits are calculated, including the inputs used and assumptions made;
- Clearly set out the period over which the benefits have accrued or will accrue; and
- Where NESO has reported material quantitative benefits due to balancing cost savings, this should be clearly cross-referenced with any separate reporting specifically on NESO's balancing cost performance (for example, a relevant Success Measure or Reported Metric on balancing costs).

Guidance (Draft) NESO Performance Arrangements Governance Document

Send us your feedback

We are keen to receive your feedback about this guidance. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

Appendices

Index

Appendix 1: Glossary	36
----------------------	----

Guidance (Draft) NESO Performance Arrangements Governance Document

Glossary of terms

Business Plan

A plan established and published under Part A of condition G1 (Business Plan) of the Electricity System Operator Licence and/or the Gas System Planner Licence.

Business Plan Cycle (BPC)

A two-year period (starting from 1 April) over which NESO's Business Plan applies. This is a repeated two-year cycle in which NESO prepares a Business Plan setting out its performance objectives and forecast spending.

Business Plan Guidance

A document developed and published by the Authority in accordance with Part D of condition G1 of NESO's ESO Licence and GSP Licence, setting out the requirement NESO must follow when developing its Business Plans.

Data, Digital and Technology Report

A quarterly NESO report submitted to Ofgem under the PAGD, detailing progress on Data Digital and Technology investments, digitalisation, and technology initiatives supporting system operation, innovation, and regulatory performance.

Electricity System Operator (ESO) Licence

A licence granted or treated as granted under section 6(1)(da) of the Electricity Act 1989, currently held by NESO.

End of Year Report

A report produced and published by NESO containing the final evidence of its performance over the performance year.

Gas System Planner (GSP) Licence

A licence granted or treated as granted under section 7AA of the Gas Act 1986, currently held by NESO.

Independent Challenge Panel (ICP)

An industry-led independent group that represents stakeholders and reviews NESO's plans and performance, provides feedback, and publishes an annual report to inform Ofgem's assessment. Its purpose is to enhance accountability, transparency, and stakeholder engagement in NESO's performance framework.

Guidance (Draft) NESO Performance Arrangements Governance Document**Independent Challenge Panel (ICP) Chair**

The Chair leads the Independent Challenge Panel, ensuring impartial scrutiny, effective governance, and constructive challenge of NESO's business plans and performance against Performance Objectives.

Independent Challenge Panel (ICP) Report

An annual report published by the Independent Challenge Panel, providing an independent assessment of NESO's performance against Performance Objectives and stakeholder engagement at the end of each assessment year.

Major Deliverables

Specific, measurable and timebound outputs that are key to achieving the Performance Objectives. In most cases, we would expect delivery of these Major Deliverables to be relevant to contributing to Success Measure(s).

NESO Cost Template

A regulatory reporting document that provides a comprehensive breakdown of NESO's actual and forecasted expenditure across the business planning cycle. The template, agreed with Ofgem, is published according to the schedule detailed in this document and serves as an investment reporting mechanism to ensure transparency and compliance with governance requirements.

NESO Performance Arrangements

A set of processes and requirements designed to create accountability and incentives on NESO to deliver excellent performance for the energy sector and consumers, as established condition G2 of NESO's ESO Licence and GSP Licence and explained in this document.

Ofgem Expectations

Additional performance requirements set by Ofgem during business plan determinations, following its review of NESO's Performance Objectives.

Performance Assessment Report

A published report by Ofgem at the end of the Business Plan cycle that contains its conclusions on NESO's performance for that period.

Performance Objective

A key objective that NESO plans to achieve by the end of BP3. These will be developed and proposed by NESO as part of its RIIO-2 Business Plan 3 and agreed with the Authority through our business plan determinations. Each Performance Objective should have a set of clearly defined Success Measures.

Guidance (Draft) NESO Performance Arrangements Governance Document**Performance Outcomes**

The key outcomes against which NESO's performance is assessed, comprising a combination of NESO's Performance Objectives and Ofgem Expectations, forming the basis for regulatory performance evaluation.

Performance Outcomes Progress Reports

A quarterly report published by NESO, outlining the progress made by NESO in achieving each of its Performance Objectives and Ofgem Expectations (as applicable).

Performance year

The period over which NESO's performance will be assessed for Ofgem's annual end of year assessment. Each performance year will start on 1 April and will end on 31 March the following year.

Reported Metrics

Additional reporting requirements that support NESO's accountability to stakeholders and apply reputational incentives which are supplementary to our public performance assessment.

Stakeholder Survey

A survey conducted by a recognised expert survey provider for NESO to receive feedback on its activities from its stakeholders.

Success Measure

Evidence demonstrating how well a Performance Objective has been achieved.

Value for Money Report

A six-monthly public report published by NESO, evidencing the overall value for money delivered through its activities, aligned with regulatory obligations and transparency requirements detailed in this document.

Year 1

Each Business Planning Cycle consists of two years. The first year of the two-year business planning cycle is referred as Year 1.

Year 2

Each Business Planning Cycle consists of two years. The second year of the two-year business planning cycle is referred as Year 2.