

Consultation

Draft Determinations on NESO 1 Business Plan

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1. Introduction

Background

National Energy System Operator (NESO) is Great Britain’s independent system operator and planner. It is a government-owned public corporation, licenced and regulated by Ofgem.¹ As an expert, impartial body, NESO has key responsibilities across both electricity and gas systems. It has duties and objectives related to driving progress towards net zero, while maintaining energy security and minimising costs for consumers.

In late November 2025 [NESO published its regulatory business plan for April 2026 – March 2028](#) (the NESO1 Business Plan). Our [Business Plan Guidance](#) outlines the minimum information requirements NESO must adhere to in producing its business plan. NESO’s business plan should clearly explain NESO’s aims, activities and spending for the two-year regulatory cycle. It should therefore provide transparency and accountability to Ofgem and wider stakeholders.

Ofgem has [statutory duties to regulate NESO](#) by [assessing its business plans, ensuring its cost-efficiency and by incentivising high performance](#). Our Determinations on NESO’s business plans form a key component of our regulatory framework, which is designed to effectively execute our duties for regulating NESO. Our future assessment of NESO’s performance will be based on NESO’s delivery of both its business plan commitments and the performance expectations we set in our Determinations.

Purpose of this consultation

This Draft Determination serves as a consultation on our positions regarding the NESO1 Business Plan. In this document we briefly explain the NESO regulatory framework and then outline for stakeholder consideration and comment the following:

- our view of the Strategic Aims NESO proposed within its NESO1 Business Plan [Section 3];
- our assessment of NESO’s proposed Performance Objectives (including Success Measures and Major Deliverables), which includes a re-framing of NESO’s Business Plan proposals to improve transparency, objectivity, and to better align with the regulatory arrangements [Section 4];
- our assessment of the Value for Money of the NESO1 Business plan, including views on where further demonstration of value is needed [Section 5];

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms “Ofgem”, “the Authority,” “we”, “us” and “our” are used interchangeably in this document.

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- our proposal for additional reporting requirements, including specific Reported Metrics that we consider NESO should publish throughout the NESO1 period [Section 6]; and
- our proposals for NESO's innovation funding allowances [Section 7].

Consultation stages

Stage 1 Consultation open: 10 February 2026

Stage 2 Consultation closes (awaiting decision). Deadline for responses: 10 March 2026

Stage 3 Publication of our Final Determination and responses published Q1 2026/27

How to respond

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can, but you are not required to answer each question.

We will publish all non-confidential responses on our website.

Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions

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and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 1.

If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

How to track the progress of a consultation

1. Find the web page for the call for input you would like to receive updates on.
2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: 'Open', 'Closed (awaiting decision)', and 'Closed (with decision)'.

2. Regulation of NESO

This section explains Ofgem’s role in regulating NESO and provides contextual information on NESO’s regulatory framework, including the process for creating NESO’s Business Plan and the role of stakeholders.

Ofgem’s role

The Energy Act 2023 established NESO as an independent, publicly owned system operator with statutory objectives, licenced and regulated by Ofgem. As set out in the NESO Framework Document,² our principal functions relating to NESO include:

- a) regulating by licence granted by the Secretary of State the roles of electricity system operator and gas system planner
- b) holding NESO accountable to its licence obligations whilst managing any concerns around compliance
- c) making final determinations on NESO’s regulatory business plans
- d) assessing NESO’s spending, ensuring it has the appropriate resources to fulfil its functions efficiently
- e) putting in place and operating an appropriate performance management framework including the application of regulatory incentives.

NESO’s regulatory framework

We published our decision on [NESO’s enduring regulatory framework](#) in August 2025. In that publication, we stated that the core regulatory levers that existed for NESO’s predecessor³ will continue to exist for NESO from April 2026 onwards. This included:

- clear licence obligations which set the minimum standards we expect from NESO, with the potential for enforcement action when these are not met;
- a regular, transparent business planning process, which will define the outcomes NESO should aim to achieve and will be held to account for;
- a public, evaluative incentive scheme which will assess how well NESO has delivered its Business Plan objectives and acts as the main reputational incentive on NESO;
- requirements for NESO to ensure this annual assessment and any enforcement action is a material factor in its decisions on senior staff remuneration;
- stakeholder feedback mechanisms, which will provide key routes for stakeholders to influence NESO’s performance assessments and which act as an early warning signal for emerging issues; and

² [National Energy System Operator \(NESO\) framework document - GOV.UK](#)

³ Being the National Grid Electricity System Operator (ESO).

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- a flexible pass-through funding model, supported by ex-ante and ex-post value for money assessments, to ensure consumer money is being spent appropriately.

The key change for the NESO1 Business Plan period is *how* Ofgem applies these levers. We have shifted to using a more outcomes-focussed approach to NESO's overall regulation compared to our past regulation of the ESO.

A key part of our role relies on deploying this framework flexibly and proportionately, and we will continue to hold NESO to account on an enduring basis. Annually, Ofgem will consider all available evidence to undertake an assessment of NESO's performance. There will be two parts to our assessment of NESO's performance during the NESO1 Business Plan period:

- NESO's achievement of its Business Plan aims through delivering the Performance Objectives (and Ofgem Expectations),⁴ supported by accompanying Success Measures, Major Deliverables and other relevant information; and
- NESO's delivery of Value for Money.

Our annual assessment of NESO's performance will culminate in a single performance grading, informed by these two parts.

Requirements for NESO's regulatory Business Plan

[Condition G1 of NESO's licences](#) requires that NESO's business plans must contain the licensee's forecast of the total expected spending for the regulatory period ahead and the rationale behind this total expected spending. It also requires that NESO publish its strategic aims guiding activity for the upcoming regulatory period, a summary of the licensee's key work priorities and major planned deliverables for the regulatory period (including how they relate to its latest strategic aims) and any other requirements set out in the [Business Plan Guidance](#).

Condition C2 of NESO's licences requires it to explain in its business plan how it plans to carry out its functions in a way that has regard to its statutory duties and the strategic priorities set out in the Strategy and Policy Statement (SPS). Our Business Plan Guidance Document also sets out that NESO should continue to deliver on the existing commitments made in BP3⁵ as many of the activities continue to be relevant to NESO's aims.

⁴ Ofgem Expectations are up-front performance expectations set by Ofgem. 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.

⁵ BP3 is the third (and final) Business Plan period of NESO's RIIO-2 price control (where RIIO is the price control used by Ofgem representing Revenue = Incentives + Innovation + Outputs and RIIO-2 is the second such price control period). BP3 covered the period April 2025 – March 2026.

Role of stakeholders

Stakeholders should play a key role in shaping NESO's business plan. We understand that NESO engaged with stakeholders during the development of the NESO1 Business Plan and therefore it should reflect stakeholder views as well as ongoing feedback NESO gathered during the BP3 business plan cycle.

Stakeholder responses to this consultation are vital to the development of a robust performance framework for NESO. Stakeholder views will shape how Ofgem holds NESO to account, through sharing views on: a) whether the Performance Objectives set out in this document cover the right NESO activities; b) whether the proposed Ofgem Expectations (and Success Measures) set appropriate incentives on NESO and will be suitable for recognising NESO's performance; and c) our assessment of the Value for Money presented in the NESO1 Business Plan.

Once the NESO1 Business Plan period has started and stakeholders have helped to shape the Business Plan and Determinations, stakeholders play a continuing role in ensuring that their voices are heard in the ongoing feedback and annual assessment of NESO Performance. For the NESO1 Business Plan period we decided to establish a new stakeholder group, known as the Independent Challenge Panel (ICP). The ICP will be independently chaired and will provide feedback on NESO's performance in delivering its plan. This includes within-year feedback on NESO's delivery progress and the quality of its stakeholder engagement and an end of year assessment outlining stakeholders' views on how well NESO achieved its Performance Objectives (and Ofgem Expectations) and engaged with stakeholders. The detail for the framework for the ICP [has been consulted on](#) and we intend to publish our decision on the Enduring Regulatory Framework in the coming months.

Besides feeding into the ICP's process, stakeholders can also share feedback directly to NESO, through its stakeholder survey, or to [Ofgem](#), at any point in the year. All stakeholder feedback, no matter what route it is gathered through, will be logged and considered as an input into Ofgem's end-of-year assessment of NESO's performance.

3. NESO's Strategic Aims

In this section we comment on the Strategic Aims provided for the NESO1 Business Plan. Overall, we considered that the Strategic Aims provided relevant areas of focus but could have set a clearer purpose and stronger longer-term direction to guide the NESO1 objectives, activities and spending.

Strategic Aims

NESO is required to establish Strategic Aims. These aims should explain the longer-term outcomes NESO intends to achieve. The Strategic Aims and their supporting strategy should provide a clear line of sight from NESO's longer-term ambitions to the short-term spending, goals and actions in the Business Plan. This will make it easier to understand how immediate work contributes to delivering future ambitions.

Ofgem does not approve NESO's Strategic Aims. However, we share comments on them here with the aim of aligning expectations and supporting an effective process for making determinations on NESO's Business Plans.

NESO included six Strategic Aims⁶ within its NESO 1 Business Plan documents, which cover the period out to 2031.⁷ We considered that this part of NESO's submission could be significantly improved upon through greater coherence between its longer-term strategy and the NESO1 Business Plan. While we agreed that the six Strategic Aims NESO provided are relevant areas of focus for it as an organisation, our view is that they were not structured in the fashion envisioned under the Business Plan Guidance – that is, they did not provide sufficient clarity on what has underpinned or guided NESO's shorter-term spending, goals and actions for the forthcoming two-year Business Plan.

In particular, we found it difficult to recognise a clear line of sight from the six Strategic Aims to the six Performance Objectives set out in the NESO1 Business Plan. Several of the shorter-term Performance Objectives in the NESO1 Business Plan appeared broader in scope than the most proximate Strategic Aim.⁸ This narrower scope, combined with a lack of supporting strategy or description, made it challenging for us to

⁶ The six Strategic Aims set out in NESO's plan were: *"A highly engaged and motivated workforce"*; *"Delivering resilience and operational continuity in an economic and efficient manner"*; *"A connections queue of viable strategically aligned projects"*; *"A high degree of customer trust"*; *"The first GB Strategic Energy Planning cycle completed, and SSEP and RESP embedded"*; *"Great Britain's Clean Power Ambition is on track to deliver"*.

⁷ We noted that NESO also included four Goals against the heading *"Our Goals - What NESO is setting out to achieve"*. We also do not consider that these meet the criteria of Strategic Aims as described in the Business Plan Guidance document.

⁸ For example, the Performance Objective *"Delivering a decarbonised, operable grid"* and the Strategic Aim *"A connections queue of viable strategically aligned projects"*.

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understand how the NESO1 Performance Objectives are clear steps towards delivering the Strategic Aims.

Also, in our view, several of the Strategic Aims provided by NESO seemed more facilitative than outcome or delivery focussed (eg “*A highly engaged and motivated workforce*”). These considerations, while worthy, may have fit better as part of a descriptive strategy to deliver the Strategic Aims, rather than being Strategic Aims themselves.

Elsewhere, the business plan did provide the essence of longer-term outcomes that NESO is aiming to achieve. The impact pathways provided by NESO within its NESO1 Business Plan included a series of expected “wider impacts”.⁹ We believe these could be further built upon to form a structured and clear set of Strategic Aims, which could be supported by NESO articulating the intended path to delivering these.

We consider that NESO’s next Business Plan submission (covering the period 2028-30) would benefit from an improved set of Strategic Aims and associated strategy. Therefore, we are proposing to set an expectation for NESO to produce updated Strategic Aims, better aligned with our Business Plan Guidance, by December 2026.¹⁰ Our aim is to ensure that these are established sufficiently early to inform and set a clear direction for the shorter-term Performance Objectives in NESO’s next plan. We are keen to work with NESO in advance to ensure our expectations and requirements of the Business Plan Guidance are clear.

⁹ NESO set out the following “wider impacts” within Appendix 2 to Annex 1 of the NESO1 Business Plan: “*Improved cost efficiency of energy system*”; “*Efficient levels of investment*”; “*Improved stakeholder satisfaction & experience*”; “*Enhanced public trust and confidence*”; “*Lower carbon emissions*”; “*Economic growth*”.

¹⁰ This expectation can be found in the “Providing Customers with a High-quality, Independent and Trusted Service” Performance Objective proposed within this Determination.

4. Performance Objectives, Ofgem Expectations, Success Measures and Major Deliverables

This section first introduces NESO's Performance Objectives and details our overarching assessment of these, as a collective. We then explain how we have used NESO's impact pathways to provide a clear and concise account of NESO's planned outcomes which can be used as the basis for performance assessment. We propose to establish these reframed outcomes as Ofgem Expectations. We similarly provide a brief overarching assessment of NESO's Success Measures and Major Deliverables. Finally, we provide views on each of NESO's Performance Objectives and share our proposed Ofgem Expectations, which include outcomes and associated Success Measures.

Overarching views on NESO's Performance Objectives

Performance Objectives are intended to set the major outcomes which NESO intends to achieve over the Business Plan period and should thus set (alongside evidence of value for money) the key measures of NESO's performance for the Business Plan period. They should also reflect the priorities of the industry and the SPS.

NESO proposed six Performance Objectives broadly covering system planning, electricity system operation, markets, electricity transmission connections, whole system resilience, and data and digitalisation. We considered that these collectively capture the key areas where we expect NESO to focus over the 2026-28 period. In addition, to ensure that NESO's continuation of establishing itself as an independent and trusted body is appropriately recognised, incentivised and transparently reported on, we propose to add an additional Performance Objective to cover this (further details can be found in the Objective G sub-section below).

We further considered that the six Performance Objectives and broader context of the NESO1 Business Plan were generally reflective of NESO's Statutory Duties, the SPS priorities, and wider industry priorities. Albeit, NESO could have more clearly described in its plan how it intends to carry out its functions in the way it best believes prioritises and balances the sometimes-competing aspects of its duties and wider sector aspirations. NESO should showcase how this is being managed through delivery of the activities and reporting within the NESO1 Business Plan period.

NESO could also have provided greater commentary on the continuity between previous RIIO-2 Business Plans and the NESO1 Business Plan. We consider that NESO's delivery of any outstanding commitments from RIIO-2 would be part of successful delivery of relevant NESO1 outcomes and where they are no longer relevant NESO should describe how these have been closed out.

Q1. Do you agree with our assessment that NESO's six Performance Objectives, alongside Ofgem's additional Performance Objective allows for comprehensive assessment of NESO's performance?

Reframing NESO's impact pathways into Ofgem Expectations

Overall, we found the information provided by NESO under each Performance Objective in its NESO1 Business Plan to be a useful and relatively comprehensive description of the types of activities NESO would be undertaking and why these were important activities. This is particularly valuable information to share with industry and stakeholders.

Setting clear upfront expectations for NESO's performance is critical to the functioning of NESO's regulatory performance framework. Despite providing a good description of its planned activities, we considered the NESO1 Business Plan tended to lack the clear and objectively defined outcomes needed for performance to be fairly measured against such a framework.

We noted that NESO chose to support the descriptive text within each of its six Performance Objectives with impact pathways diagrams. The impact pathways included a set of outcomes under each Performance Objective which we considered could be built upon to develop a set of clearer outcomes that performance could be measured against.

We therefore propose to use the outcomes described in the impact pathways as the foundation for the outcomes envisioned in our performance framework.¹¹ When reframed this way, we considered that the plan provides a clearer and concise account of NESO's planned outcomes which can be used as the basis of our performance assessment.

Since publication of the NESO1 Business Plan, we have worked in collaboration with NESO to develop the outcomes from the impact pathways. In doing so, we have refined NESO's original list of 39 outcomes down to 18 (plus an additional four outcomes under the newly proposed Performance Objective), which we propose to be the Ofgem Expectations. While we worked collaboratively with NESO to develop the proposed Ofgem Expectations presented in this document, they represent Ofgem's view of an appropriate performance framework. We therefore seek NESO's views through this consultation alongside those of wider industry before we set the Ofgem Expectations for the NESO1 business plan period in our Final Determination.

¹¹ As a result, where we use the term "Performance Objective" for the remainder of this document we mean the relevant performance area describe by NESO under the Performance Objective heading. Specific outcomes in the form of Ofgem Expectations will be set under each performance area.

Further details of our rationale and a mapping of NESO's proposed outcomes into our proposal is provided in Annex 1 to this publication.

Overarching views on NESO's Success Measures and Major Deliverables

Success Measures should be key indicators that help explain how a given outcome will be attained in practice and Major Deliverables should be specific, measurable, timebound outputs that are key to NESO achieving that outcome.

Overall, we found NESO's Success Measures to be relevant to the Performance Objective they were included under, though in many cases they were not as well developed as we expected. We considered that many of the Success Measures within NESO's Business Plan did not include clear methodologies, nor did they provide a clear articulation of what success would look like (ie, what the Success Measure would need to show in order to for it to be considered as having contributed positively and meaningfully to the outcome).

Following our reframing towards the outcomes described in NESO's impact pathways, we propose to align NESO's Success Measures directly on to the Ofgem Expectation outcomes. We have also proposed additional Success Measures for the Ofgem Expectations, including for the outcomes under our proposed Performance Objective of Providing Customers with an Independent and Trusted Service. Where we have done this, we have considered NESO needing to provide evidence of meeting the outcome and positive stakeholder feedback as consistent Success Measures for all Ofgem Expectations.

We note that the Success Measures now set out in this document remain incomplete. We have listed the items we consider are sensible to measure against the outcomes and are keen for industry to help shape these into useful, clear measures that will help identify success. We are therefore interested in stakeholder views on the appropriate methodologies (ideally relying on industry standard methodologies, where available) and suitable targets for measures that will showcase NESO performance. We also welcome additional suggestions for Success Measures where respondents consider our lists to be incomplete.

We found the Major Deliverables proposed by NESO to be largely relevant to the activities under each Performance Objective. However, whilst most Major Deliverables were timebound, we found many lacked specificity and measurability. We also noted a significant number, approximately half, of the deliverables proposed had a delivery date of March 2028, the final month of the NESO1 Business Plan period, and several were not timebound but listed as "*ongoing*" or "*continuous*". Without being specific,

measurable and timebound, it is difficult for a particular Major Deliverable to be a useful component of the regulatory framework.

We have not proposed refinements or additions to NESO's Major Deliverables as we do not see it as Ofgem's role under this framework to tell NESO how to deliver the outcomes or to prescribe such granularity. The primary focus of our determinations process is to clarify the outcomes that we will hold NESO to account for delivering. We expect NESO to use ongoing reporting over the NESO1 period to showcase the key activities and Major Deliverables that contribute to achieving the outcomes under the Ofgem Expectations.

Ofgem Expectations for outcomes and Success Measures

In the remainder of this section, we provide views on each of the six Performance Objectives included within NESO's plan. For each Performance Objective, we consider the relevance and specificity of the activities NESO described and the content of NESO's impact pathway. We also share our proposed Ofgem Expectations, which include an objective set of outcomes (built upon NESO's impact pathways) that we intend to use as the basis for NESO's performance framework, and indicated areas to develop further as the associated Success Measures. In addition we have included our further rationale and proposals for an additional Performance Objective (Performance Objective G) focused on NESO being a trusted and independent organisation.

Performance Objective A: Planning a Clean Energy Future

NESO proposed this Performance Objective to represent:

“NESO will shape the future of energy by defining the energy infrastructure requirements across Great Britain that reflect societal and community values, safeguard the environment, maintain system resilience and ensure consumer benefits are realised. This will guide the transition to a clean, affordable and secure energy for Great Britain by delivering first-of-a-kind whole energy strategic planning.”

We agree with NESO that this Performance Objective reflects a key area of focus for it over the NESO1 period; indeed, it was a fundamental driver for having established NESO as an independent system planner across electricity and gas. NESO1 will be the period where NESO should deliver whole system plans which provide strong investment signals for a low-cost network which can operate in a clean energy environment, building on the capabilities, foundations and methodologies established over the BP3 period of RIIO-2. To facilitate assessment of NESO's performance under this Performance Objective, we have proposed outcomes, as Ofgem Expectations, with Success Measures in the table at the end of this section.

NESO expressed that it intends to “*shape the future of energy by defining the energy infrastructure requirements across Great Britain that reflect societal and community values, safeguard the environment, maintain system resilience and ensure consumer benefits are realised,*” and also highlighted that this work should guide a transition to “*clean, affordable and secure energy for Great Britain*”. This reflects appropriate ambition and relevance and does situate NESO’s activities within useful context. However, we considered that most of NESO’s work over the NESO1 period will be preparatory for this. NESO is expected to deliver several strategic energy plans over the NESO1 period, in many cases these will be the first iteration of these outputs, and they will therefore be influential in setting the future approach and building early industry confidence in this process.

NESO’s impact pathway diagram for this Performance Objective showed relevant activities to include network planning activities (including the Centralised Strategic Network Plan (CSNP), the refresh of the second transitional CSNP (tCSNP2), the Strategic Spatial Energy Plan (SSEP) and the Regional Energy Strategic Plans (RESPs)), as well as NESO’s Zero Carbon Operability Strategy, and Network Competition. We agree that these are relevant activities in support of NESO’s focus under this Performance Objective, and that they can contribute to the Ofgem Expectations, as listed below. We also consider NESO will need to ensure that codes, including the System Operator – Transmission Owner Code (STC) and System Quality and Security Standard (SQSS) – are fit for future planning purposes.

In our view, it is important that NESO builds and showcases the capability to manage and communicate the multiple tensions within this remit – for example, it is vital that NESO can continue with previous delivery of cost-optimisation in network plans¹² to account for societal and environmental considerations while also ensuring operability is met. Being able to explain the decisions taken and options available, to all stakeholder groups, will be vital.

The table below sets out the Ofgem Expectations we are proposing for this Performance Objective (further detail on the outcomes and rationale behind them can be found in Annex 2). We also list proposed Success Measures that we consider are relevant to each Ofgem Expectation. We do not consider the list of Success Measures to be comprehensive and have not set targets which would indicate successful attainment – we therefore seek industry views to help shape useful, clear measure to identify success.

¹² For example, under the previous Network Options Assessment (NOA) activity.

	Ofgem Expectations	Success Measures
A.1	Improved coordination in network planning and development.	<p>Participation and representation across societal, environmental, geospatial, and advisory groups;</p> <p>Endorsement of plans by established governance;</p> <p>Number and quality of SEP datasets provided.</p>
A.2	Improved signals result in a pipeline of investments well-aligned to future system needs.	<p>Consistency of NESO signals across SEP outputs;</p> <p>Alignment of investment pipeline to NESO needs identification.</p>
A.3	Investors show increased confidence in the energy market, supported by clear, stable market rules.	<p>Percentage track to milestones set in roadmaps / strategies;</p> <p>Number and quality of Stakeholder engagements;</p> <p>BUSoS forecast accuracy;</p> <p>TNUoS forecast accuracy;</p> <p>Number of billing delays, eg due to system issues.</p>
A.4	Greater competition and innovation in network development.	<p>Number and quality / fit of potential projects for competitive delivery identified;</p> <p>Tender process stages run in line with expectations in line with SOP;</p> <p>Appropriate level of market interest at relevant stages;</p> <p>Market readiness, including mock tenders or other engagement.</p>

- Q2. Do you agree that this sets a comprehensive set of Ofgem Expectations for the Planning a Clean Energy Future Performance Objective?
- Q3. Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

Performance Objective B: Operating an Intelligent, Real-Time Grid

NESO proposed this Performance Objective to represent:

“NESO will operate a flexible, and increasingly intelligent, electricity system, optimising transparent real-time decision-making and ensuring ongoing resilience of the energy system. Enhanced operational decision-making will be enabled through data, automation and future-ready digital tools. Operational capability will be transformed by maximising the benefit of digitalisation and ensuring the correct skillsets and processes are in place to manage increasing variability and complexity of the Great Britain Power System.”

We agree with NESO that this Performance Objective reflects a key area of focus for it over the NESO1 period: operating the system is fundamental to the role of System Operator for GB. NESO1 will be the first period where NESO should have the tools and capabilities to operate a zero carbon system for extended periods of time (building on development over RIIO-2), facilitating the reduction of carbon intensity on the system.

At the same time, NESO will be enhancing its existing capabilities to minimise balancing costs through improved operational planning and forecasting, proactive outage management and wider system efficiency initiatives. These wider system efficiency initiatives include activities such as reduction of skip rates and NESO’s commitment to focus on reducing transmission constraint costs through initiatives such as System Access Reform and delivery of improved constraint management services. To facilitate assessment of NESO’s performance under this Performance Objective, we have proposed outcomes, as Ofgem Expectations, with Success Measures in the table at the end of this section.

NESO intends to “*optimise transparent real-time decision-making*”,¹³ “*Enhance operational decision-making*” and “*transform operational capability*”. These ambitions are relevant and in conjunction with the rest of the plan reflect an appropriate level of ambition and represent a continuation on the ambitions of NESO’s RIIO-2 business plans.

NESO’s impact pathway diagram for this Performance Objective showed relevant activities to include Electricity Network Control Centre real-time operations, operational and performance insights, operational and market strategy, energy forecasting, trading, network access planning, incident management, and Critical

¹³ We considered the optimisation of control room decisions is the key focus under this Performance Objective, and is captured under outcome B.1. Our proposed outcome G.3 looks to measure improvements to NESO’s decision making transparency (for example NESO providing industry with clarity on its processes and procedures for taking operational decisions, such as through its Balancing Principles Statement). Our proposed outcome F.1 covers the publication of accurate, low-latency data to support transparency, including on NESO control room actions.

National Infrastructure system management. We agree that these are relevant activities in support of NESO's focus under this Performance Objective and that they can contribute to the Ofgem Expectations, as listed below.

We consider it important that NESO considers all tools and options it has to deliver the Ofgem Expectations we have listed. We understand that the energy system continues to become more complex and challenging and therefore consider, with NESO now fully established, it should seek to utilise its new role in the energy sector to explore all avenues to deliver these outcomes. Optimising transparent real-time decision making and addressing the issue of skip rates have been key priorities of industry, and will be a critical part of what we look for in NESO delivering the outcome "*NESO initiatives retain or improve system reliability while reducing costs of system balancing*".

The table below sets out the Ofgem Expectations we are proposing for this Performance Objective (further detail on the outcomes and rationale behind them can be found in Annex 2). We also list proposed Success Measures that we consider are relevant to each Ofgem Expectation. We do not consider the list of Success Measures to be comprehensive and have not set targets which would indicate successful attainment – we therefore seek industry views to help shape useful, clear measure to identify success.

	Ofgem Expectations	Success Measures
B.1	NESO initiatives retain or improve system reliability standards while reducing costs of system balancing.	Dispatch Efficiency (including skip rates); System Management and Disturbances; Aggregated cost savings by NESO initiatives; Balancing costs.
B.2	Improved Operational Planning and Forecasting.	Accuracy of operational plans within control room.
B.3	Extended periods of zero carbon operation and reduced electricity system carbon intensity.	Percentage Zero carbon operability on system by settlement period; average and maximum carbon intensity of NESO actions by settlement period; Number of settlement periods of where market offers zero carbon operability opportunities which are not realised due to NESO actions.

Ofgem Expectations	Success Measures
B.4 Outages are managed proactively and efficiently, with their impact minimised.	System availability; System reliability; Changes planned to outages.

- Q4. Do you agree that this sets a comprehensive set of Ofgem Expectations for the Operating an Intelligent, Real-Time Grid Performance Objective?
- Q5. Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

Performance Objective C: Enabling Smarter, Cleaner Markets

NESO proposed this Performance Objective to represent:

“NESO will evolve key market frameworks to enhance market signals, improve market access and make our data accessible. This will increase competition, reduce supply and price risks, support flexibility and innovation, and enable efficient market participation of new technologies and distributed resources.”

We agree with NESO that this Performance Objective reflects a key area of focus for it over the NESO1 period. NESO designs, operates and influences markets across the electricity and gas (including hydrogen and biomethane) sectors. It must therefore be a key driving force in ensuring market coherence, optimising market access, and ensuring that markets are fit-for-purpose such that they maximise whole-market welfare and provide NESO with the tools it needs for system balancing. We recognise that NESO will need to work with multiple stakeholders to deliver in this area, including a broad set of industry parties and the newly-instigated market facilitator.

NESO expressed that it intends to “*evolve key market frameworks*” and “*improve market access*”. NESO highlighted aims to, *inter alia*, increase competition, support flexibility, and enable efficient participation of new technologies and distributed resources. This aligned with our expectations in this Performance Objective. To facilitate assessment of NESO’s performance under this Performance Objective, we have proposed outcomes, as Ofgem Expectations, with Success Measures in the table at the end of this section.

NESO’s impact pathway diagram for this Performance Objective showed relevant activities to include its market development and operations for electricity system balancing, long term market design (which we understand to mean markets which target larger, long term investments, such as stability and reactive power markets), NESO’s market monitoring function (in its role as a Person Professionally Arranging Transactions (“PPAT”)), and acting as the Electricity Market Reform (“EMR”) delivery

body. We agree that these are relevant activities in support of NESO's focus under this Performance Objective, and that they can contribute to the Performance Objective outcomes, as listed below. We consider NESO will also need to show how these activities have been conducted in a coherent manner, such that markets present a consistent set of signals and experiences for market participants. We also note that how NESO uses these activities to deliver on commitments such as demand side flexibility targets will form part of the evidence for NESO having achieved its outcomes.

For clarity, we recognise NESO's varying level of influence across markets: greater control of its own market designs and operation, and lesser control over other markets (for example the wholesale market). However, we expect NESO to work proactively to influence all markets within these vires, looking across market structures (including how these interface) and aiming to make or influence change using the tools at its disposal (including code change, stakeholder engagement, information provision and collaboration with the market facilitator and Distribution System Operators).

Markets are a tool by which NESO can influence costs, carbon intensity, economic growth (through investability) and system security and resilience. We considered that NESO could have better shown how it intends to balance these sometimes-competing factors within its NESO1 Business Plan, and will expect NESO to evidence how it has made decisions of this nature over the NESO1 Business Plan period.

NESO also listed its role as code administrator for certain industry codes under this Performance Objective. We have viewed that although NESO's input into code arrangements can affect markets, it's role as a code administrator is not directly impacting market rules (and indeed, some codes have lesser market impacts, such as the STC and SQSS which are considered under the Planning a Clean Energy Future Performance Objective). We have therefore proposed to set a code administration outcome under our newly proposed Performance Objective, with supporting rationale provided in that section of this document.

The table below sets out the Ofgem Expectations we are proposing for this Performance Objective (further detail on the outcomes and rationale behind them can be found in Annex 2). We also list proposed Success Measures that we consider are relevant to each Ofgem Expectation. We do not consider the list of Success Measures to be comprehensive and have not set targets which would indicate successful attainment – we therefore seek industry views to help shape useful, clear measure to identify success.

Ofgem Expectations	Success Measures
C.1 Market design and operation encourages innovation and efficient market participation.	<p>Market liquidity (Settlement period average % over/undersupplied) - across all markets;</p> <p>Average cost of NESO procurement;</p> <p>Profile of provider types (inc new provider types);</p> <p>BM registration timelines.</p>
C.2 Market design and operation facilitates optimised system operability.	<p>average £/MWh of markets;</p> <p>quality / coherence of market signals.</p>

- Q6. Do you agree that this sets a comprehensive set of Ofgem Expectations for the Enabling Smarter, Cleaner Markets Performance Objective?
- Q7. Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

Performance Objective D: Delivering a Decarbonised, Operable Grid

NESO proposed this Performance Objective to represent:

“NESO will enable efficient connections and coordinated system standards, delivering a resilient, operable and decarbonised energy system whilst reducing barriers to entry. Reordering the connections queue will ensure timely and efficient network connections that support system growth and delivery of CP30. This will be underpinned by a reimagined and transparent enduring connections process, whilst maintaining coordinated operability standards across an increasingly complex, decentralised energy system.”

During the RIIO-2 period, the electricity industry embarked on substantial reform to the connections process. NESO has a key role in embedding this process and delivering a connections queue of viable projects strategically aligned to the GB clean power mission. We therefore strongly support the relevance of this NESO Performance Objective for the NESO1 Business Plan.

We interpret NESO’s ambition here to be two-fold: to deliver the reformed connections process effectively; and to reorder the connections queue aligned with system operability needs and clean power targets. While not explicitly mentioned in the NESO Performance Objective quoted above, we clarify our understanding that this should cover both generation and demand connections.

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In achieving the first, we consider that the process for parties seeking to connect to the system will be improved. We expect to see transparent operation of a process that enables quick turnaround of high-quality connections offers, with connection dates brought forward for viable, strategically-aligned projects compared to the previous process. We consider that connection offers made should look to be “right first time”, providing reliable information to customers on which they can base decisions and progress projects.

For the second, we consider that NESO needs to continuously maintain the newly-established connections queue, for example by monitoring and engaging with connectees on contractual milestones. In doing so, NESO will support the continued drive of viable, ready projects connecting to the system. Additionally, we considered that NESO will have to ensure that strategic alignment remains clear and transparent as updated modelling and plans (eg the SSEP) iterate the GB generation and demand requirements. We considered that NESO will have to clearly communicate to industry, at each submission window, where there is under-supply of generation against forecast need. Importantly, we expect further work is needed to optimise treatment of demand connections under the reformed connections process, and NESO will be a key party designing and delivering this.

Alongside the two sides of NESO’s ambition described above, we considered there to be an additional outcome as part of this Performance Objective. There are a number of wider policies aimed at the integration of low carbon development where NESO provides substantial input enabled by its position as an independent system operator and planner. Through this role, NESO can highlight challenges and provide optimal solutions to enable the best adoption of these technologies. Particularly, the integration of these solutions into the connections process will be vital over the NESO1 period.

The activities set out in NESO’s impact pathway for this Performance Objective reflect the modelling, policy and strategy development, and operationalising of the connections process that we would expect to see. We also considered that some wider NESO work, such as development of policy for multi-purpose interconnectors and support of policy development in areas like long duration energy storage and other low-carbon solutions to be appropriate and necessary for delivery of an operable decarbonised grid (see Annex 1 for where we propose to ensure these are captured by Ofgem Expectations).

We considered that the NESO business plan does not fully set out its major deliverables for demand connection reform. We recognise this is an area that has moved rapidly but highlight it as an area that will require action to deliver the overall outcome of faster connection times, shorter queues and lower burden.

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We similarly consider NESO did not explain fully within its NESO1 Business Plan how it plans to interact with Distribution Network Operators. The transmission-distribution interface for the connections process is an area where we expect NESO to showcase leadership and to ensure customer clarity. The efficient functioning of the process includes a need for clear delineation of responsibilities and effective handovers between NESO and the Transmission and Distribution network companies. How NESO has worked to establish this will provide part of our views on the successful attainment of some of the outcomes in this Performance Objective.

The table below sets out the Ofgem Expectations we are proposing for this Performance Objective (further detail on the outcomes and rationale behind them can be found in Annex 2). We also list proposed Success Measures that we consider are relevant to each Ofgem Expectation. We do not consider the list of Success Measures to be comprehensive and have not set targets which would indicate successful attainment – we therefore seek industry views to help shape useful, clear measure to identify success.

Outcomes	Success Measures
D.1 Faster connection times, shorter queues, and lower administrative burden for prospective connectees to the electricity network.	Connections offer timing; Number of right-first-time connection offers; Shorter connection dates offered; Connections queue of G2 shorter / more aligned; Administrative burden of process; Connection Portal experience feedback.
D.2 The electricity connection queue is actively and effectively managed.	Queue composition / size; Milestone tracking.
D.3 Deliver inputs to policy for low carbon developments.	Quality of connected / connecting TSO engagements; Quality and timely provision of modelling and expert insight.

Q8. Do you agree that this sets a comprehensive set of Ofgem Expectations for the Delivering a Decarbonised, Operable Grid Performance Objective?

Q9. Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

Performance Objective E: Driving Whole-System Resilience

NESO proposed this Performance Objective to represent:

“NESO will drive improvement in whole energy system security and resilience by being the catalyst for coordinated and prioritised action across the system to address risks. We will deliver clear insights and advice to our stakeholders through robust analysis, systematic and topical assessments, reviews, emergency exercises and plans – grounded in an evolving understanding of system risks and interdependencies. This cycle of continuous learning, assessment and action will reinforce NESO’s position as a trusted technical authority to enhance system resilience.”

NESO is positioned to improve the resilience of the energy sector, including with roles covering threat analysis and post-event reviews. NESO’s Performance Objective rightly recognises that NESO can *drive* improved resilience, and we agree that NESO will be a key and active participant in this regard. Equally, we agree that NESO is expected to grow itself from an electricity focused organisation to one capable of supporting and managing energy sector-wide risk, and we will look for NESO to have evidenced this evolution over the NESO1 Business Plan period.

NESO’s Performance Objective commits to it to *“deliver clear insights and advice”* to stakeholders. We agree with this commitment and will seek evidence of the timely and quality documentation and other communications. However, we think it is vital that NESO also progresses sector resilience through action, either implementing mitigations under its own control, or supporting wider industry participants (including government and Ofgem) in implementing mitigations less under direct NESO control but still within its sphere of influence. In part, this is captured by NESO’s stated intent to *“reinforce NESO’s position as a trusted technical authority [on resilience]”*. To do this we considered that NESO must ensure that the improvements in resilience NESO drives must be part of a clear, joined up approach with other relevant parties (notably with Ofgem and government). A disjointed approach would considerably undermine the effectiveness of the long-term resilience of GB.

We also considered that it will be critical for NESO to evidence continued compliance with the Electricity System Restoration Standard (“ESRS”) during the NESO1 period as part of this Performance Objective, and to continue to ensure that compliance is being achieved in the most cost-effective manner.

NESO’s impact pathway for this Performance Objective included the following activities: Emergency Readiness and Response, Electricity System Restoration, Energy Resilience and Risk Assessments, Energy Sector Malicious Threats and Natural Hazards, Post Incident and Emergency Reviews, Whole Energy System Understanding and Interdependencies, and Security of Supply. We considered that this list more closely resembles a list of outputs than activities, and whilst they are appropriate

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outputs from NESO's activities, we will expect NESO to be able to clearly articulate the activities which contribute to the outcomes over the NESO1 Business Plan period.

In addition, we considered that several activities across other areas of the NESO1 Business Plan would contribute to improved system resilience. We considered that NESO also reflected this within the impact pathways, where some activities in other Performance Objectives led to outcomes which affected system resilience. Our proposal is to move all of those relevant outcomes to be captured under this Performance Objective to ensure appropriate accounting of performance. We understand that this means some NESO activities will contribute to outcomes covered in more than one Performance Objective, but given the outcomes-focussed nature of the NESO performance framework, we consider that this is the appropriate approach. Our rationale and method of mapping the distributed NESO system resilience outcomes into this Performance Objective is shown in Annex 1.

The table below sets out the Ofgem Expectations we are proposing for this Performance Objective (further detail on the outcomes and rationale behind them can be found in Annex 2). We also list proposed Success Measures that we consider are relevant to each Ofgem Expectation. We do not consider the list of Success Measures to be comprehensive and have not set targets which would indicate successful attainment – we therefore seek industry views to help shape useful, clear measure to identify success.

Outcomes	Success Measures
E.1 A system with maximum up-time and capability to recover quickly from events.	Hours unsupplied; Time to recover events; ESRS compliance & cost; Percentage System Availability .
E.2 NESO develops future resilience and restoration capability.	De-rated margin forecasts; Loss of Load Expectation; Evidence of risk reduced; Number/priority of (NESO-led) mitigations actions.

Q10. Do you agree that this sets a comprehensive set of Ofgem Expectations for the Driving Whole-System Resilience Performance Objective?

Q11. Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

Performance Objective F: Building a Digitally Connected Energy System

NESO proposed this Performance Objective to represent:

“NESO will enable a digitally connected energy system through open data, smart standards, AI and interoperable tools – accelerating innovation, broadening participation and driving system-wide efficiency. This will accelerate digitalisation across the energy sector, champion open data and foster a digital ecosystem that unlocks value and drives collaboration.”

The energy industry is becoming increasingly complex, and the need for all participants to have easy access to high quality data and to engage through reliable and simple digital tools is essential for its efficient functioning. We agree that “open data” and a “digital ecosystem” are fundamental to managing this. NESO has a core role to play in provision of data and digital tools, both for use within its organisation and for industry participants to utilise. We therefore agree with NESO setting a Performance Objective to build a digitally connected energy system. To facilitate assessment of NESO’s performance under this Performance Objective, we have proposed outcomes, as Ofgem Expectations, with Success Measures in the table at the end of this section.

NESO explained in the depiction of its self-defined “core roles”¹⁴ that facilitation of sector digitalisation underpins almost all of NESO’s other capabilities and delivery. We similarly consider that this Performance Objective is facilitative of NESO’s overall performance.

NESO’s impact pathway diagram for this Performance Objective showed relevant activities to include Scaling of Data Sharing Infrastructure, its Digital Customer Interface, and improved visibility of DER (which NESO intends to deliver via the Transformation to Integrate Distributed Energy programme). We agree that these are relevant activities in support of NESO’s focus under this Performance Objective and that they contribute to the Ofgem Expectations, as listed below. We note additionally that we expect NESO to follow relevant guidance, such as the [Ofgem Data Best Practice Guidance](#) when conducting activities linked to this Performance Objective.

The table below sets out the Ofgem Expectations we are proposing for this Performance Objective (further detail on the outcomes and rationale behind them can be found in Annex 2). We also list proposed Success Measures that we consider are relevant to each Ofgem Expectation. We do not consider the list of Success Measures to be comprehensive and have not set targets which would indicate successful attainment –

¹⁴ NESO sets out eight “core roles” in its NESO1 Business Plan: Networks Operability & Connections; System Operations; Energy System Resilience; Security of Supply; Energy Insights; Strategic Energy Planning; Energy Markets; and Facilitating Sector Digitalisation.

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we therefore seek industry views to help shape useful, clear measure to identify success.

Outcomes	Success Measures
F.1 NESO and industry have access to complete, usable, useful data.	Number of data requests; Number of requests met; Number of reduced manual data intake; Number of users; Demand Forecasting Accuracy; Wind Forecasting Accuracy; Number of additional data sets provided.
F.2 Secure and standardised data exchange is established.	Number of reduced data interfaces; Percentage of time data is available to industry; Average time/experience of onboarding to DSI; Number of uses.
F.3 As a digital leader in the industry, NESO progresses its own and sector digitalisation	Average time to remedy user/usability errors; Uptime of services; Timely delivery of quality digital products; Number of industry interfaces in a digital fashion.

Q12. Do you agree that this sets a comprehensive set of Ofgem Expectations for the Building a Digitally Connected Energy System Performance Objective?

Q13. Please provide any views you have on the Success Measures which should be used to identify of NESO success or otherwise of these Ofgem Expectations.

Performance Objective G: Providing Customers with a High-quality, Independent and Trusted Service

We considered that the Performance Objectives defined by NESO in its NESO1 Business Plan covered the key operational areas of focus. However, in addition to these operational functions, NESO should also ensure it is providing its stakeholders and customers with high-quality, independent, trusted, service through its engagements

across all areas. We therefore propose an additional Performance Objective to reflect NESO's efforts in doing so within our assessments of NESO performance.

We propose that this Performance Objective should have four outcomes which NESO should be looking to achieve over this NESO1 Business Plan period, covering: customer trust in NESO; clarity of NESO plans, strategies and aims; NESO's decision making transparency; and the independent code administration function which NESO operators. We provide our views on the importance of these outcomes below.

NESO has a high degree of stakeholder and customer trust

We consider that NESO itself reflected this within the NESO1 Business Plan, for example, in setting a Strategic Aim for "*A high degree of customer trust*" and indications within the NESO1 Business Plan to have a Customer Trust Index. We recognise that Strategic Aims do not themselves form part of this Business Plan, however considering the importance of this Strategic Aim, we propose to create a Ofgem Expectation reflecting this.

A core rationale behind government's decision to establish NESO was recognition of the importance of a system operator that is independent and trusted, sitting outside of political influence and separate from commercial interests. NESO can only fully deliver on its remit when trusted at an organisational level to "do the right thing". Therefore, we propose this outcome to measure NESO's performance over the NESO1 Business Plan period.

We are not aiming to measure stakeholder satisfaction against other individual Performance Objectives under this outcome (we consider that it is useful for stakeholder feedback to sit against the relevant delivery performance), but we do expect this outcome will capture any notable themes from stakeholders that cross multiple Performance Objective. We also recognise that the general processes of engaging and working with NESO as an organisation should be a consistent experience that supports trust and confidence. We therefore consider measuring overall trust in NESO would be appropriate.

NESO's plans and strategies provide certainty to stakeholders and ensure NESO can be held to account for quality and efficiency of delivery

Providing industry, Government and Ofgem with clarity on NESO's short-term and longer-term plans increases transparency, certainty and trust in both what NESO will deliver and how NESO will be held to account for its performance. We have therefore proposed an outcome related to the development of NESO's strategies and Business Plans. For clarity, the focus here is intended to cover NESO's more overarching plans, such as regulatory business plans and other longer-term, industry-encompassing communications that express views on future priorities.

Improved NESO decision making transparency

The complexity of the energy industry and the diversity of views among sector participants mean that NESO will at times need to take decisions that do not have universal support. Therefore, while we expect NESO to operate in a professional manner and aim to minimise undue dissatisfaction, we do not propose to simply measure industry satisfaction with NESO's decisions and actions.

Rather, we consider it more valuable to focus on the quality of the engagement and decision making processes that NESO undertakes, and NESO's communication across the development and decision making timelines. In summary, we consider that all affected industry parties should be informed as to the decisions NESO plans to take and the timelines for those decisions, are given the opportunity to input meaningfully (as is proportionate) to the decision process, and are made aware of the decision in a clear and timely manner.

NESO provides a quality, independent role as a Code Administrator for the codes it governs

Finally, we have proposed to set an outcome for NESO's code administration function under this Performance Objective. We note that NESO included an outcome in the impact pathway for the Enabling Smarter, Cleaner Markets Performance Objective, however we see the function of administering codes as distinct from markets activity, especially given NESO provides a code administration function for technical codes as well. NESO's performance as a code administrator is crucial to supporting industry parties in a number of areas, and for helping government to deliver on its policy ambitions. We recognised that various teams across NESO input into code change and policy development and we propose that these activities should also be used as evidence against other relevant outcomes (for example, amending codes to bolster electricity restoration capability would likely sit under outcome E.1 or E.2).

Proposals

The table below sets out the Ofgem Expectations we are proposing for this Performance Objective (further detail on the outcomes and rationale behind them can be found in Annex 2). We also list proposed Success Measures that we consider are relevant to each Ofgem Expectation. We do not consider the list of Success Measures to be comprehensive and have not set targets which would indicate successful attainment – we therefore seek industry views to help shape useful, clear measure to identify success.

Ofgem Expectations	Success Measures
G.1 NESO has a high degree of stakeholder and customer trust.	<p>Timeliness and quality of NESO Strategy / Strategic Aims Publication – expected by end 2026;</p> <p>Timeliness of NESO Business Plan publication;</p> <p>Quality of regulatory outcome in Business Plan;</p> <p>Stakeholder feedback;</p> <p>NESO evidence of (broad and timely) stakeholder engagement and having accounted for stakeholder views.</p>
G.2 NESO’s plans and strategies provide certainty to stakeholders and ensure NESO can be held to account for quality and efficiency of delivery.	<p>Timeliness and quality of NESO Strategy / Strategic Aims Publication – expected by end 2026;</p> <p>Timeliness of NESO Business Plan publication;</p> <p>Quality of regulatory outcome in Business Plan;</p> <p>Stakeholder feedback;</p> <p>NESO evidence of (broad and timely) stakeholder engagement and having accounted for stakeholder views.</p>
G.3 Improved NESO decision making transparency.	<p>Number of key milestones in published plans missed without forward communication to stakeholders;</p> <p>Number of key milestones in published plans delayed.</p>
G.4 NESO provides a quality, independent role as a Code Administrator for the codes it governs.	<p>CaCOP surveys;</p> <p>Stakeholder evidence;</p> <p>Evidence of SDS prioritisation / alignment.</p>

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- Q14. Do you agree with our proposal to include this additional Performance Objective for NESO?
- Q15. Do you agree that the outcomes proposed under this Performance Objective are clear and comprehensive? Please provide any views for additional outcomes, if appropriate.
- Q16. Do you agree that our proposed Success Measures can suitably identify the extent to which NESO has been successful in achieving the outcomes set?

5. Value for Money

The Electricity System Operator and Gas System Planner Licences include the requirement for NESO to produce and publish a Business Plan that contains, *inter alia*, its forecast of the internal expenditure it expects to incur, an explanation of, and justification for, the forecast internal expenditure and any other required contents set out in the NESO Business Plan Guidance.

The NESO Business Plan Guidance is clear that NESO's forecasts must be supported by robust justifications and that NESO should explain how it will deliver Value for Money for consumers through its Business Plan proposals. It also requires NESO to provide transparency on how cost forecasts have been formed and why the resources needed for a new or revised activity represent Value for Money.

Presentation of costs

NESO's Annex 6 Cost Template presents a structured view of costs that provides sufficient granularity¹⁵ to allow a clear understanding of the expenditure NESO has proposed and on what activities that money will be spent.

However, whilst the structure of the information is suitable, the numbers themselves do not provide a forecast of the internal expenditure NESO expects to incur. The employee headcount figures provided by NESO are simply a copy of staff numbers presented in NESO's previous BP3 plan, plus a limited number of changes for example to reflect movement of staff between teams, additions for new teams¹⁶ and additions to RESP. The figures therefore largely reflect NESO's headcount forecast in January 2025 rather than updated forecasts or existing employee headcount. We do not consider this to be an appropriate forecast for the internal expenditure NESO expects to incur within the NESO1 Business Plan period.

Indeed, the NESO1 Business Plan states that, "*The business plan does not represent a business case for change or investment*" and that "*While the plan sets out what NESO aims to achieve and how it will get there over the next two years, the internal budgeting process is focused on allocating the resources needed to support that journey... The budget setting process is a structured exercise that follows directly from the business planning process.*"

It is clear from the statements made in the NESO1 Business Plan, and from our engagement with NESO between the plan submission and these Draft Determinations,

¹⁵ There were some exceptions to this, for example, RESP, Finance and Procurement and Programme Management & Technology Delivery. However, our views on this may change when we see the updated numbers from NESO.

¹⁶ For example, those covering Hydrogen work that was not planned for in BP3.

that the necessary internal budgeting process has not been conducted. Therefore, NESO is not yet able to provide a forecast of the internal expenditure it expects to incur nor an explanation of, and justification for, the forecasted internal expenditure.

Evidence of benefits

NESO outlined in its NESO1 Business Plan, at a high level, the benefits that it considers its plan will deliver. Based on our assessment of the outcomes NESO committed to deliver, we consider that NESO has demonstrated that the total benefits would likely outweigh the total costs NESO has stated in this plan. This assessment predominantly shows the value in having a well-functioning Independent System Operator and Planner, but it does not provide evidence of how NESO's has sought to optimise its spending and use of resources to best achieve its stated aims and objectives.

Demonstration of Value for Money

We consider NESO's Value for Money by how well NESO has demonstrated that it sought to strike the optimal balance between maximising the benefits delivered from its activities whilst minimising costs. NESO could have evidenced this in its plan by:

- describing the general methodology and key assumptions it has used to establish cost forecasts, including full-time equivalent (FTE) employee numbers and rationale for that number of FTEs;
- outlining the level of confidence it has in its forecasts, as well as future uncertainties and the processes and mitigations it will adopt to avoid expenditure that could result in poor Value for Money in any activities where there is lower confidence;
- considering business suitability and whether spend is necessary and has been appropriately prioritised against other activities
- using industry good practice, such as options assessments, for delivering a desired outcome with rationale for the choices made, estimates of monetised and non-monetised consumer benefits, and distribution analysis of benefits/costs across different groups/stakeholders/participants;
- demonstrating how ongoing efficiency will be achieved throughout the life of an activity; and
- outlining clearly the governance in existence to ensure spend is controlled, risks are managed, and robust oversight and accountability is maintained.

The NESO1 Business Plan does not provide sufficient explanation or evidence that NESO's planned activities and costs provide Value for Money nor that NESO has considered cost-optimisation in the resource allocation provided. Although NESO stated that several governance processes are in place to support optimised allocation of resources depending on the evolving nature of demand for its services, there was

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insufficient evidence of these having been used previously or how these processes may operate in practice during the NESO1 Business Plan period.

We are therefore unable to confidently assess the Value for Money represented in NESO's business plan at this stage using the information provided. However, we have worked with NESO since submission of the NESO1 Business Plan to determine an appropriate way forward. NESO has committed to republishing the Annex 6 Cost Narrative and Cost Template of its NESO1 Business Plan with updated figures and rationale following the outcome of its internal budgeting process by 30 May 2026. Ofgem will then reassess the Value for Money aspects of NESO's business plan.

In the absence of our *ex ante* regulatory assessment of Value for Money, we consider it necessary to increase our within-period scrutiny of NESO's internal costs. Therefore, in addition to the general requirements outlined in the PAGD, unless and until we are satisfied with NESO's updated Cost Narrative and Cost Template, we propose the following additional requirements based on content the NESO states it already intends to produce:

- NESO must, on an ongoing basis, engage with and provide to Ofgem a monthly monitoring of the latest forecast of spend, actual spend and headcount with a cost commentary of similar granularity as provided in the cost annex.
- NESO must provide to Ofgem the management papers related to the budget setting process described on page 35 of the business plan.
- NESO must provide to Ofgem the formal business cases for material spend (with the associated assessment outcome), as noted on page 36 of the business plan.
- NESO must provide to Ofgem the management papers related to the formal change control process for significant deviations from the approved budget, as noted on page 36 of the business plan.
- NESO must provide to Ofgem, on a monthly basis, reporting and metrics for NESO's Efficiency Programme, as described on page 38 of the business plan.

<p>Q17. Do you agree with our approach of requiring additional Value for Money reporting until sufficient information is provided by NESO such that we can perform a Value for Money assessment of this plan?</p>

6. Reporting requirements

This section outlines our proposed reporting requirements for NESO during the NESO1 Business Plan period.

Regular, transparent performance reporting is beneficial to Ofgem, the wider industry and NESO. It allows NESO to demonstrate its performance throughout the year, and means that Ofgem and industry parties can provide informed feedback.

The overall summary of reporting requirements placed on NESO is covered in the PAGD, where we committed to consulting and deciding on specific requirements for several of the reports NESO must develop as part of the Determinations process. These are covered below.

Reported metrics

Reported metrics are regularly published, quantitative measures. In several cases, NESO's performance against reported metrics directly contributes to NESO's Success Measures. In other cases, they support NESO's accountability to stakeholders and apply reputational incentives which are supplementary to our public performance assessment.

We consider that many of the reported metrics from BP3 will continue to have value for NESO1. NESO should use existing methodologies when presenting these metrics. These should allow Ofgem and industry stakeholders to continue tracking key data trends that are relevant to NESO's enduring ambitions. Many of these metrics are pre-established processes, so we don't expect these to create additional reporting burden that outweighs their value.

The table below outlines our proposal for reported metrics published during the NESO1 period.

Reported metric	Frequency	Success Measure
Balancing costs	Monthly	Yes – B.1
Demand Forecasting accuracy	Monthly	Yes – F.1
Wind Forecasting accuracy	Monthly	Yes – F.1
Dispatch efficiency (skip rates)	Monthly	Yes – B.1

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Reported metric	Frequency	Success Measure
Carbon intensity of NESO actions	Quarterly	Yes – B.3
Security of Supply	Monthly	Yes – B.1
CNI outages	Monthly	Yes – B.1
Short notice changes to planned outages	Quarterly	Yes – B.4
Zero Carbon Operability	Quarterly	Yes - B.3
Savings from TO collaboration	Annual	No
Day ahead procurement	Quarterly	Yes – C.1
Accuracy of forecasts for charge setting - BSUoS	Quarterly	Yes – A.3
Balancing services procured in a non-competitive manner	6 Monthly	Yes – C.2
Accuracy of forecasts for charge setting – TNUoS	Annual	Yes – A.3
EMR demand forecasting accuracy	Annual	No
Future savings from operability solutions	6 Monthly	Yes – B.1

- Q18. Do you agree that NESO should continue to report against these metrics?
- Q19. Are there any additional metrics you would like NESO to regularly report against?

7. Innovation

This section outlines our proposal to award £95m in Network Innovation Allowance (NIA) money to NESO, while ringfencing £50m in the Strategic Innovation Fund (SIF).

Network Innovation Allowance

Background

NESO's NIA funding request has been assessed in accordance with the criteria set out in the relevant Business Plan Guidance. We set out below our Draft Determinations on NESO's NIA funding as part of its Business Plan submission for the Business Plan cycle commencing 1 April 2026. NESO's NIA funding applies from 1 April 2026 - 31 March 2031, but NESO can request additional NIA funding, if needed, for the remainder of the five-year period in its Business Plan submission for the Business Plan cycle commencing 1 April 2028.

Consultation position and rationale

NESO provided an innovation strategy that clearly explained why the requested £95m of funding was needed and extensively articulated that the sum was derived from historical costs in RIIO-2. The plan provided detail on NESO's processes to deliver activities, avoid duplication, and roll out proven innovation.

NESO's six innovation priority areas will be: to optimise network capacity, leverage digitalisation and AI, unlock demand-side flexibility, enable customer energy efficiency and decarbonisation, drive whole systems integration, and safeguard system security and resilience. The government's Clean Power 2030 Action Plan formed the basis of this strategy.

However, the innovation strategy initially lacked the detail needed to assess the following areas:

- Areas of focus, eligibility criteria, and benefits anticipated: NESO gave a general update on key areas of focus. However, the innovation plan did not clearly provide sufficient detail or examples of planned NIA projects within these themes. It was difficult, as a result, to fully assess the relevant criteria.
- Third-party involvement: NESO explained the processes to involve third parties. However, we expected more examples of what NESO has done in the past and plans to do in the future to engage with third parties.
- Dissemination activities: NESO did not provide evidence of activities undertaken to share information nor extensive detail of planned events.

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- Collaboration with networks: the innovation plan provided high-level explanations of how NESO collaborates with networks, but more examples were needed of prior and future activities in this area.

After additional engagement, NESO provided additional material that provided us with sufficient additional detail.

- Areas of focus, eligibility criteria, and benefits anticipated: NESO provided additional information in these areas, including planned individual projects for each area of focus. This added further explanation behind the aims and benefits of each strategic theme.
- Third-party involvement: NESO quantified its success in engaging third parties and detailed the various initiatives it had partaken in to expand its collaboration. It stated that 70% of its innovation ideas in 2024/25 were externally sourced and one of its examples of third-party involvement was an open call for innovators it launched in 2025.
- Dissemination activities: NESO listed the various events it was attending or hosting to share learnings from projects. This included webinars, project presentations at the annual Energy Innovation Summit, and publications on its website such as its annual innovation summary.
- Collaboration with networks: NESO provided more evidence of the different events or groups it partook in to join up its work with networks. Activities included the Energy Innovation Basecamp and Ofgem's Transmission Innovation Deployment (TID) groups.

We propose to award NESO its full request of £95m following the additional detail it sent after further engagement with Ofgem.

Strategic Innovation Fund

Background

In our RIIO-3 Final Determinations, we decided to allocate £500m of funding to SIF in RIIO-3. Additionally, we set out our decision to introduce a "Programmatic Approach" to SIF, which means a structured, coordinated and long-term method of achieving our ambitions for net zero in the best interests of consumers.

In our updated SIF Governance, recognising NESO's important role in facilitating the SIF programme, we stated that in order to maintain independence and appropriately manage any actual or perceived conflicts of interest, we would ringfence NESO's SIF funding.

This ringfenced funding would be drawn from within the total £500m pot allocated for RIIO-3, with the capacity to increase this total within the price control through consultation if compelling need emerged.

Consultation position and rationale

Following engagement with NESO, we are proposing to ringfence £50m of SIF funding for NESO. This amount was based on NESO's funding in RIIO-2 and planned future SIF activity (NESO has received £31.7m of funding in RIIO-2 and we expect to receive further applications in the next SIF cycle). As SIF is a competitive fund, funding is not guaranteed and each application will individually be assessed.

Details of NESO's role in the SIF in RIIO-3 and the operation of the ringfenced amount are set out in the updated SIF Governance.¹⁷

Q20. Do you agree with the proposed level of innovation funding for NESO?

8. Next steps

Through this Draft Determination we are seeking industry views on the key components of the NESO1 Business Plan and how this will form the basis for NESO performance assessment over this period. The consultation closes on the 10 March 2026. We will consider all industry feedback and publish our Final Determination in the first quarter of the 2026/27 regulatory year.

Until NESO republishes the Annex 6 Cost Narrative and Cost Template of its NESO1 Business Plan with updated figures and rationale, we expect NESO to continue to engage with Ofgem to provide assurance on Value for Money.

Stakeholder views are vital in shaping how Ofgem holds NESO to account. In this document we are not only seeking to gather views on the proposals we have set out but also asking stakeholders to help develop how we measure success against the outcomes we have proposed as Ofgem Expectations. We are particularly keen for stakeholders to provide views on whether the proposed Success Measures in this document capture the key metrics and evidence needed to determine whether NESO has achieved the Ofgem Expectations, including what successful delivery against those expectations would look like using those metrics and evidence.

¹⁷ [Modifications to the RIIO-3 licences and associated documents.](#)

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

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

Appendix 1. Privacy policy

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority (for ease of reference, “Ofgem”) is the controller. The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest, eg a consultation.

4. With whom we will be sharing your personal data

Only Ofgem.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for twelve months following the close of the consultation.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services

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- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our “[Ofgem privacy promise](#)”.