

# Decision

## Implementation of NESO's enduring regulatory framework

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This document outlines our decision on the detailed implementation of our August 2025 policy decision on National Electricity System Operator (NESO)'s enduring regulatory framework. This includes the changes we have decided to make to:

- The Electricity System Operator Licence;
- The Gas System Planner Licence;
- The NESO Licence Expectations Document;
- The NESO Performance Arrangements Governance Document; and
- The NESO Financial Handbook.

These changes will come into effect on 1 April 2026.

We will keep NESO's regulatory framework under ongoing review. As we gain experience of regulating NESO and see how working relationships between Ofgem, NESO and government develop in practice, we may identify opportunities for improvement. Where it adds value, we will make changes to ensure the regulatory framework remains effective into the future.

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## Decision Implementation of NESO's enduring regulatory framework

# 1. Introduction

### Section summary

We are deciding on the detailed implementation of the National Energy System Operator (NESO)'s enduring regulatory framework, which will take effect on 1 April 2026. This section outlines the background to our decision, lists the documents we are updating, and summarises our key changes to these documents.

## Background

- 1.1 On 1 October 2024, NESO was established as an expert, impartial body with key responsibilities relating to planning and operating 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.<sup>1</sup>
- 1.2 NESO is an independent, not-for-profit public corporation which is licensed and regulated by Ofgem. Our regulation is a key part of the governance model for NESO; it provides independent oversight of NESO's performance delivering its statutory duties, which in turn supports NESO's operational independence from the government.
- 1.3 Over the last two years we have worked with stakeholders to develop a regulatory framework for NESO which reflects its change from a private company to a public body.<sup>2</sup> This has involved a phased transition away from the RIIO price control framework, with key changes introduced at the time of NESO's implementation<sup>3</sup> and further key changes introduced for the final year of NESO's RIIO-2 price control.<sup>4</sup>
- 1.4 In August 2025, we made a policy decision on a more enduring regulatory framework for NESO that will apply from 1 April 2026, once the RIIO-2 price control period ends (the 'August 2025 Decision').<sup>5</sup> In summary, we decided to introduce a framework that will focus on the major outcomes that NESO should deliver for the energy sector, at a cost that maximises value for consumers. We stated that our approach would be dynamic, targeted and proportionate, such

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<sup>1</sup> See sections 163-165 of the Energy Act 2023 for more details: [Energy Act 2023](#)

<sup>2</sup> This work commenced with our initial consultation of the policy direction of NESO's regulatory framework in December 2023: [Consultation on the policy direction for the Future System Operator's regulatory framework](#)

<sup>3</sup> Our joint response with government to the NESO licences consultation: [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation](#)

<sup>4</sup> Our decision on the RIIO-2 Business Plan 3 Framework: [Decision on NESO's performance incentives framework for BP3](#)

<sup>5</sup> Our decision on NESO's enduring regulatory framework: [Decision on the enduring regulatory framework for NESO](#)

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that we would focus attention on the most consequential or valuable outcomes, which may change over time.

- 1.5 Our August 2025 Decision included policy positions on the design of key components of NESO's regulatory framework. This included decisions on our overall approach to Business Plans; performance incentives; stakeholder feedback mechanisms; enduring licence obligations; requirements on senior performance-related pay; cost and financial requirements; and innovation funding. Please see the August 2025 Decision document for more details.

## December 2025 consultation

- 1.6 In December 2025, we published a consultation on the detailed implementation of our August 2025 Decision, including our proposed changes to NESO's licences and three supporting documents.
- 1.7 We received thirteen (13) responses to our consultation, eleven (11) of which were non-confidential and two (2) confidential. All the non-confidential responses are published alongside this decision document. We have also summarised the key themes of feedback to each question within each chapter of this document.
- 1.8 As part of the consultation, we also held two in-person workshops, which took place in Glasgow and London in January 2026. The key messages from these workshops were generally aligned with the written consultation responses and we have captured major themes within the stakeholder feedback summaries.

## What are we making decisions on?

- 1.9 We are making decisions on changes to the following documents:
- The Electricity System Operator (ESO) Licence
  - The Gas System Planner (GSP) Licence
  - The NESO Licence Expectations Document (LED)
  - The NESO Performance Arrangements Governance Document (PAGD)
  - The NESO Financial Handbook
- 1.10 Alongside this document, we have published a notice of our decision to modify NESO's ESO Licence and the GSP Licence, using our powers under section 169 the Energy Act 2023.<sup>6</sup> The amendments to each licence can be found on our website as subsidiary documents to this decision.

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<sup>6</sup> [Energy Act 2023](#)

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- 1.11 We have also published a direction to issue final versions of the associated licence documents – the NESO LED, the NESO PAGD, and the NESO Financial Handbook. Tracked versions of these documents (compared to our consultation proposal) can be found alongside this decision document, whilst clean versions are published on their own, separate pages on our website.
- 1.12 This decision document provides an overview of our decisions, including our responses to the key themes of stakeholder feedback. Alongside this document, we have also published a more detailed log where we have responded individually to specific drafting issues and concerns raised (see the "Drafting Issues Response Log"). Where comments were more general and not as specific to the consultation proposals or licence drafting, we have addressed them in our response in Chapter 8. This includes all responses to Question 1 of the consultation, which related to our ongoing review of NESO's regulatory framework.

## **Summary of our decisions**

- 1.13 After carefully considering the stakeholder feedback shared through the consultation and workshops, we have decided to implement most of our proposed changes to NESO's licences and the associated documents. The key areas where we have made changes in response to feedback are Condition C1 and the associated guidance in the NESO LED. We have also confirmed our preferred option for senior staff remuneration requirements.
- 1.14 Our key decisions are summarised in the sections below. We explain these decisions and the changes from the consultation in more detail in Chapters 2 to 7.

## **Clearer minimum standards**

- 1.15 Following a comprehensive review, we have decided to proceed with a new approach to condition C1 of NESO's licences and the NESO LED. Our changes will consolidate, clarify and update existing requirements in line with our August 2025 Decision to move towards setting outcomes-focused requirements for NESO. We consider our decision leads to clearer, more enforceable, and more enduring minimum licence standards for NESO. Please see Chapter 2 for a summary of the decisions, including the feedback we have received from stakeholders and the subsequent changes made.

## **Remediation plans**

- 1.16 We have decided to introduce a new provision within condition C1 of NESO's licences to enable us to direct NESO to produce a 'Remediation Plan'. This will enable us to take regulatory action, when necessary, in response to material performance issues in a more targeted and timely manner than through our incentive arrangements alone. More details can be found in Chapter 3.

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### **Requirements on performance-related pay for senior staff**

- 1.17 We have decided to introduce our proposed principles-based requirements on NESO to promote alignment between its decisions on Performance Related Pay (PRP) for senior staff and its performance under the regulatory framework. We have also decided to introduce the proposed requirements on NESO to provide transparency on its PRP decisions within its annual end of year reporting.
- 1.18 We have decided not to introduce, at this stage, a mechanism for Ofgem to approve or object to the NESO Board's PRP decisions for senior staff. This will allow us to learn from practical experience and draw relevant conclusions from our work with DESNZ and NESO to clarify the respective roles and responsibilities of the regulator, the NESO Board and the shareholder. For more information, see Chapter 4.

### **Other licence changes**

- 1.19 In addition to the key changes above, we have made decisions on several other changes to NESO's licences to fully implement our August 2025 Decision, to clarify and improve the conditions introduced at NESO Day 1, and to ensure NESO's framework is coordinated with the RII0-3 price controls. These changes are set out in more detail in Chapter 5.

### **Clearer performance assessment process**

- 1.20 We have decided on several changes to the NESO PAGD to clarify and improve the performance assessment processes. This includes changes to clarify how the two-yearly enduring Business Plan determinations process will establish expectations for each annual performance assessment, as well as changes to the end of year grading criteria and associated guidance. Please see Chapter 6 for further explanation.

### **Implementation of the Independent Challenge Panel (ICP)**

- 1.21 We have decided on changes to NESO's licences and the NESO PAGD to implement the detailed arrangements for the ICP – a new stakeholder panel that will play a key role in the regulatory framework. Our decision includes details on the ICP's responsibilities, outputs, membership process, administration, and the role of the ICP chair. Please see Chapter 6 for further information as well as the reasons and effects for Condition G2 in Appendix 1.

### **Consolidated financial reporting requirements and processes**

- 1.22 We have decided to implement our proposals to streamline and consolidate NESO's financial reporting requirements. This will mean that the processes associated with the Regulatory Instructions and Guidance (RIGs) (including the

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Regulatory Reporting Packs (RRPs)) will no longer apply to NESO. We have additionally decided to remove the Data Assurance Guidelines (DAG) processes for NESO.

- 1.23 A few residual reporting requirements of value from the RRP's will be integrated into the processes and requirements in the NESO PAGD and the NESO Financial Handbook. Additionally, there will now be one unified and consistent data template (the 'NESO Cost Template') for NESO to populate at appropriate points during each Business Plan period.
- 1.24 We have decided to significantly reduce the level of Ofgem review of NESO's calculation of allowed revenues under the annual financial reporting process. We are instead placing more onus on NESO to robustly self-assure its allowed revenue calculations. This is through a new overarching licence requirement on NESO to ensure it has the appropriate internal governance in place to verify those calculations.
- 1.25 For further explanation of these decisions, please see the reasons and effects for Condition D5, Condition F5, and Condition G3 in Appendix 1, as well as our decision on the NESO Financial Handbook in Chapter 7.

## Implementation and next steps

- 1.26 The decisions within this document will be implemented and take effect on 1 April 2026.
- 1.27 Our key next step is to operationalise the ICP. We will soon begin recruiting the ICP Chair, after which we will work with them to establish the initial panel membership and finalise the logistical arrangements. We plan for the ICP to be fully operational in time to deliver 2026/27 mid-year performance feedback to NESO.
- 1.28 The set of decisions in this document marks the end of the process for transitioning NESO away from the RIIO framework into a more appropriate set of regulatory arrangements. However, as set out in our December 2025 Consultation, we do not think this means there will be no need to consider further changes to our approaches in the future. We therefore also asked stakeholders for their views on the key future considerations for NESO's regulation and governance. Please see Chapter 8 for a summary of views on this question and our response.

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## 2. Clearer minimum standards (C1 and the NESO LED)

### Section summary

This chapter describes the final changes we have made to Condition C1 of NESO's licences and the NESO Licence Expectations Document (LED) to implement our August 2025 Decisions. This includes the further changes we have made to our consultation proposal in response to stakeholder feedback.

### Background

#### Purpose

- 2.1 Condition C1<sup>7</sup> has historically been used to set general requirements on how NESO should perform its different activities. It was first introduced to provide greater clarity on what we expected from National Grid Electricity System Operator (NGESO) as part of its obligation to direct the flow of electricity onto and over the electricity system in an efficient, economic and coordinated manner.<sup>8</sup> Over time, further requirements were added to reflect NGESO's expanding roles and responsibilities, including several changes at the start of the RIIO-2 price control.<sup>9</sup> As part of the introduction of NESO's Day 1 licences, we made several changes to Condition C1 to reflect NESO's new roles and its broader set of statutory duties.<sup>10</sup>
- 2.2 The NESO LED<sup>11</sup> has been in place since 2017. It was initially introduced to further expand on the behaviours we expected to see as part of NGESO's compliance with Condition C1 and to help establish baseline expectations under its performance incentives.<sup>12</sup> For RIIO-2, the document was expanded to predominantly focus on setting detailed incentives expectations for all of NESO's activities. For the final year of RIIO-2 (BP3) we introduced a new approach to NESO's incentives and updated the NESO LED so that it solely provided guidance on how NESO should meet its licence obligations.<sup>13</sup>

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<sup>7</sup> Including predecessor condition SLC C16 and SLC C28.

<sup>8</sup> See modifications to Standard Licence Condition C16 in: [so\\_incentives\\_-\\_decision\\_standard\\_licence\\_conditions\\_0.pdf](#)

<sup>9</sup> See modifications to Standard Licence Condition C28 in: [Statutory Consultation on the RIIO-2 Licence Drafting modifications - reasons and effects \(PDF, 1.02MB\)](#)

<sup>10</sup> See modifications to Condition C1 of the ESO licence in: [Response to statutory consultation on National Energy System Operator licences and other impacted licences](#)

<sup>11</sup> Including predecessor documents called the 'ESO Roles and Principles' and 'Roles Guidance'.

<sup>12</sup> [ESO Roles and Principles \(PDF, 668.05KB\)](#)

<sup>13</sup> [Decision on National Energy System Operator's performance incentives framework for BP3 \(PDF, 289.74KB\)](#)

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### December consultation

- 2.3 In our December 2025 Consultation, we proposed a comprehensive re-write to both Condition C1 and the NESO LED in order to implement our August 2025 policy decision to move towards a more outcomes-focussed approach to setting minimum standards for NESO.
- 2.4 We proposed that Condition C1 should set out the general principles the licensee must follow, and general minimum outcomes the licensee must seek to achieve, through the delivery of its activities. We proposed changes which we considered consolidated, clarified and updated existing requirements, whilst ensuring compatibility with other parts of the licences and NESO's statutory duties. This included individual requirements grouped into the following areas:
- Operation of the electricity system
  - Energy system efficiency and resilience
  - Markets for electricity system services
  - Wholesale market arrangements, codes and charging
  - Energy system planning and connections
  - Cross cutting (including requirements on stakeholder engagement, transparency, data and information, advice and recommendations, and the delivery of external processes).
- 2.5 We proposed that the NESO LED should provide focussed guidance on individual requirements within Condition C1, rather than the past approach of providing granular expectations for all of NESO's activities. We considered that this would create a stronger link between Condition C1 and the NESO LED and support the enforceability of Condition C1.
- 2.6 Please see our consultation for more details on the specific changes proposed.

#### Questions asked

Q4: Do you have any comments on the approach we have taken to review and update Condition C1 and the NESO LED?

Q5: Do you have any specific drafting suggestions for the requirements within Condition C1 and the associated guidance in the NESO LED?

## Summary of responses

- 2.7 Most stakeholders welcomed the comprehensive review of Condition C1 and the NESO LED. This included broad support for the overall approach, the objective of moving towards outcomes focussed / principles-based requirements, and the broad structure of the revised conditions. Several stakeholders welcomed the

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new dedication section on cross-cutting requirements and there was support for the benefits of maintaining the NESO LED to avoid misaligned expectations over the requirements in Condition C1.

- 2.8 Some stakeholders were concerned that the requirements were too high level and risked not creating enough enforceability or accountability; this was particularly in areas where NESO's actions have major knock-on consequences for other stakeholders (such as system planning). Two respondents were concerned that the approach was not sufficiently outcomes-focused in practice and risked being a checklist of requirements that did not encourage innovation. They called for greater clarity to guide how NESO should deliver Performance Objectives.
- 2.9 Stakeholders made several specific drafting suggestions for Condition C1 and the NESO LED. This included suggestions to:
- Strengthen stakeholder engagement requirements, including on NESO's timelines for consultation and responsiveness to queries.
  - Require closer coordination with network companies on system planning, including greater expectations on NESO to provide the data and information they need to discharge their obligations.
  - Strengthen requirements on NESO to demonstrate non-discrimination in Balancing Services, including through the clearer explanation of procurement outcomes; and
  - Enhance expectations on NESO in relation to its role in facilitating digitalisation and data sharing.
- 2.10 NESO was concerned about the overall level of change and the timescales within which they were able to review these changes. They called for a delayed implementation to avoid unintended consequences, as well as a clearer explanation of how gas expectations are captured. NESO also had general concerns about the clarity of certain terms and felt that some of the conditions risked requiring actions that were either out of its control or disproportionate. NESO provided specific drafting suggestions in most areas.
- 2.11 NESO also had concerns about our proposed obligation on clear, impartial and evidence-based advice and recommendations. NESO considered that this obligation was unnecessary and created risk to its independence.
- 2.12 Finally, several respondents called for the new Condition C1 and NESO LED to be kept under review to ensure it achieves its aims and appropriately reflects gas developments.

## Our decision and rationale

- 2.13 We have decided to introduce our proposed revised approach to Condition C1 and the NESO LED from 1 April 2026. We have made several drafting changes

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from the consultation version in response to stakeholders' feedback. This includes cross-cutting changes to:

- Provide additional clarity in the drafting of some of the conditions.
- Ensure the requirements reflect NESO's level of influence and control and are not disproportionate.
- Strengthen the NESO LED in key areas to provide additional clarity on how NESO should interpret the obligations in Condition C1 in practice.
- Expand on the NESO LED expectations where stakeholders identified key gaps.

2.14 The overarching structure and list of conditions within Condition C1 remains the same as our consultation, apart from one area. We have decided not to introduce the proposed general requirement on NESO in relation to its recommendations and advice (previously C1.37). This is because Ofgem's role in regulating advisory areas is one of the key questions we are currently considering further in trilateral work between DESNZ, Ofgem and NESO on roles and responsibilities (see Chapter 8 for more discussion). We consider it is important for this work to conclude before we decide on additional minimum standards in this area. Instead, recognising the importance and impact of NESO's system planning recommendations, we have bolstered the NESO LED expectations to ensure its system planning outputs are clear and well-evidenced (please see the NESO LED text for C1.30 for details).

2.15 Please refer to the licence modifications and tracked changes to the NESO LED, published alongside this decision, for more details on the specific drafting changes we have made. In summary this includes:

- Changes to more clearly reflect NESO's remit and level of influence in relation to safe and secure electricity system operation (C1.6).
- Additional guidance on coordinated system operation (C1.8) and coordinated system planning (C1.30) to reinforce the need for NESO to provide timely and accurate information to network owners.
- Updated requirements and expectations in relation to NESO's role in coordinating with interconnected system operators (C1.14).
- Changes to make it clear that to demonstrate non-discrimination in Balancing Services, NESO should also clearly explain procurement outcomes (C1.19).
- Extending the requirement for NESO to support the effective design and operation of the Capacity Market to Contracts for Difference (C1.29).

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- Additional guidance to clarify expectations in relation to the delivery of Electricity Market Reform processes (C1.28), code administration (C1.35) and general stakeholder engagement (C1.34).
- Clearer cross-referencing between Condition C1 and existing extensive requirements with respect to data and digitalisation in Condition C3.

2.16 We consider that these changes help to reduce ambiguity, improve consistency of interpretation, and address stakeholder concerns while preserving the outcomes-based structure of Condition C1. For our responses to specific drafting suggestions and issues, please see the “Drafting Issues Response Log” published alongside this decision.

2.17 For clarity, Condition C1 and the LED are designed to set enduring, enforceable minimum standards. This is different to NESO's Performance Objectives, which are two-year performance outcomes developed through the Business Plan process for the purpose of setting stretching incentives for NESO to deliver high performance.

2.18 Overall, we consider that our changes will set clearer, more appropriate and more enforceable minimum standards on NESO compared to the status quo. This will support wider understanding of NESO's obligations and help to hold NESO to account for maintaining key standards of performance over time, delivering net benefits for the energy sector and consumers.

2.19 We are confident that there is no material risk of unintended consequences from these changes and believe that delaying beneficial changes beyond 1 April 2026 would not be in consumers' interest. Nevertheless, we agree with stakeholders that there are benefits in keeping Condition C1 and the NESO LED under review. We welcome any future feedback from stakeholders on how the conditions are working in practice and ways they could be improved.

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### 3. Remediation plan

#### Section summary

This chapter describes our decision to implement new requirements on NESO to produce a Remediation Plan when this is necessary to address a material performance challenge. This requirement will be introduced within Condition C1 of NESO's licences.

#### Background

##### Purpose

3.1 There are benefits in us having a range of regulatory levers to deal with different performance scenarios. Building on the feedback we received from stakeholders previously, we have considered whether new requirements are needed to increase accountability or incentives on NESO to avoid performance failures that could have serious consequences for consumers and the energy sector.

##### December consultation

3.2 We proposed to introduce a power for Ofgem to direct NESO to produce a Remediation Plan (via a 'Notice of Remediation (NoR)'). We noted that we would issue a NoR where we consider there is a need for NESO to provide greater assurance on the actions it is taking to remedy a material performance challenge. We considered this would provide updated or clearer performance expectations and allow faster, and more targeted regulatory action compared to the use of NESO's performance incentive arrangements alone.

#### Questions asked

Q6. Do you agree with our proposed requirements in relation to a Notice of Remediation?

#### Summary of responses

3.3 There was strong support from stakeholders for introducing the NoR requirements. Respondents saw this as a useful, proportionate tool to strengthen transparency and accountability and enable timely regulatory intervention.

3.4 Several stakeholders sought more clarity on how the NoR arrangements would operate in practice, including:

- The triggers and criteria for issuing a NoR.
- The general process and timelines, including how outcomes would be defined and monitored.
- Further explanation of how the arrangements interact with other regulatory processes (including the performance incentives and enforcement).

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- Clarity on how stakeholder views would be considered pre and post a NoR, and whether stakeholders would be consulted.
  - Clarity on whether the NoR and Remediation Plan would be public.
- 3.5 NESO was opposed to the NoR requirements. NESO deemed it unnecessary and duplicative, arguing that Ofgem already has sufficient regulatory tools through the performance framework, open letters, and enforcement. NESO warned that the NoR could add bureaucracy and encroach on its independence. NESO also felt the proposal lacked clarity and appropriate governance.

## Our decision and rationale

- 3.6 We have decided to introduce our proposals for the NoR. This is for the reasons outlined in our consultation and recognises the strong support from most stakeholders for these new requirements.
- 3.7 We acknowledge the requests for clarity on how the NoR may operate in practice. We have therefore added guidance in a new chapter of the NESO LED to provide greater transparency on this mechanism. This includes guidance on the overall purpose of the NoR; illustrative examples of when it could be issued; an explanation of the interaction with other processes; and further details on the approach and process, including engagement and publication requirements. Please see the final NESO LED for more details.
- 3.8 For clarity, this added guidance is not designed to be exhaustive and it does not set a rigid or mechanistic framework in relation to Ofgem's application of a NoR. We consider it is important that we have sufficient flexibility to consider the specific context and circumstances before issuing any NoR.
- 3.9 We do not agree with NESO's view that the NoR is unnecessary. As explained in our consultation and in the updated NESO LED, we consider that the mechanism enables faster and more targeted regulatory intervention compared to the performance incentives. The NoR also requires a more focused response from NESO to a specific challenge. We also disagree that this mechanism unduly impacts NESO's independence. A NoR places the onus on NESO to develop and share a Remediation Plan that addresses the performance concern, rather than prescribing the precise solution. We consider our additional NoR guidance provides clarity on the practical operation of the requirements.

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### 4. Senior staff remuneration requirements

#### Section summary

This chapter sets out our decision on licence requirements on NESO's approach to performance-related pay (PRP) for its senior staff. These will be introduced through Condition F7 of the ESO Licence and Condition F5 of the GSP Licence.

#### Background

##### Purpose

- 4.1 Under the not-for-profit framework, NESO does not have an inherent financial motive to factor Ofgem incentives or enforcement decisions within its senior staff remuneration framework. At the time of NESO's introduction, we therefore included requirements on NESO to explain, within an Ofgem-approved Remuneration Policy, how regulatory outcomes would be considered in decisions on senior PRP.
- 4.2 In our August 2025 Decision, we decided to replace our approval of NESO's Remuneration Policy with new, principles-based requirements that are directly embedded in NESO's licences. We said that these principles would aim to create a clear link between the NESO Board's decisions on PRP for senior staff and performance under NESO's regulatory framework.

##### December consultation

- 4.3 We tested a range of options for the detailed implementation of requirements on PRP. These included:
  - Option 1: Higher-level principles-based requirements on how NESO should consider Ofgem's regulatory incentives and any enforcement within PRP
  - Option 2: The same higher-level principles-based requirements, supported by a time-limited ability for Ofgem to 'object' to NESO's provisional PRP decisions, where these are materially unaligned with the principles
  - Option 3: More detailed principles-based requirements and/or a mandatory requirement for NESO to seek annual Ofgem approval that its provisional PRP decisions meet the remuneration principles
- 4.4 Under all options, we also proposed new requirements on NESO to publicly report on its remuneration decisions, to support transparency and accountability.
- 4.5 We explained that our aim was to strike an appropriate balance between giving the NESO Board sufficient independence over its approach to remunerating staff, whilst giving Ofgem the ability to protect consumers and uphold the effectiveness and credibility of NESO's regulatory framework. We set out our view that this balance would be best achieved by either Option 1 or Option 2.

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### Questions asked

Q3: Do you have any views on the proposed options and approaches to implementing new principles-based requirements on performance-related pay for senior NESO staff?

### Summary of responses

- 4.6 Respondents supported the principle of linking senior PRP to NESO's performance under the regulatory framework, but they had different views on the effectiveness of the different options.
- 4.7 Most respondents who commented favoured Option 2. They considered this would strike an appropriate balance between providing flexibility for the NESO Board and giving Ofgem the ability to regulate effectively. Some concerns were expressed that Option 1 would not be enforceable - and that there would be no clear remedy in the event of misaligned PRP outcomes.
- 4.8 Several respondents felt firmer requirements were needed. This included introducing mandatory annual Ofgem approvals of PRP, supported by clearer or more detailed criteria. Other respondents suggested that meaningful behavioural change needed a remuneration framework with visible and measurable KPIs attached to named individuals. One respondent suggested that if there was not an established Ofgem approval process, other mechanisms must exist for concerns about PRP outcomes to be raised with government.
- 4.9 Respondents generally supported the proposed reporting and transparency requirements, although several felt these were insufficient on their own.
- 4.10 NESO considered that Option 1 struck the right balance, whereas Option 2 and Option 3 involved a disproportionate level of regulatory intervention. In support of its view, NESO said it considered the power of reputational incentives was underplayed; that there was no evidence on the need for greater intervention; that the options were inconsistent with previous decisions on NESO governance; and that greater intervention would undermine the independence and expertise of NESO's Board.

### Our decision and rationale

- 4.11 We have decided to proceed with Option 1 for our licence changes effective from 1 April 2026. This includes introducing the proposed principles-based licence requirements and the proposed requirements on NESO to publicly report on its remuneration decisions (with some minor changes to improve clarity). Please see the licence modifications published alongside this decision for full details.
- 4.12 We acknowledge the strong views from stakeholders and NESO on this topic. These discussions have raised some fundamental questions about the responsibilities of Ofgem, the NESO Board, and NESO's shareholder in the overall

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oversight of NESO. We have recently commenced work with DESNZ and NESO to further clarify these roles.

- 4.13 We consider that it is important to have this clarity prior to the potential introduction of any more interventionist regulatory measures on PRP for NESO's senior staff. This will enable us to ensure the overall governance arrangements best support an independent and accountable NESO, in line with the original policy intent set at Day 1. To be clear, we are not at this point concluding that greater controls (such as Option 2 or Option 3) will or won't be needed in the future – instead we feel these conclusions should only be reached once our work with DESNZ and NESO on roles and responsibilities has sufficiently progressed.
- 4.14 This approach will also allow us to factor in any relevant findings from the government's Review of Ofgem<sup>14</sup>, as well as lessons from the end-of-year performance processes for the Business Plan 3 period (BP3), which will take place later this summer. Overall, we consider this position will align more closely with our August 2025 Decision and ensure any stronger intervention in this area is built from practical experiences.

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<sup>14</sup> [Review of Ofgem: call for evidence - GOV.UK](#)

## Decision Implementation of NESO's enduring regulatory framework

### 5. Other changes to the ESO and GSP Licences

#### Section summary

This chapter provides an overview of our decisions on all other changes to NESO's ESO Licence and GSP Licence that are not addressed in Chapters 2 to 4.

#### Background

##### Purpose

5.1 Our August 2025 Decision included a range of other policy decisions that we are implementing through this licence change process.

##### December consultation

5.2 In our December 2025 Consultation, we proposed changes to several other conditions across the ESO and GSP Licence to implement our August 2025 Decisions, to clarify NESO Day 1 conditions, to align with RIIO-3, and to improve the clarity of the licences in general. This included proposed changes to:

- Consolidate cost and financial requirements, which included proposals to remove the RIGs and DAG processes for NESO and place greater onus on NESO to assure its calculation of allowed revenues.
- Remove various Ofgem approvals, including our approval of NESO's travel and expenses policy, our approval of the format of certain documents, and our required annual review of NESO's Balancing Services statements.
- Improve the clarity of the NESO Day 1 licence conditions on electricity system restoration and energy system resilience.
- Establish requirements on NESO to provide reports to Ofgem on the quality and timeliness of Transmission Operator (TOs)'s information submissions to NESO under the Centralised Strategic Network Plan (CSNP) - designed to support new obligations on TOs under RIIO-3.
- Implement the move to a two-year Business Plan cycle for NESO and to clarify the link between NESO's Business Plan and its Strategic Aims.
- Enable NESO to access the RIIO-3 Network Innovation Allowance (NIA) and to carry over NIA funding from RIIO-2 (in line with the policy for network companies under RIIO-3).
- Generally, improve the clarity of the licence, address housekeeping issues, and remove provisions that are out of date, redundant or unnecessary.

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### Questions asked

Q2. Do you have any comments on our proposed licence changes including any specific drafting suggestions?

### Summary of responses

- 5.3 Several respondents commented on our proposed licence changes in these areas. This ranged from general views about the licence proposals to specific drafting suggestions to improve clarity. The key areas where we received comments included:
- Energy system resilience (Condition C7).
  - The procurement of Balancing Services (Condition C9).
  - CSNP (Condition C17).
- 5.4 On the energy system resilience conditions, a concern was raised about the scope of NESO's role in investigations, whilst NESO considered new requirements to engage with Ofgem and DESNZ could lead to independence risks.
- 5.5 There were calls for stronger requirements around balancing services transparency and non-discrimination, including firmer publication requirements and the introduction of proportionality testing. There were mixed views on the removal of Ofgem's approval of C9 statements; with support from NESO but concern from one respondent. NESO also suggested several drafting changes to Condition C9 to improve clarity and ensure proportionality.
- 5.6 In relation to the CSNP, some concerns were expressed about the proposal to require NESO to report on the accuracy and timeliness of information provided by TOs (C17.20). There were concerns that this was insufficiently defined and risked overlapping with Ofgem's regulatory role. More generally, some respondents called for C17 to include greater details on specific NESO expectations, outputs and timelines. They stressed that C17 needed to more clearly link to obligations elsewhere (including codes), better interact with the RII0-3 price control, and apply reciprocal obligations on NESO in relation to its data sharing with TOs.
- 5.7 Stakeholders who commented on our licence changes to consolidate cost and financial reporting requirements and remove unnecessary approvals, generally supported these changes.
- 5.8 Some stakeholders also made other general comments about gaps in NESO's licence requirements, including the need for stronger obligations in the areas of data and whole system coordination.

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### Our decision and rationale

- 5.9 We have decided to implement most of our proposed licence changes. In response to feedback, we have made several amendments to our proposed drafting (in addition to the changes discussed in Chapters 2 to 4). This includes:
- Reinstating the “NICt” revenue term in Condition F3 so that some remaining legacy RIIO-1 Network Innovation Competition payments can continue to be recovered through charges.
  - Changes to Condition C9 to ensure consistent terminology and consultation requirements, to clarify which stakeholders should be engaged in Balancing Services design, and to update Balancing Services data publication requirements in line with related changes to Condition C1.18.
  - General drafting changes across the conditions to correct errors and improve clarity.
- 5.10 Please see the licence modifications published alongside this decision document for details, as well as the “Drafting Issues Response Log” where we have responded to individual suggestions for drafting changes. Please also see the full reasons and effects for all the licence changes in Appendix 1.
- 5.11 We consider that our proposed changes to Condition C7 clarify existing arrangements and practices rather than creating any fundamental changes. For clarity, NESO can already self-initiate post event analysis; the requirement simply adds a proportionate level of additional oversight. We also do not consider that a requirement for NESO to engage on the scenario for the Emergency Processes Assessment risks its independence, as it is still within NESO's gift to determine the scenarios used. Nevertheless, we recognise the general desire for clarity around roles and responsibilities in energy system resilience. We will keep this condition under review, drawing in any relevant findings from our workstream on roles and responsibilities with DESNZ and NESO where relevant (see chapter 8).
- 5.12 We agree that it is important for NESO to provide transparency to market participants on Balancing Services and that there should be an onus on NESO to demonstrate that its procurement approaches are not unduly discriminative. We consider these expectations are well captured in our updated versions of Condition C1 and the NESO LED (see C1.18, C1.19 and C1.21). We consider that more prescriptive measures, such as Ofgem approval of any data anonymisation or aggregation, risk undue burden and may have unintended consequences.
- 5.13 We acknowledge stakeholder concerns in relation to condition C17.20. Since this consultation we have separately published a decision on the final version of the equivalent RIIO-3 licence conditions<sup>15</sup> and in early April we will publish the final

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<sup>15</sup> [Modifications to the RIIO-3 licences and associated documents | Ofgem](#)

**Decision Implementation of NESO's enduring regulatory framework**

version of the CSNP Coordination Governance Document. We consider that the final version of the CSNP Coordination Governance Document addresses many of the points raised. This includes providing greater clarity that NESO's role is to provide facts and not to assess compliance, as well as clearer details about how the timeliness and quality of information will be tracked in practice, and how this links to relevant code processes. Please see those separate decisions for more detailed information.

- 5.14 In response to the more general comments on Condition C17, as discussed in Chapter 2, we have amended expectations in Condition C1 and the LED to reinforce the need for NESO to share timely data and information with network operators to deliver coordinated planning processes. We consider that the suggestions to include detailed new requirements in Condition C17 were out of scope of this consultation. Detailed timelines, processes and data sharing arrangements are better established through the two CSNP guidance documents, and by industry stakeholders through the code governance processes.
- 5.15 Please see chapter 8 for our response to the more general comments on NESO's licences and potential gaps.

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# 6. NESO Performance Arrangement Governance Document

We have decided to make several changes to the NESO Performance Arrangements Governance Document (PAGD) to implement our August 2025 Decision and clarify and improve the performance arrangements.

## Background

### Purpose

6.1 The NESO PAGD establishes the detailed processes and requirements for NESO's regulatory performance arrangements. This includes the process and criteria we use to conduct our annual assessment of NESO's performance as well as the reporting NESO must produce to support this. The NESO PAGD also sets out the mechanisms through which NESO should collect and discuss stakeholder feedback on its performance. These arrangements are designed to create accountability and incentives on NESO to deliver excellent performance for the energy sector and consumers. The NESO PAGD is issued by direction under Part B of Condition G2 of the ESO Licence and the GSP Licence.

### December consultation

- 6.2 We proposed several revisions to the NESO PAGD to reflect our August 2025 Decision and improve the overall clarity of the arrangements. This included:
- Changes to more clearly outline how the two-yearly Business Plan process will set performance expectations for each year.
  - Amendments to the assessment processes and timelines to provide clarity on senior-level engagement and streamline the end of year stage.
  - Proposed amendments to NESO's performance assessment methodology – specifically a new four-tier scale of 'Exceptional / Strong / Satisfactory / Poor Performance' as a change from the previous 'Exceeds / Meets / Below Expectations' scale.
  - Clearer guidance on the grading criteria for both parts of NESO's performance assessment (Part 1: NESO's achievements of Performance Outcomes and part 2: NESO's delivery of value for money).
  - The implementation of the Independent Challenge Panel (ICP), including guidance on its roles and responsibilities, outputs, membership and administration, as well as requirements on NESO's engagement with the ICP.

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- Revised reporting requirements for NESO, including a new NESO Cost Template and clearer requirements on Data, Digital and Technology (DD&T) reporting.

## Summary of responses

### Questions asked

Q7: Do you have any comments on our proposed changes to the NESO PAGD?

Q8: Do you have any comments on the way we've implemented the Independent Challenge Panel (ICP) arrangements in the NESO PAGD?

- 6.3 Stakeholders generally supported the proposed changes to the NESO PAGD and felt they set clearer arrangements compared to the previous document. At the same time, they noted that the success of the arrangements would be dependent on there being meaningful stakeholder involvement and transparency in practice.
- 6.4 A key theme of feedback was the need for greater transparency around the operation of the performance arrangements and how Ofgem would respond to any underperformance by NESO. This included requests for:
- Additional clarity on the practical implementation of the 'open call for evidence' process, including how it would feed into performance discussions and interact with other mechanisms.
  - Greater transparency on the key performance topics discussed between NESO and Ofgem, and clarity on stakeholders' and the ICP's access to information collected by Ofgem on NESO's performance.
  - Consultation with stakeholders before NESO's final annual performance assessment is issued.
- 6.5 Some stakeholders expressed reservations about the move to a four-tier performance grading scale. They suggested either reverting to the existing grading categories, refining descriptions to avoid subjectivity or using a simpler symmetrical scale. NESO supported the grading scale but requested greater clarity in the wording to remove ambiguity.
- 6.6 Several stakeholders highlighted aspects they felt were missing from the performance assessment process. These included consideration of the relative impacts of different areas of performance; the on-time delivery of major deliverables; NESO's engagement with stakeholders and responsiveness to feedback; NESO's horizon scanning and assessment of future impacts; the use of clear and measurable KPIs; and NESO's progress in facilitating digitalisation.
- 6.7 NESO considered Ofgem's value for money assessment methodology to be overly cost-centric and felt it should apply a broader judgement across economy, efficiency and effectiveness. NESO believed Ofgem should adopt a more holistic

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role in assuring value for money, with less focus on ongoing cost management and reporting, instead relying on the NESO Board to provide challenge and oversight of NESO's costs.

- 6.8 NESO also flagged some issues about the end of year assessment timelines. NESO believed that a deadline of 30<sup>th</sup> April for its End of Year Report would not be achievable and that it would be helpful for Ofgem to outline its subsequent assessment timelines more clearly.
- 6.9 Stakeholders broadly supported our proposed approach to implementing the ICP but highlighted several points that would need to be addressed to ensure its success in practice. Some emphasised the importance of securing the right expertise and stressed that the ICP's membership should be broadly representative of both the gas and electricity sectors. Others expressed concern about NESO's potential, or perceived, ability to dictate the ICP's membership. A few respondents also noted that the ICP's access to data and information - such as stakeholder survey results - was critical to avoid reliance solely on NESO's verbal summaries. Finally, some stakeholders were concerned that the ICP being self-administered could reduce its effectiveness and suggested that administrative functions should instead be provided by Ofgem or a third party.

## Our decision and rationale

- 6.10 We have decided to implement our proposed changes to the NESO PAGD, with a few further changes in response to stakeholders' feedback. This includes changes to:
- Clarify the purpose of Ofgem's call for evidence and explain how views can be raised.
  - Highlight our ambition to provide more transparency on within year performance discussions with NESO.
  - Move the deadlines for NESO's End of Year Report and the ICP Report to the 10<sup>th</sup> working day of May and include more information on the timings of the subsequent Ofgem assessment.
  - Clarify the wording in the grading criteria for assessing NESO's achievement of Performance Outcomes.
  - Clarify that NESO's role in establishing the ICP should protect the ICP's independence and does not extend to selecting members.
- 6.11 We agree with stakeholders that the performance arrangements will be most effective with meaningful stakeholder involvement. The performance arrangements place stakeholder feedback at the centre of the framework. This includes requirements on NESO to put in place coordinated arrangements for gathering and responding to feedback; to produce a regular, trackable

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stakeholder survey; and to effectively engage with the stakeholder-led ICP. A key part of our performance assessment methodology is the feedback gathered through these stakeholder mechanisms, as this feedback is critical for us to understand how well NESO is achieving its Performance Outcomes in practice.

- 6.12 We recognise the requests for greater transparency on processes, including information on how the call for evidence will be used in practice. For clarity, the call for evidence should not be seen as the primary mechanism for stakeholders to provide feedback on NESO. Stakeholders should, in the first instance, raise feedback directly with NESO through engagement and through mechanisms such as the stakeholder survey and ICP. The call for evidence is available to stakeholders who consider that their views have not been sufficiently captured or responded to by NESO, or where concerns might be more confidential in nature. This will supplement our understanding of stakeholder views. Our within-year performance discussions with NESO will focus on key feedback themes from the full suite of stakeholder mechanisms, rather than individual stakeholder concerns raised in the call for evidence.
- 6.13 We also recognise the desire for more visibility on the information Ofgem collects and the performance discussions held with NESO throughout the performance year. Whilst we think the primary flow of information on NESO's within-year performance should be from stakeholders to Ofgem, we understand that greater transparency on within-year discussions between Ofgem and NESO could support confidence in the framework. We will therefore further consider how to best deliver this additional transparency. However, we consider that a formal consultation on our end of year assessment would add unhelpful length to the processes and that the emphasis should be on Ofgem understanding stakeholder views within the year.
- 6.14 We continue to believe that moving to the four-tier grading system is an improvement over the previous arrangements, for the reasons set out in our consultation document. We consider that the previous 'Below' / 'Meets' / 'Exceeds Expectations' structure created confusion about how the stretching performance expectations set through the Business Plan process relate to the end-of-year assessment. Introducing an additional grading category will help us more clearly communicate where NESO's performance sits. In response to requests for reduced ambiguity, we have revised the grading descriptions to make it clearer that the assessment is based on the extent to which relevant evidence supports NESO's achievement of the Performance Outcomes.
- 6.15 We have considered the specific areas where stakeholders highlighted gaps in the assessment approach, and in most cases consider our framework already accommodates those suggestions (please see the "Drafting Issues Response log" for our specific responses).

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- 6.16 We disagree with NESO that our value for money assessment methodology is overly focused on costs. The primary criterion in the methodology is whether NESO has achieved the right “balance between maximizing benefits delivered from its activities and minimising costs”. Additionally, we note that the performance assessment is formed of two parts that are combined. In the combined assessment, there is a strong overall emphasis on the outcomes NESO delivers for the energy sector and the PAGD makes it clear that value for money considers NESO's delivery of these outcomes.
- 6.17 More generally, it should be recognised that NESO operates under a pass-through cost model. We note NESO's view that the NESO Board already provides strong scrutiny of spending under this model. We consider the NESO Board should provide robust initial scrutiny, and we look forward to receiving information on how this is delivered in practice. We will consider this information as part of our trilateral discussions on the roles and responsibilities between the regulator, NESO Board, and shareholder (as discussed in Chapter 8). Nevertheless, we consider that a degree of external (non-Board) oversight of spending is normal for public bodies. In addition, an inherent feature of a pass-through model – unlike a model with a fixed budget - is the need for strong, ongoing transparency and assurance on spending.
- 6.18 We have moved back the deadline for NESO's end of year report now we have clearer understanding of Ofgem's and NESO's respective expectations for the end of year process under the enduring framework. This has also enabled us to provide greater transparency on the expected timings of the subsequent Ofgem assessment processes, which will help support detailed end-of-year planning.
- 6.19 On ICP membership, we agree that getting the right breadth of experience and expertise is critical. We soon hope to advertise for the ICP Chair's role. Once appointed, we will work with the ICP Chair to put in place an effective and representative panel membership. As noted above, we have clarified the boundaries of NESO's role in this process. On ICP information access, we have also clarified that NESO should provide written materials and data to support performance discussions, not just verbal summaries.
- 6.20 We recognise comments about the risks of a self-administered ICP model. We still consider there are potential benefits from this approach and that it would support the ICP's independence. However, the NESO PAGD is clear that we will explore other options for the delivery of administrative tasks where needed. If it becomes clear that a self-administered model is hampering the ICP's ability to deliver its roles, then we would take steps to address this.

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# 7. NESO Financial Handbook

### Section summary

We have decided on several changes to the NESO Financial Handbook to align with our August 2025 Decision and give the document a more enduring focus.

## Background

### Purpose

7.1 The NESO Financial Handbook sets out the methodologies and processes NESO must follow when calculating its annual revenues allowed under its ESO Licence and the GSP Licence. It also includes the processes NESO must follow in relation to the NESO Financial Model - a model maintained by NESO to show its detailed calculation of allowed revenues. The NESO Financial Handbook is issued under Condition F5 of the ESO Licence and Condition F4 of the GSP Licence.

### December consultation

7.2 In December 2025, we proposed major updates to the NESO Financial Handbook to implement our August 2025 Decision, simplify the framework, and create a longer-term focus. We proposed key changes to Chapter 2 to reduce Ofgem's role in assuring the calculation of NESO's revenues and streamline financial reporting. We also made changes throughout the document to align with the licence, remove unnecessary detail, and shift the focus of the document from the 2024/25 transition year to an enduring process. Please see our consultation document for details.

### Questions asked

Q9: Do you have any comments on our proposed changes to the NESO Financial Handbook?

## Summary of responses

7.3 Stakeholders who commented were generally supportive of our proposed changes to the NESO Financial Handbook, including measures to streamline financial reporting and place more onus on NESO to self-assure its revenue calculations. Specific comments were made about the need for continued transparency and engagement over future changes, as well as greater clarity on the delineation of roles between Ofgem and NESO in this area. NESO highlighted a few minor typographical errors.

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### **Our decision and rationale**

- 7.4 We decided to implement our proposed changes to the NESO Financial Handbook (with some minor typographical amendments). This is for the reasons in our consultation document and recognises the support from stakeholders.
- 7.5 Please see the “Drafting Issues Response Log” for our response to the specific comments and queries raised on the NESO Financial Handbook.

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# 8. Ongoing review of NESO regulation

### Section summary

This section sets out our intention to continue to review NESO's regulatory framework now that we have completed NESO's transition away from the previous RIIO framework.

### Background

- 8.1 The decisions in this document mark the end of NESO's transition away from the RIIO framework into a more appropriate set of regulatory arrangements. As set out in our December 2025 Consultation, we do not think this means there will be no need to consider further changes to our approaches in the future. We stated our intention to continue to work with NESO and government to explore how NESO's overall governance and regulatory framework can best evolve over time.
- 8.2 In our December 2025 Consultation, we also sought more general views from stakeholders on the key areas of future consideration for NESO's regulatory and governance framework.

### Questions asked

Q1. Do you have any suggestions on key areas of NESO's regulatory and governance framework which require further review, including any relevant learnings from other sectors? *(Please note this feedback will not inform our March decision and will instead be considered as part of our future work planning).*

### Summary of responses

- 8.3 Respondents agreed that NESO's regulatory and governance arrangements will need to continue evolving as the energy system changes and NESO's roles grow, but they emphasised different priorities for future areas of reform.

#### Clearer roles and responsibilities

- 8.4 A common theme of feedback was on the need for greater clarity on roles and responsibilities between NESO, Ofgem, energy sector stakeholders and government. Many respondents felt there was an existing risk of gaps and duplication in responsibilities, and consequently a lack of clear accountability, particularly in energy system planning. Some respondents expressed concern at the pace of NESO's expansion, calling for future review to make sure NESO was only given roles it had the capabilities to deliver.
- 8.5 Some respondents commented on the need for clearer lines of responsibility to protect NESO's independence. NESO considered there was a risk of Ofgem's regulation blurring accountabilities with the NESO Board and shareholder in relation to matters of NESO's oversight, whilst other stakeholders were

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concerned that there were insufficiently clear measures to protect NESO's operational independence from government.

### Stronger accountability versus greater agility

- 8.6 Many respondents called for future review to put an emphasis on creating stronger accountability mechanisms and stronger requirements on transparency. Stakeholders also called for stronger minimum standards and more clearly codified routes for escalating issues. Respondents felt there needed to be more onus on NESO to explain its decisions and greater ability for stakeholders to challenge those decisions.
- 8.7 In contrast, NESO considered that future reform should focus on delivering greater levels of agility, flexibility and proportionality. NESO considered that this required a greater departure from traditional regulatory approaches which it felt slowed decision-making and undermined NESO's ability to deliver change. NESO considered the existing arrangements for reporting are burdensome and complex and stated a desire to move to a unified reporting framework that supported the needs of Ofgem, NESO and stakeholders.

### Outcomes-focussed framework

- 8.8 Respondents continued to support outcomes-focussed regulation in principle and the need for regulation which encourages new and innovative NESO thinking. However, they had different views whether this had been achieved with the current design. NESO suggested lessons could be learned from the finance sector on outcomes-based approaches, whilst other stakeholders called for clearer formalised outcomes which are supported by measurable data, metrics and KPIs.

### Further licence review

- 8.9 Several stakeholders commented on the need for a broader review of NESO's obligations, including how they interact with other parties' requirements. A common theme was the need to ensure NESO had clear obligations to provide the data and information network operators need to discharge their duties. Other respondents stressed that future reforms should put a stronger emphasis on data and digitalisation requirements, as well as more focus on economic growth. One respondent also called for a periodic review to assess how well the framework supports whole system outcomes and enables NESO to identify and resolve conflicts or mismatches between gas and electricity obligations.

### Other specific suggestions

- 8.10 In addition to these broad themes, stakeholder raised specific suggestions for governance changes that could be introduced. This included: enhanced requirements on NESO to consult on draft versions of its Business Plans; quarterly 'Town Halls' with senior NESO staff; the introduction of a proportionality testing regime for decisions; ringfencing between NESO's advisory teams and other

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NESO areas; changes to the SPS to build in safeguards on impartiality; and more fundamental changes whereby NESO's operational functions are contracted out to specialist third parties.

### Our response and next steps

8.11 We welcome the feedback and suggestions from stakeholders. We will factor this into existing workstreams and future planning, as described further below.

#### Review of roles and responsibilities

8.12 We agree with the need for clear roles and responsibilities between NESO, government, Ofgem and stakeholders. We are currently undertaking work with DESNZ and NESO to explore how we can provide greater clarity around parties' roles in energy sector, to avoid potential overlaps and gaps in responsibilities. This includes reviewing responsibilities in key policy areas, such as electricity networks, as well responsibilities in the oversight of NESO.

8.13 This work may inform our future positions on some key issues raised through this consultation, including the appropriate oversight mechanisms for senior staff PRP decisions and Ofgem's approach to regulating NESO's independent advice.

8.14 We will also continue to coordinate with DESNZ and NESO through established ways-of-working arrangements to consider the volume, suitability and timing of new roles for NESO.

#### Ongoing review of NESO's regulation

8.15 We intend to keep NESO's regulatory framework under review to ensure it meets our original framework objectives in practice<sup>16</sup>. Our future approach will also be informed by any relevant findings from the government's Review of Ofgem<sup>17</sup>.

8.16 We continue to see a difference in views between NESO and its stakeholders on the appropriate degree of oversight in the regulatory framework. We believe there is an inherent trade-off between NESO's preference for more agility in the framework, and stakeholders' preference for increased levels of transparency and accountability. We believe our current design strikes the right balance for now, but we are open to adapting approaches based on practical experience with the arrangements and further evidence on the case for changes from stakeholders. We look forward to receiving more information from NESO on what it means by 'less traditional' regulatory approaches and more specifically what changes it believes are needed to ensure regulation is proportionate and outcomes-focused in practice.

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<sup>16</sup> See appendix 2 of our August 2025 Decision: [Decision-on-the-enduring-regulatory-framework-for-NESO.pdf](#)

<sup>17</sup> [Review of Ofgem: call for evidence - GOV.UK](#)

## Decision Implementation of NESO's enduring regulatory framework

8.17 One of our key framework objectives is that it facilitates stakeholder trust. We encourage NESO to further detail and expand on its case for a future framework that places more emphasis on agility and to more clearly consider how it can get the necessary buy-in for this proposal from energy sector stakeholders. We welcome, in principle, NESO's intention to produce unified reporting that supports all of NESO, Ofgem and stakeholders' needs and we encourage NESO to directly involve stakeholders in these conversations.

8.18 Based on stakeholder feedback and our experience to date, we consider the key areas to keep under review include:

- Business planning: whether requirements and processes support a clear, outcomes-focused approach to NESO's performance assessment in practice, with sufficient time and opportunity for NESO, Ofgem and stakeholders to reach alignment on key outcomes and success measures.
- Stakeholder mechanisms: whether the ICP and wider stakeholder requirements enable meaningful performance discussions between NESO and its stakeholders, or whether more prescribed arrangements are needed.
- Reporting: whether reporting arrangements are delivering value in practice, or whether they need to change or be further consolidated.
- Corporate governance and oversight: whether there are any gaps or unnecessary duplication in the responsibilities of Ofgem, the NESO Board and the shareholder in holding NESO to account on matters such as remuneration, target setting and performance assessment.
- Cost oversight: whether current approaches are proportionate and provide the right incentives and level of external oversight to ensure value for money.
- Licence requirements: whether obligations provide sufficient clarity on minimum expectations, are well-aligned with other obligations to support whole-system outcomes, and keep pace with NESO's evolving roles.

8.19 Our practical experience from the NESO1 Business Plan determinations process in Q1 2026, as well as the BP3 performance assessment in summer 2026, will provide further insight into whether any refinements or changes are needed. We will also continue to take into account any relevant lessons from regulatory approaches elsewhere.

8.20 We will continue to revisit licences and other associated documents that underpin the regulatory framework, as and when needed. For example, we expect to review NESO's Business Plan Guidance<sup>18</sup> in advance of the 2028-2030 business plan submission.

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<sup>18</sup> [NESO Business Plan Guidance | Ofgem](#)

## Decision Implementation of NESO's enduring regulatory framework

### Appendix 1. Licence changes reasons and effects

This appendix sets out the reasons and effects for each of the licence conditions we are modifying as part of this decision.

- A1.1 We have set out the specific reasons and effects for our changes to each condition below. These should be read alongside our final modifications to the ESO Licence and the GSP Licence, which are published alongside this decision document.
- A1.2 Unless otherwise specified in summary tables, the condition numbers listed in the titles below refer to the condition numbers in the ESO Licence. Where there is an equivalent change to the same condition in the GSP Licence, we have stated the GSP Licence condition number that should be referred to in the associated summary table. Where there is a change in both licences, the reasons and effects apply consistently to both licences unless otherwise specified.

#### Condition A1: Definitions

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition A1
<b>Associated Document</b>	N/A

8.21 The reason for amending this condition is to update the licence definitions associated with our licence changes. This includes deletions, amendments and the addition of new definitions.

8.22 The effect of this change is that the licence has clear and complete definitions.

#### Condition A2: Interpretations

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition A2
<b>Associated Document</b>	N/A

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8.23 The reason for amending this condition is to clarify that NESO must produce any documents named in both the ESO Licence and GSP Licence in the same manner, form and submission process. This enables the specific list of documents to be removed. It is also to create the correct reference to the NESO Financial Handbook.

8.24 The effect of this change is to clarify and future-proof the licence.

### Condition B1: Independence Requirements and compliance obligations

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition B1
<b>Associated Document</b>	N/A

8.25 The reason for amending this condition is to remove the requirement for NESO to seek approval from the Authority on the form of Compliance Report.

8.26 The effect of this amendment is that NESO can choose its own format for the Compliance Report. This is aligned with our August 2025 Decision to only retain Ofgem approvals in situations where they are clearly necessary or beneficial.

### Condition B7: Information ringfencing obligations

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition B6
<b>Associated Document</b>	N/A

8.27 The reason for amending this condition is to remove the requirement for NESO to seek approval from the Authority on the form of the code of conduct document.

8.28 The effect of this amendment is that NESO can choose its own format for the code of conduct document. This is aligned with our August 2025 Decision to only retain Ofgem approvals in situations where they are clearly necessary or beneficial.

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### Condition C1: General principles and minimum standards

<b>Type of Change</b>	Major amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition C1
<b>Associated Document</b>	NESO LED

8.29 The reasons for amending this condition are to consolidate, clarify and improve the requirements in line with our August 2025 Decision (see Chapter 2 for more details).

8.30 The effect of amending this condition is to create clearer and more enforceable minimum licence standards for NESO to meet, which are aligned with our August 2025 Decision. See Chapter 2 for more information on benefits and effects.

### Condition C4: Electricity System Restoration Standard

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	ESO
<b>Equivalent GSP Condition</b>	N/A
<b>Associated Document</b>	N/A

8.31 The reason for amending this condition is to reflect latest policy developments and improve clarity. This includes changes to:

- Reflect that NESO has now received a direction from the Secretary of State to designate the Electricity System Restoration Standard, which must be met by 31 December 2026.
- Clarify the date on which the Electricity System Restoration Assurance Framework should be submitted to Ofgem each year.
- Provide updated requirements on what should be included within the Electricity System Restoration Assurance Framework.
- Clarify the licence drafting in general.

8.32 The effect of these changes is ensuring the requirements reflect the latest expectations we have for NESO in relation to electricity system restoration. This supports the effective continued implementation of NESO’s Day 1 roles.

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### Condition C7: Energy resilience and resilience reporting

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition C6
<b>Associated Document</b>	N/A

8.33 The reason for amending this condition is to update and clarify requirements on NESO in relation to energy system resilience. This includes:

- Making it clear that NESO can self-initiate its own post-event and post-emergency assessments without an Ofgem or Secretary of State request. The changes also require NESO to notify Ofgem and the Secretary of State of these self-initiated reviews and to have regard to any guidance issued by Ofgem on the circumstances in which reviews are appropriate.
- Clarifying that the scope of the Energy Resilience Assessment Report should include gas networks and interconnectors, and that the Industry Readiness and Preparedness Report should include electricity generators.
- Requiring that NESO should provide updates against previous reports in its Energy Resilience Assessment Report and the Emergency Processes Assessment.
- Setting a requirement for NESO to engage with the Authority and the Secretary of State on the scenarios used in the Emergency Processes Assessment, prior to determining those scenarios.

8.34 The effects of the changes are to:

- Provide clarity and transparency on NESO's ability to self-initiate post-event and post-emergency reviews, as well as clarifying the scope and required contents of key resilience reports provided by NESO.
- Promote effective coordination between NESO, Ofgem and DESNZ on energy system resilience issues.
- Support the effective continued implementation of NESO's Day 1 roles.

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### Condition C9: Design, procurement and use of balancing services

<b>Type of Change</b>	Major amendments
<b>Licence impacted</b>	ESO
<b>Equivalent GSP Condition</b>	N/A
<b>Associated Document</b>	N/A

8.35 The reasons for amending this condition are to:

- Move requirements on non-discriminatory procurement into a consolidated version of Condition C1 (allowing for new supporting NESO LED guidance on how NESO should comply with this requirement).
- Incorporate relevant granular requirements from the previous version of Condition C1 into Condition C9. This includes moving existing Condition C1 requirements related to Balancing Services consultations and derogations into Part A of Condition C9, and moving existing Condition C1 requirements related published balancing services data into Part B of Condition C9.
- Introducing clear cross-references between the specific requirements in C9 and relevant general requirements on Balancing Services in Condition C1. This includes requiring NESO's Balancing Principles Statement to be compatible with relevant Condition C1 requirements.
- Rationalise and consolidate stakeholder engagement requirements on Balancing Services design, including updating the required consultees.
- Update Balancing Services data publication requirements to align with related changes to Condition C1.18 and the NESO LED.
- Remove our mandatory approval of the specifications for non-frequency Balancing Services, replacing this with an ability for Ofgem to direct changes when necessary.
- Set a requirement for NESO to provide transparency on the findings from the annual independent audit it is required to carry out alongside its Balancing Services Annual Report.
- Improve and clarify the governance process for NESO's various Balancing Services statements. This removes the mandatory annual submission to Ofgem and instead introduces clearer consultation requirements and an ability for Ofgem to direct changes to the statements where necessary.
- Generally, improve the wording and structure of the condition.

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- 8.36 The effect of the changes is to more clearly set out requirement on NESO related to the design, use and procurement of Balancing Services. This includes more clearly differentiating between key overarching principles (contained in a revised Condition C1) and requirements on specific outputs and process (contained in a revised Condition C9).
- 8.37 The changes to the audit requirements for the Balancing Services Annual Report will support transparency on how well NESO is performing against its obligations and create greater accountability.
- 8.38 The changes to the governance of C9 statements will lead to less regulatory burden, enabling Ofgem and NESO to dedicate resource to other areas of consumer value.
- 8.39 Please note that for the avoidance of doubt, changes to this condition are not intended to replace, override, or limit any statutory duty or duty under Assimilated Law imposed on NESO with respect to the Balancing Services.

## Condition C12: Production of information about the National Electricity Transmission System

Type of Change	Amendments
Licence impacted	ESO
Equivalent GSP Condition	N/A
Associated Document	N/A

- 8.40 The reason for amending this condition is to remove the obligation on the licensee to seek approval from Ofgem on the proposed form of Electricity Ten Year Statement (ETYS). We instead will require NESO to notify Ofgem of its proposed changes to the ETYS alongside a summary of consultation responses and an explanation of how the changes better achieve the Development Information Objectives. Ofgem would instead have a power to direct changes to the ETYS, where this is necessary.
- 8.41 We are also removing the requirement for Ofgem to determine the appropriate redactions from the ETYS and instead place this responsibility on NESO. In addition, we are making general updates to clarify existing text (including clarifying that publishing the ETYS on NESO's website is a sufficient way to provide a copy to stakeholders).
- 8.42 The effect of the amendment is to place greater responsibility on NESO to determine what changes are needed to the form of the ETYS to better meet the

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Development Information Objectives. This is aligned with our August 2025 Decision to progress towards outcomes-focussed regulation and only retain approvals in situations where they are clearly necessary or beneficial. We consider that our principles-based requirement on information accessibility and transparency in Condition C1 are a more appropriate form of regulation.

### Condition C13: The Network Options Assessment (NOA) process and reporting requirements

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	ESO
<b>Equivalent GSP Condition</b>	N/A
<b>Associated Document</b>	N/A

8.43 The reason for amending this condition is to remove the obligation on NESO to seek approval from Ofgem on the proposed form of the Network Options Assessment (NOA) Report. We are also making some general updates to clarify text (including clarifying that publishing the NOA Report on NESO's website is sufficient way to provide a copy to stakeholders).

8.44 The effect of the amendment is to place greater responsibility on NESO to determine the right format for the NOA report. This is aligned with our August 2025 Decision to progress towards outcomes-focussed obligations and only retain approvals in situations where they are clearly necessary or beneficial. We consider that our principles-based requirement on information accessibility and transparency in Condition C1 are a more appropriate form of regulation.

### Condition C17: Centralised Strategic Network Plan

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	C12
<b>Associated Document</b>	CSNP Coordination Governance Document

8.45 The primary reason for amending this condition is to place a new requirement on NESO to report to Ofgem on the timeliness and quality of the information and data provided by Transmission Owners (TOs) to NESO under the Centralised Strategic

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Network Plan (CSNP) process. This is to support the effectiveness of the new CSNP Coordination licence obligation being placed on TOs through the RIIO-3 price control process.<sup>19</sup>

- 8.46 These arrangements will be supported by the new CNSP Coordination Governance Document applicable to the TOs and NESO. The changes to Condition C17 will create a new requirement on NESO to comply with this governance document and will set out the process Ofgem will follow to issue and amend the governance document.
- 8.47 Please see our separate decision on RIIO-3 licence associated documents, published in early April 2026, for further details on contents of CSNP Coordination Governance Document.
- 8.48 The effect of this licence change is to ensure Ofgem has the information it needs to monitor TO's compliance with the CSNP Co-ordination licence obligation, increasing incentives on TOs to provide high quality data and information as part of the CSNP. This will improve the overall effectiveness of the CSNP and therefore help NESO deliver its envisioned Day 1 strategic planning roles more effectively. It will also promote coordination between NESO's regulatory framework and the RIIO-3 price controls, which was one of our design principles for NESO's enduring regulatory framework.<sup>20</sup>
- 8.49 We are also:
- Removing the requirement on NESO to get approval from Ofgem on the format of the CSNP. We are instead placing the onus on NESO to ensure the format of the CSNP document aligns with any requirements in the CSNP Guidance. This aligns with our August 2025 Decision to only retain Ofgem approvals where this is clearly beneficial or necessary.
  - Correcting an error, whereby gas transporter licence holders should have been referenced in addition to electricity transmission licence holders. This recognises that whilst there isn't (currently) the same range of actors in gas as in electricity, competition should be theoretically possible. This change will future proof the requirement for the future evolution of gas networks.

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<sup>19</sup> Please see the RIIO-3 Financial Determination – electricity transmission: [RIIO-3 Final Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#)

<sup>20</sup> Please see Appendix 2 of our [Decision on the enduring regulatory framework for NESO](#).

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### Condition D5: Data assurance requirements

<b>Type of Change</b>	Removed
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	D4
<b>Associated Document</b>	N/A

8.50 We are removing this condition. This is because we do not consider that these obligations and reporting processes are necessary for a not-for-profit body, which will no longer be regulated under the RIIO price control framework. We are replacing these detailed requirements with a broader licence principle for NESO to maintain data and information accuracy, set out in Condition C1 (C1.36 of the ESO Licence and C1.14 of the GSP Licence).

8.51 The effect of amending this condition is that licensee no longer has obligations related to the Data Assurance Guidance (DAG). This aligns with our August 2025 Decision to consolidate cost and financial reporting processes and reduce unnecessary regulatory burden. This will enable Ofgem and NESO to direct resources at matters that have greater relative consumer value.

### Condition F1: Expenditure and allowed revenue

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	F1
<b>Associated Document</b>	N/A

8.52 The first reason for amending this condition is to remove the provision in F1.4(b), which sets out that any NESO expenditure that is line with policies approved by Ofgem will not be considered as uneconomical, inefficient or wasteful. We are removing this because we are no longer approving NESO's remuneration and expenses policies (see Condition F7 below) and we do not consider there are any other policies where this is relevant. The effect of this is to align this condition with our changes to Condition F7 and remove the risk of unintended consequences from maintaining this provision.

8.53 Only in the ESO Licence, we are also amending this condition to enable the correct calculation of NESO's allowed revenues under the Network Innovation Allowance (NIA) from April 2026 onwards. The effect of this is to allow NESO to

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carry-over unspent funding from RIIO-2, in line with the policy for RIIO-3 network companies. The changes also promote consistent terminology with the RIIO-3 price controls and the RIIO-3 NIA Governance Document.

### Condition F2: Innovation funding

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	ESO
<b>Equivalent GSP Condition</b>	F2
<b>Associated Document</b>	RIIO-3 NIA Governance Document

8.54 The reason for amending this condition is to implement our August 2025 Decision for NESO to continue to have access to the NIA for the RIIO-3 period. The changes ensure there is the correct calculation and governance in place for NESO's allowed revenues under the NIA from 1 April 2026 onwards. This includes:

- The removal of the fixed RIIO-2 NIA cap from the licence. Instead, a RIIO-3 cap will be directed by the Authority following our assessment of NESO's NIA request for the RIIO-3 period.
- A provision to allow the Authority to re-direct NESO's NIA cap within the RIIO-3 period (where NESO provides evidence on the need for further funding through subsequent Business Plan submissions), in line with our August 2025 Decision.
- The inclusion of a new revenue term and associated calculation to allow unspent RIIO-2 NIA funds to continue to be spent in the first 18 months of the RIIO-3 period, in line with the policy for network companies.
- The removal of provisions which are no longer used or need as extensive detail in the licence, including some aspects relating to the RIIO-1 Network Innovation Competition (NIC) and the Total Legacy NIA Expenditure.
- General updates and clarifications, including changes needed to refer to the correct NIA governance document for the RIIO-3 period to and to introduce a clearer structure.

8.55 The effect of amending this condition is to allow NESO to continue to have access to the NIA for the RIIO-3 period and to ensure that the process for determining a NIA cap can fit within NESO Business Plan determination timescales. The changes also promote consistent terminology with the RIIO-3 price controls and the RIIO-3 NIA Governance Document.

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8.56 Please see our separate decision on RIIO-3 licence associated documents, published in early April 2026, for further details on contents of RIIO-3 NIA Governance Document.

8.57 We are also proposing housekeeping modifications to amend previously unclear text in relation to the determination of the Strategic Innovation Fund term (SIF<sub>T</sub>).

### Condition F3: Recovery of transmission network revenues

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	ESO licence
<b>Equivalent GSP Condition</b>	N/A
<b>Associated Document</b>	N/A

8.58 The reason for amending this condition is to updated the definition of NICF<sub>T</sub> in NESO's calculation of the Maximum Revenue and align with changes in Condition F2.

8.59 The effect of this amendment is to clarify the licence term and enable the streamlining of NIC conditions in Condition F2.

### Condition F5: Financial Model and Handbook

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	F4
<b>Associated Document</b>	NESO Financial Handbook

8.60 The reason for amending this condition is to deliver our August 2025 Decision for Ofgem to have a minimal enduring role in the regulation of NESO's finances. This involves amending the existing process for Ofgem to assess and assure NESO's calculations of allowed revenues. We are instead placing a requirement for NESO to put in place appropriate internal assurance processes. We are also proposing to introduce a general power to direct changes to NESO's Financial Model where necessary, to replace a mandatory annual review.

8.61 We are also making amendments to ensure the correct cross referencing between this condition and the NESO Financial Handbook. This includes adopting

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consistent document titles and making it clear that the NESO Financial Handbook may also impose requirements in relation to defined benefit pension costs.

- 8.62 The effect of these amendments is to ensure there is a proportionate level of regulation of NESO's allowed revenues, reflecting NESO's not-for-profit status. There will be greater responsibility on NESO to put in place appropriate internal assurance processes. The changes also ensure a clear link between this condition and the NESO Financial Handbook, improving enforceability.
- 8.63 These changes have been made alongside our changes to the NESO Financial Handbook (see Chapter 7 for more information).

### Condition F7: Requirements on staff remuneration and expenses

Type of Change	Major amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	F5
<b>Associated Document</b>	NESO Financial Handbook

- 8.64 The reason for amending this condition is to implement our August 2025 Decision to replace the existing Ofgem approvals of a Remuneration Policy and an Expenses Policy with new principles-based licence requirements. Please see Chapter 4 for further information.
- 8.65 The reason for requirements on performance-related pay (PRP) for senior staff is because NESO is a not-for-profit body and therefore has no inherent financial motive to reflect regulatory outcomes into staff remuneration. We consider these types of requirements are necessary for not-for-profit bodies, to ensure the effectiveness and credibility of our regulation.
- 8.66 Part A includes the principles that NESO will be required to meet in its framework for PRP for senior staff. This includes requirements on NESO to ensure the Ofgem performance arrangements established under Condition G2 are a material component in NESO's decision-making on performance-related pay for senior staff. It also includes a requirement to ensure performance-related pay for senior staff creates strong incentives to promote licence compliance.
- 8.67 Part B includes requirements related to transparency on staff remuneration. This includes maintaining a requirement on NESO to publish a remuneration policy (which we no longer approve), as well as new requirements to explain end of year decisions on PRP for senior staff. These requirements build on the information NESO is already expected to provide as part of its public Annual Reports. This

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includes a higher level of transparency on decisions for key executive members compared to other executive level staff. We consider that transparency requirements support trust in NESO's decisions and are a pre-requisite for the adoption of requirements in Part A that have a relatively higher degree of flexibility for NESO.

8.68 In Part C, we have replaced the Ofgem approval of an Expenses Policy with explicit principles-based requirements for NESO to ensure it has a robust system of internal controls to govern its expenses, travel and hospitality costs. These controls will ensure that this expenditure has a justified needs-case, delivers value for money and aligns with government expectations for public bodies. We are also proposing new requirements for transparency on this expenditure, which we consider support trust in NESO and are comparable to those faced by other public bodies.

### Condition F10: ISOP implementation funding

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	ESO
<b>Equivalent GSP Condition</b>	N/A
<b>Associated Document</b>	FSO Transition Funding Governance Document (Removal)

8.69 The reason for amending this condition is to remove provisions that govern the payments made by NESO to National Grid plc for separation activities that happened before NESO Day 1 (known as the 'CTA1' arrangements). This is because all payments under CTA1 have now been confirmed and made. This would also remove the FSO Transition Funding Governance Document as an applicable associated document to the ESO Licence from 1 April 2026.

8.70 The effect of these changes is that it ensures that the licence reflects only current and relevant obligations, avoiding confusion and promoting clarity.

### Condition G1: Strategic Aims and Business Plan

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition G1
<b>Associated Document</b>	NESO Business Plan Guidance

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8.71 The reason for amending this condition is to update and clarify requirements in relation to Strategic Aims and Business Plans in response to our August 2025 Decision. This includes:

- More clearly separating out requirements on Strategic Aims from the requirements on Business Plans. This is to make it clear that the Strategic Aims can be developed separately, and on different timeframes, from NESO’s Business Plan submissions. It also further implements our decision on how and when Strategic Aims should be maintained and updated.
- Reflecting our decision to move from an annual Business Plan submission to two-yearly Business Plans submissions.
- Updating requirements on Business Plans to use terminology which is more reflective of our August 2025 Decision.
- Clarificatory changes to better align the ESO Licence and GSP Licence.

8.72 The effect of amending this condition is to improve the clarity of the licence and ensure there is alignment with our August 2025 Decision and the NESO Business Plan Guidance. This will ensure there are clear, consistent and enforceable expectations on NESO on Strategic Aims and Business Plans.

8.73 Please note that these changes broadly align with the changes already made to the NESO Business Plan Guidance, which was updated and published alongside our August 2025 Decision to govern NESO’s submission for the 2026-2028 period. There may be minor consequential impacts on the NESO Business Plan Guidance (e.g. cross referencing) which we will seek to update prior to NESO’s Business Plan submission for the 2028-2030 period.

### Condition G2: Performance reports and assessment

<b>Type of Change</b>	Amendments
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition G2
<b>Associated Document</b>	NESO Performance Arrangements Governance Documents

8.74 The main reason for proposing changes to this condition is to establish new requirements on the licensee to engage and cooperate with the Independent Challenge Panel (ICP), in line with our August 2025 Decision.

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8.75 We are also proposing minor changes to:

- Adopt terminology which is more reflective of the focus of NESO's performance arrangements and more aligned with the NESO PAGD.
- Clarify that performance reporting includes reporting on cost and expenditure (supporting our consolidation of cost reporting requirements and the removal of Condition G3).
- Clarify that an assessment will be undertaken in each Regulatory Year.

8.76 The effect of the changes is to ensure NESO engages effectively with the ICP and to improve the clarity of the condition.

8.77 Please note that more detailed expectations and requirements related to the ICP are contained within Chapter 4 of the NESO PAGD.

### Condition G3: Regulatory Instructions and Guidance (RIGs)

<b>Type of Change</b>	Removed
<b>Licence impacted</b>	Both
<b>Equivalent GSP Condition</b>	Condition G3
<b>Associated Document</b>	RIGs (removal)

8.78 We are removing this condition, in line with our August 2025 Decision to consolidate costs and financial reporting and financial processes. This is because we consider that majority of the requirements and processes associated with the RIGs are unnecessary for a not-for-profit body, which will no longer be regulated under the RIIO price control framework. Instead, we are proposing that remaining cost and financial reporting requirements of value are included within relevant sections of either the NESO PAGD or the NESO Financial Handbook.

8.79 The effect of amending this condition is to remove unnecessary requirements on the licensee and streamline reporting. This will enable Ofgem and NESO to direct resources at matters that have greater relative consumer value.

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### 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 decision. 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](mailto:stakeholders@ofgem.gov.uk).