Decision

End-scheme assessment of NESO's BP3 performance - evidence chapters

Publication date:	02 September 2026
Team:	NESO Regulation
Email:	nesoregulation@ofgem.gov.uk

The RIIO-2 price control for National Energy System Operator (NESO) covered the period 2021-26. BP3 is NESO's third and final RIIO-2 Business Plan period which covered the period of April 2025 to March 2026.

This report provides the evidence base underpinning Ofgem's end-scheme assessment of NESO's performance during BP3. We have published our 'Executive Summary' document alongside this report.

For the avoidance of doubt, NESO's handling of system events related to extreme heat in June 2026 is under investigation but is not within the scope of this assessment.

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Introduction

This document sets out the evidence base underpinning our[1] end-scheme assessment and grade of NESO's performance for BP3. We have also published our 'Executive Summary' document and the independent Performance Panel's report (whose views have informed our assessment) alongside this report.

This assessment covers NESO's performance in the period 1 April 2025 to 31 March 2026 only. NESO's performance after 1 April 2026 will be considered in future assessments.

For the avoidance of doubt, NESO's handling of system events related to extreme heat in June 2026 is under investigation but is not within the scope of this assessment. The investigation could uncover facts relevant to the assessment of the NESO's performance for BP3. If that happens, we reserve the right to update our assessment in light of such facts and republish if necessary.

The rest of this document is structured as follows:

- **The introduction** sets out an overview of NESO's performance incentives framework, our assessment methodology and our overall assessment of NESO's performance for BP3;
- **Part 1** sets out our assessment of NESO's delivery of business plan aims and key supporting evidence; and
- **Part 2** sets out our assessment of NESO's delivery of value for money and key supporting evidence.

NESO's performance incentives framework for BP3

In October 2024, National Energy System Operator (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 underpinned by legislation.

In November 2024, we introduced changes to NESO's performance incentives framework for the Business Plan 3 (BP3) period. This is NESO's third and final RIIO-2 Business Plan period which covered the period of April 2025 to March 2026.

For BP3, we set an overarching performance incentive that focussed on NESO's delivery of strategic outcomes and delivery of value for money. These changes aimed to ensure our regulatory assessments are targeted at the issues which matter the most and have the most impact on outcomes for consumers. This represented a shift from the more granular, output-focussed assessment approach that applied before BP3.

[1] The terms "our", "we", "us", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

A key component of the BP3 assessment framework is NESO's Performance Objectives. Performance Objectives are the key outcomes that NESO planned to achieve by the end of BP3. The Performance Objectives each have associated Success Measures, which should indicate what successful delivery of a Performance Objective looks like and how this will be measured.

The Performance Panel[2] and Ofgem's end-scheme reports will be published on our website to create clear reputational incentives on NESO. In line with NESO's licence requirements[3], Ofgem's final report and assessment will also need to be taken into consideration by NESO when deciding on senior staff remuneration.

Ofgem's determinations

NESO published a Business Plan before the start of the BP3 assessment period. This outlined NESO's proposed 8 Performance Objectives, Success Measures and costs from 1 April 2025 to 31 March 2026.

We provided additional clarity on NESO's expected performance, and value for money, as part of our ex-ante Business Plan determinations. The purpose of our determinations was to:

- provide assurance that NESO appropriately set its priorities in line with its statutory duties and stakeholder needs;
- provide assurance that NESO's planned expenditure provides consumers with value for money; and
- set expectations for NESO's performance.

We considered that NESO's priorities covered an appropriate range of key activities, collectively representing an ambitious plan which should deliver material consumer benefits. We also set out a range of additional performance expectations for NESO to be delivered over the course of BP3.

For value for money, whilst we did not consider we had the information available to make a value for money assessment, we considered that it was appropriate for NESO to undertake all planned activities and the benefits of delivering these should outweigh the costs. We placed an expectation that NESO should provide additional cost transparency. We decided to establish a more frequent, regular process to engage with NESO on its costs and value for money reporting to support NESO in providing the information required for Ofgem make an informed assessment at the end-scheme stage.

[2] This is a panel formed of independent experts and stakeholder representatives, with an independent chair.
[3] In line with conditions F7.5(d) in the ESO licence and F5.5(d) in the GSP licence.

Assessment methodology

We have evaluated NESO's performance in line with Chapter 3 of our Performance Assessment Guidance Document.

There are two parts to our overall assessment of NESO's performance for the BP3 period: Part 1: NESO's achievement of business plan aims and Part 2: NESO's delivery of value for money.

Part 1 of the assessment focused on how well NESO delivered its Performance Objectives and/or Ofgem expectations. This included our consideration of the extent to which NESO achieved the Success Measures associated with its Performance Objectives, as well as any other information gained through monitoring or reporting that was relevant.

There is no explicit weighting associated with the evaluation of each of the Performance Objectives, Success Measures, or any other factor used when assessing NESO's achievement of business plan aims. We have applied informed discretion to consider the relative strength of performance in different areas when forming an overall view.

Part 2 of the assessment considered NESO's delivery of value for money for energy consumers. This was informed by NESO's regular reporting on its expenditure and the associated justifications provided (including information collected under the Cost Monitoring Framework (CMF)[4]).

Our value for money assessment was crosscutting across NESO's Business Plan. We focused on the major areas that had driven our assessment of NESO's delivery of value for money and overall grade.

For each part of the assessment, we have provided a 'Below / Met / Exceeded Expectations' grading. We have then combined these, together with any other relevant information, into an overall assessment of NESO's performance for BP3 which also results in an overall 'Below / Met / Exceeded Expectations' grading.

To inform our assessment, we have considered:

- NESO's BP3 reports;
- stakeholder feedback; including the views of the Performance Panel, NESO's stakeholder surveys, our call for input and evidence we gathered directly from stakeholders over the one-year period;
- information from NESO under the CMF; and
- any other relevant evidence.

[4] The CMF is a framework used to monitor the delivery and value for money of NESO's IT investments and its exit from the Transitional Service Agreements with National Grid plc. This framework is also used to monitor certain non-IT costs where necessary.

Overall assessment of performance

After evaluating NESO's performance over BP3, we assessed that overall NESO met expectations.

Our rationale for this position relies on two key elements, NESO's delivery of its business plan aims and NESO's demonstration of value for money.

We consider that NESO met our expectations for delivery of its business plan aims and did not provide sufficient evidence to meet our expectations in its demonstration of value for money.

We have set out our rationale for our overall assessment in our 'Executive Summary' document, published alongside this document. The remainder of this document sets out the evidence base and rationale underpinning the grading for delivery of business plan aims and value for money.

Part 1: Delivery of Business Plan aims

This section covers our detailed assessment of NESO's achievement of Business Plan aims. This includes our overall grading and assessment and a summary of our assessment for each Performance Objective.

Overall grading and assessment

We graded NESO's performance as 'met expectations' for NESO's delivery of its business plan aims.

We concluded that NESO provided evidence of positive or satisfactory overall delivery against 7 out of its 8 Performance Objectives. NESO's suite of Performance Objectives collectively represented an ambitious plan which, if delivered in full, would deliver material consumer benefits. Therefore, we consider NESO's achievements across its activities, whilst not fully delivering against all its Performance Objectives, to represent satisfactory performance.

NESO delivered 3 out of the 8 Performance Objectives in full. These were:

- Secure and Resilient Energy Systems;
- Clean Power 2030 Implementation; and
- Separated NESO Systems, Processes and Services.

We consider that NESO made sufficient progress against 4 of the remaining Performance Objectives, even though we do not consider that the intended outcome was met in full. These were:

- Strategic Whole Energy Plans;
- Enhanced Sector Digitalisation and Data Sharing;
- Operating the Electricity System; and

- Fit-for-Purpose Markets.

We consider that NESO neither achieved its Connections Reform Performance Objective nor demonstrated sufficient progress towards its delivery. Connections Reform was a critical Performance Objective, a sector-wide priority and the area of material under-performance in BP3. In alignment with the Performance Panel, we placed a high weighting on NESO's performance in this area including the supporting digital infrastructure. This was due to the material impacts on stakeholders and the challenges this has created in delivering Clean Power 2030.

Comparatively, we considered that the three Performance Objectives that were delivered in full were less directly consequential to industry and consumers.

Across the remaining Performance Objectives, NESO largely met our expectations by delivering its core operational role and building its capabilities for its new and expanded roles to a satisfactory level.

There were notable areas of strong delivery progress from NESO under several Performance Objectives, such as:

- operating the system close to carbon-free;
- improving sector digitalisation;
- establishing capabilities and methodologies to deliver strategic whole energy plans; and
- completing the reform of its own markets.

To evidence sustained strong delivery NESO would need to provide stronger evidence that it consistently acted in a timely or proactive manner to maximise the impact of its delivery. For example, we note that NESO could have provided greater evidence on how it addressed, earlier, the rising costs of voltage management under the Operating the Electricity System Performance Objective or how it engaged proactively in the identification of GB rule changes (including relevant industry codes and standards) under the Fit-for-Purpose Markets Performance Objective.

In addition, NESO did not provide sufficient evidence to fully justify its actions or delivery and the impacts and benefits as a result. For example, there was limited evidence to fully support the savings NESO made to balancing costs. As such, NESO was unable to demonstrate full delivery and achievement of these Performance Objectives, limiting our overall assessment grading.

Strategic Whole Energy Plans

Performance outcome and Ofgem expectations

NESO set out the following outcome for Strategic Whole Energy Plans:

NESO will establish its capabilities, and the foundations and methodologies to deliver national and regional strategic whole energy plans.

In our Final Determination, we set additional expectations:

- NESO's outputs under this Performance Objective should be able to be relied upon for decision making and industry planning. The transitional Centralised Strategic Network Plan 2 (tCSNP2) should be a publication that sets clear signals for industry investment and does not require further refresh;
- NESO's review of the Security and Quality of Supply Standard (SQSS) is relevant in NESO establishing the foundations to deliver strategic energy plans and is therefore something NESO should have progressed by the end of BP3 in line with its RIIO-2 plans; and
- NESO should evidence how delivery timelines of the Success Measure deliverables that it identified under this Performance Objective have been optimised to allow for the benefits to be accessed earlier or for greater synergies with other activities to access additional benefits.

Assessment and key evidence

We consider that NESO did not deliver this Performance Objective in full but delivered satisfactory progress. NESO performed well in several important areas - delivering key outputs across the Strategic Spatial Energy Plans (SSEP), Centralised Strategic National Plan (CSNP) and Regional Energy Spatial Plan (RESP) workstreams and making credible progress in establishing the capabilities and foundations needed for national and regional strategic whole-energy planning. However, these arrangements are not yet sufficiently mature or integrated for us to conclude that the objective has been fully achieved - particularly in relation to organisational capability depth and planning foundations.

NESO performed well in developing the SSEP methodology and the CSNP methodology to a good overall standard. The CSNP methodology was clear and holistic in its structure, set out a coherent progression from supply and demand modelling to network design, and covered electricity, gas and hydrogen. The treatment of hydrogen was a particular strength, providing a sound basis for planning in a developing sector despite considerable uncertainty. However, as noted in our approval of the CSNP methodology, we think several areas need further development to implement the CSNP process. For example, the methodology to determine the delivery schedule of options, change control, monetisation of environmental, community, deliverability and operability criteria, sensitivity analysis, and regulatory and policy evolutions (e.g. Offshore Electricity Transmission (OFTO) build and offshore coordination). We expect NESO to make further progress in these areas under the new timelines set and in line with the conditional aspects of our approval.

In addition, whilst the CSNP Methodology demonstrated strong technical quality in several areas, the prolonged development timeframe and the need for further development following submission point to shortcomings in workstream planning, prioritisation and delivery management.

At regional level, NESO made positive progress through the development of the RESP methodology and delivery of regional planning inputs into ED3 (Electricity Distribution Price Control 3) through the transitional Regional Energy Strategic Plan (tRESP). The tRESP provided Distribution Network Operators (DNOs) with more consistent technology demand projections, a common framework for applying them in business planning, and an initial indication of areas where strategic, ahead-of-need planning may be appropriate. Taken together, this represented meaningful progress in improving the consistency and coordination of regional distribution planning and provided credible foundations for the enduring RESP framework.

NESO's work on the transitional Centralised Strategic Network Plan Refresh (tCSNP2) provided further evidence of effective delivery foundations. Despite delays in receiving Transmission Owner (TO) data and dependencies on other planning and policy processes, NESO maintained progress and worked pragmatically with Ofgem and TOs to adapt the timetable and analytical approach. However, potentially due to the tight schedule and dependencies on TO data, communication and engagement prior to finalising results left little time to provide meaningful input on key concerns. We expect this could be improved for future plans. Further, while NESO proactively undertook additional sensitivity analysis, in some areas the quality and robustness seemed to fall short of the level expected to inform funding decisions, and we recommend that steps are put in place to allow sufficient time to assure sensitivity analysis for future plans.

NESO also made tangible progress towards establishing internal capabilities. Key evidence we considered included the dedicated Strategic Energy Planning (SEP) coordination function and separate national planning workstreams. Furthermore, NESO established quarterly regional forums for RESP indicating tangible progress in delivering the right capacity and local presence for regional planning.

Ofgem noted a lack of coordination between the SSEP, CSNP and RESP workstreams in explaining differences between planning assumptions, demonstrating how plans interact with each other, and how changes in one plan could affect other plans and wider programmes. Furthermore, while NESO established formal governance structures, NESO has not yet put in place a formal change control process for both SSEP and CSNP, nor the consultation phase of the SSEP. We consider this an important foundation for managing changes to planning assumptions, baselines and methodologies.

Progress on the SQSS review was insufficient. NESO progressed some modifications in response to policy developments but failed to undertake the holistic review set as part of Ofgem's expectations for BP3 and RIIO-2. Consequently, an important part of the codes and standards framework supporting current and future network planning remained potentially underdeveloped.

We note stakeholder feedback in this area - 43% of respondents to NESO's stakeholder survey indicated that NESO fell below expectations. This feedback was mainly focused on SSEP Pathway delays and perceived gaps in transparency and stakeholder engagement. Whilst we expect NESO to address stakeholder concerns around transparency and engagement, we note that delays were largely driven by factors outside NESO's control. As such, this has not affected our assessment materially.

Enhanced Sector Digitalisation and Data Sharing

Performance outcome and Ofgem expectations

NESO set out the following outcome for Enhanced Sector Digitalisation and Data Sharing:

By working with the energy sector, NESO will develop an aligned and interoperable digital ecosystem driving industry digitalisation collaboration utilising innovation, underpinned by transparent data sharing and access

In our Final Determination, we set an additional expectation:

- We expect NESO should be recognised as a digital leader that has collaborated with the sector to define digitalisation priorities and for NESO to clearly articulate what it envisages its role in this digital ecosystem to be; and
- We expect the organisational function and capabilities required to deliver the role of interim data sharing infrastructure coordinator to be in line with Ofgem's decision on Governance of the Data Sharing Infrastructure (DSI).

Assessment and key evidence

We consider that NESO did not deliver this Performance Objective in full but delivered satisfactory progress. We recognise the significant progress NESO made in improving sector digitisation by establishing the DSI. However, many of NESO's other activities are underpinned by, and were impacted through, issues with digital infrastructure. In addition, stakeholder feedback regarding transparent data and access was typically negative.

We consider that NESO partially achieved its goal to develop an aligned and interoperable digital ecosystem. NESO published a sector digitalisation plan, established the functions and capabilities required to deliver the role of interim DSI coordinator, developed the DSI for industry through pilot phase to Minimum Viable Product readiness and fully implemented the interim DSI role.

In addition, we recognise NESO's utilisation of innovation - the DSI pilot utilised NIA funding which allowed external collaborators such as the National Digital Twin Programme, technology providers, and network partners.

We note that stakeholder feedback in this area was mixed regarding collaboration between NESO and stakeholders on the new digital infrastructure. For example, we note positive feedback on working groups connected to the DSI and in the development of the sector digitalisation plan. In contrast, we note poor feedback on digital infrastructure used in NESO's connections portal: with many stakeholders raising that parts of the digitalisation journey have been reactive rather than proactive. Furthermore, the rollout of the connections portal – which was critical for delivery of a key outcome - experienced numerous technical and usability challenges that could have been mitigated at the time.

We also note poor stakeholder feedback throughout BP3 around data transparency, data sharing and quality of digital tools. More than 40% of respondents to NESO's stakeholder survey indicated that NESO performed below their expectations. Combined, these factors lead us to conclude that NESO cannot be seen fully as a digital leader, despite the significant process made towards sector digitalisation.

Operating the Electricity System

Performance outcome and Ofgem expectations

NESO set out the following outcome for Operating the Electricity System:

NESO will transparently operate a safe, reliable and efficient system throughout BP3, while continuing to transform the capabilities of [its] people, processes and systems to enable secure zero-carbon operation of the system by the end of 2025.

In our Final Determination, we set an additional expectation:

We expect NESO's skip rates to fall as far as possible, as fast as possible during BP3. By the end of BP3, NESO should deliver a substantial reduction in skip rates with a target of relative parity across technology types. This outcome should be visible in both the methodology at the time of publication of the Business Plan and any updated methodology agreed with industry.

Assessment and key evidence

We consider that NESO did not deliver this Performance Objective in full but has delivered satisfactory performance.

Overall, we recognise several strong areas of performance under this Performance Objective. NESO came close to achieving its Zero Carbon Operability (ZCO) target, reaching 97.8% ZCO over the year and greater than 95% ZCO for at least one Settlement Period in 9 out of 12 months. In addition, the system was run safely and reliably within its statutory requirements. NESO also ran several initiatives over BP3 to reduce balancing costs. This included inter-trips, pathfinder projects, Frequency Risk and Control Report (FRCR) policy interventions and outage optimisation. NESO reported that these schemes saved £514 million which would otherwise have fallen on consumer bills, although there was limited evidence to fully support this figure.

There was insufficient evidence that NESO acted proactively to maximise its positive impacts on balancing costs. For example, NESO could have better explained the actions it had taken to address the rising costs of voltage management or provided better evidence against proposed changes in the FRCR. Despite coming close to achieving its ZCO target, we also note NESO did not demonstrate fully transformed capabilities of people, processes and systems to enable secure zero carbon, as evidenced by the ongoing cost and nature of its voltage actions.

Finally, NESO did not fully meet our expectations, nor those of stakeholders, for delivery related to skip rates. We recognise the improvements NESO made in terms of data transparency and engagement on skip rates. This has been evidenced through the increase in industry touch points and publication of data and methodologies to identify the reasons behind skips. However, substantially reducing skip rates was a key concern raised by stakeholders in the previous business plan cycle and given the continued high number of skips, lack of parity across technology types and continued negative stakeholder feedback around communication and transparency, we conclude that there are still significant improvements to be made.

We note the positive overall stakeholder feedback under this Performance Objective. 80% of respondents to NESO's stakeholder survey viewed NESO's performance as meeting or exceeding expectations. Overall, stakeholders highlighted NESO's technical expertise, operational performance, grid stability and the avoidance of any demand curtailment in BP3 as key components behind their positive outlook.

Connections Reform

Performance outcome and Ofgem expectations

NESO set out the following outcome for Connections Reform:

NESO will drive delivery and implementation of a reformed connections process that enables projects needed for 2030 and beyond to connect in a timely and coordinated manner.

In our Final Determination, we set an additional expectation:

We expect NESO's Success Measure which requires 100% of projects entering the Gate 2 to Whole Queue process to have connection offers required by the end of March 2026.

Assessment and key evidence

We consider that NESO did not deliver this Performance Objective. Whilst we note the ambitious timelines and the structural reforms NESO made to the connection queue, NESO did not fully implement the reform process – with underperformance highlighted through missed deadlines, inaccurate offers and poor customer engagement via the portal.

Generally, NESO made material progress by delivering the core reform, methodologies and queue restructuring foundations it needed to align with Clean Power 2030 (CP2030) in BP3. The queue is now much more aligned to relevant CP2030 projects, and, according to NESO's end-scheme report, NESO reduced queue capacity from approximately 750GW to 200-250GW. Furthermore, the queue now prioritises and aligns projects with system needs. We also note the good foundational work NESO undertook on prioritising strategic demand projects.

However, NESO did not implement the reform process to the Connections queue on time or to the quality connecting parties need. Many of the deliverables underpinning NESO's Success Measures were missed or delayed, some by over one year. For example, NESO did not fully deliver G2TWQ, missing its re-baselined targets - with full delivery being delayed until March 2027 due to unforeseen engineering and coordinating complexity.

Stakeholder feedback, a key Success Measure under this Performance Objective, was overwhelmingly negative. 69% of respondents stated that NESO was 'below' expectations in the stakeholder survey – indicating NESO failed to meet stakeholder's expectations in delivering a complex connections reform process. Key themes raised by stakeholders included: delays and errors with connections offers and dates, data issues, unclear prioritisation efforts and poor engagement from NESO. For example, many respondents noted that NESO ceased direct customer engagement at a crucial time and instead pushed contact towards its digital platform. NESO also struggled to handle increased inflow due to issues in other areas, compounding the negative sentiment shared by stakeholders.

Fit-for-Purpose Markets

Performance outcome and Ofgem expectations

NESO set out the following outcome for Fit-for-Purpose Markets:

NESO will support the government in making informed decisions on policy and market reform across the whole system. NESO will also continue to reform our own markets to level the playing field and deliver value to consumers.

In our Final Determination, we set additional expectations:

- NESO should be able to evidence how market reform has resulted in greater market compliance with NESO's Market Design Framework, shown through an update of the 2023 assessment by a competent third party or equivalent;
- NESO should be able to evidence how it has proactively engaged with the Market Facilitator ahead of its launch, such that development of market rules and delivery of benefits is enabled as soon as possible from go-live (and earlier where relevant). NESO should also continue to work with the Open Networks programme, delivering on actions where relevant; and
- NESO should be able to evidence how it has engaged proactively in the identification of GB rule changes (including relevant industry codes and standards) and has worked to affect change positively to the benefit of the GB consumer.

Assessment and key evidence

We consider that NESO did not deliver this Performance Objective in full but delivered satisfactory progress. NESO provided support to the government on market reform. NESO also continued to deliver final reforms of its own markets, notably, through the delivery of Quick Reserve Phase 2 (QRPh2), Slow Reserve (SR), engagement with the market facilitator and Enabling Demand Side Response (DSR). However, there was a lack of evidence that NESO considered fully the changes needed to ensure market rules, signals and operation remain efficient and maximise value for consumers.

A key commitment from NESO was to support government in making informed decisions on policy and market reform. As such, we have considered performance in this area as a key aspect in our assessment. Generally, we consider that NESO has performed well in its commitment through taking ownership of workstreams such as its Call for Input on Balancing Settlement and Dispatch under the Reformed National Pricing (RNP) workstream. We note stakeholder concerns regarding the evidence base underpinning options considered through NESO's RNP Call for Input and note that NESO is seeking to test these issues through its ongoing cost-benefit analysis and supporting evidence development.

We also considered NESO's reform of its own markets, including whether it levelled the playing field for participants and how efficiently it operated its markets. Delivery of QRPh2 and SR, though delayed, indicated that NESO did reform its own markets. We note several examples of NESO levelling the playing field through actions progressed under Enabling DSR. We also consider that NESO's Markets Roadmaps, Roadshows and webinars were of overall good quality over BP3 - providing necessary transparency to market participants. However, there was a lack of evidence as to whether NESO attempted to maximise customer value, particularly whether NESO ensured its market rules and signals were proactively operated in an efficient manner. For example, NESO did not provide evidence to meet Ofgem's additional expectation to show how it engaged proactively in the identification of GB rule changes (including relevant industry codes and standards).

Although NESO's work on markets over BP3 was mainly focused on electricity, we consider that some of the proactive engagement with Ofgem relating to advice on gas issues has been positive. For example, whilst the final Gas Market Roadmap was published after the end of BP3, early engagement on this was positive. Similarly, NESO's inputs on gas code issues have been positive.

We also consider NESO's engagement with the market facilitator was positive. We note NESO established a set of working arrangements with Elexon which should enable greater coordination across NESO and Distribution System Operation (DSO) markets for flexibility service providers. This should result in the delivery and implementation of expected benefits.

Across the Performance Objective, stakeholders generally noted the positive work NESO undertook across a range of market initiatives - with 59% of respondents to

NESO's stakeholder survey indicating performance either met or exceeded their expectations. A key area raised by stakeholders was NESO's work on DSR where there was good communication and engagement.

We also note negative feedback from stakeholders on certain aspects of NESO's performance: stakeholders raised concerns on the design of NESO's non-energy markets and the length of time taken to progress the Constraints Collaboration Project (CCP). In addition, stakeholders raised concerns around NESO's engagement and communication on market updates and continued barriers to participation in, or access to, some markets. Stakeholders highlighted difficult processes resulting in lengthy registration and onboarding for some participants. We also note the confusion from stakeholders over the split between CCP and RNP - although we are conscious that issues with overall governance were not always within NESO's direct control and as such, this has not affected our assessment materially.

Secure and Resilient Energy Systems

Performance outcome and Ofgem expectations

NESO set out the following outcome for Secure and Resilient Energy Systems:

NESO will improve whole energy system emergency preparedness and resilience. NESO will ensure the necessary capabilities and requirements are in place and facilitate industry readiness to meet the Electricity System Restoration Standard.

In our Final Determination, we set additional expectations:

- Establish the capability to fully meet Parts A and B of its Energy resilience and resilience reporting licence condition obligations.
- Provide the Emergency Processes Assessment to Ofgem and DESNZ by 1 December in line with NESO's licence obligation - collaborating with industry to improve processes, procedures and general prevention and response actions. For this Assessment NESO should collaborate with industry to improve processes, procedures and general prevention and response actions to potential severe disruptive events that could impact society to increase the overall resilience of the whole energy industry.
- Continue to work on medium-term adequacy modelling, building on the developments made in BP2 including:
    - the Capacity Market with the Electricity Capacity Report and the annual cycle of development projects to enhance the modelling, and
    - the adequacy modelling, including the assessment of the 2030s, looking beyond the time horizon set out in CP30 which now includes a new, dedicated assessment of gas supply security to be produced by 31 October each year

Assessment and key evidence

We consider that NESO delivered this Performance Objective. NESO delivered the necessary capabilities and requirements for industry to meet the Electricity System Restoration Standard (ESRS) to a high standard. In addition, NESO showed that its Resilience & Emergency Management function (REM) can be used to increase system preparedness and successfully delivered a quality Post Event Review of the North Hyde incident. NESO also made improvements to whole energy system emergency preparedness and resilience through its publication of new and updated documents.

Key evidence we considered included NESO's delivery of the ESRS. This was a significant undertaking, where NESO delivered a high volume of outputs to a good quality during BP3. NESO ensured industry participants were able to meet ESRS compliance by developing significant aspects for this portfolio, including improvements to probabilistic modelling and regional demand forecasts. However, we note that some of this work could have been delivered at a quicker pace to enable stakeholders to access additional benefits.

In addition, we considered that NESO's North Hyde Review was a high-quality, comprehensive publication in response to an unanticipated emergency. We agree with views from the Performance Panel and stakeholders that the outcomes of this report will likely improve the emergency preparedness and resilience of the GB energy sector once implemented.

NESO also made improvements to whole energy system emergency preparedness and resilience through its publication of new and updated documents. For example, this included: the first Energy Resilience Assessment (ERA), the Emergency Processes Assessment, the Critical National Infrastructure (CNI) Methodology Review, Medium-term Capacity Adequacy Modelling, the Gas Supply Security Report, and the Summer and Winter Outlook and Readiness reports.

Whilst NESO delivered key outputs, the quality of these outputs was limited in some instances. Specifically, the ERA lacked NESO's views on risk and potential actions for mitigation. Multiple publications omitted gas-related assessments, with NESO noting this is an area they needed to build capability in. For example, NESO could improve its gas capability or gas assessments in the ERA, Emergency Process Assessment and to deliver Parts A of its Energy resilience and resilience reporting licence condition obligations. This was also reflected in stakeholder feedback which called for improvements to: consistency of engagement on ESRS documentation, a view from NESO of longer-term resilience strategies and NESO's gas capabilities.

NESO could have demonstrated greater clarity on its prioritisation between high-profile ad-hoc work in BP3 and BAU activities under its REM function. For example, the North Hyde review drew in resources from other areas of the business leading to last-minute derogation requests and BAU actions on Reactive Power and Storm Darragh being delivered almost 18 months after the incident. Whilst we recognise the need to re-prioritise critical work, we expect NESO to manage this re-prioritisation effectively and communicate clear plans and revised expectations for the delivery of BAU activities as soon as possible.

We note stakeholder feedback in this area - NESO received positive stakeholder feedback under this Performance Objective across both NESO's stakeholder survey (>75% of respondents stated that NESO either met or exceeded their expectations) and our call for input. Key areas highlighted included: the level of engagement and responsiveness in this area and quality delivery of the Industry Readiness and Preparedness Reports and Emergency Process Assessment.

Clean Power 2030 Implementation

Performance outcome and Ofgem expectations

NESO set out the following outcome for Clean Power 2030 Implementation:

NESO will play a pivotal role in securing clean power for Great Britain by 2030 on the path to net zero by 2050. Building on our 2024 advice to government on pathways to a clean, secure, operable and deliverable electricity system, we will move to action and implementation in line with the government's CP30 action plan.

In our Final Determination, we set an additional expectation:

We expect NESO to establish the capabilities to support cost-benefit analysis (CBA) work with respect to Long Duration Electricity Storage (LDES) developments.

Assessment and key evidence

We consider that NESO delivered this Performance Objective. NESO successfully started implementation actions in line with the government's CP30 action plan, including establishing governance structures and timely publication of NESO's 2030 delivery plan.

Whilst NESO delivered this Performance Objective, the overall materiality of actions under this Performance Objective are comparatively low compared to other Performance Objectives, some of which likely have greater impact on the delivery of CP30. We note stakeholder concerns around the risks of CP30 delivery and have accounted for this feedback under these other, more relevant, Performance Objectives.

We considered that NESO progressed sufficiently into the implementation and action phase of the CP30 Action Plan. Key evidence that demonstrated this included the consultation and publication of the 2030 NESO implementation plan, development of ways of working with Ofgem and DESNZ and publication of the Operability Strategy Report (OSR) and Electricity Markets Roadmap. In general, these outputs were of good quality.

In addition, we valued NESO's effort to provide robust advice to our overall decision-making process with respect to LDES during the BP3 cycle. However, we note that

NESO's effectiveness in this space has fluctuated throughout the BP3 process. We acknowledge NESO's resourcing may have impacted this work and expect this to be resolved going forward.

We note stakeholder feedback in this area - 55% of stakeholders in NESO's stakeholder survey stated that NESO did not meet their expectations. Key themes raised were around delayed delivery, poor communication, engagement, unrealistic delivery plans and issues with connections reform. This feedback was mainly focused on the deliverability of CP30 rather than implementation requirements linked to this Performance Objective. As such, we have considered this feedback under other, more relevant, Performance Objectives.

Separated NESO Systems, Processes and Services

Performance outcome and Ofgem expectations

NESO set out the following outcome for Separated NESO Systems, Processes and Services:

NESO will transition remaining systems, processes and services from National Grid to NESO ownership to enhance our capabilities and establish our autonomy and full independence.

In our Final Determination, we set an additional expectation:

We expect that NESO's progress in transitioning from National Grid enables it to become a fully independent organisation with control over decisions on how best to resource its activities by 1 October 2026. We will assess NESO's ability to demonstrate this independence by the end of BP3.

Assessment and key evidence

We consider that NESO delivered this Performance Objective outcome in line with Ofgem's expectations. Sufficient progress was demonstrated towards full independence by the end of BP3. Whilst we do not consider the achievement of this Performance Objective to reflect significant direct benefits for industry or consumers compared to the delivery of other Performance Objectives, it is a key underlying enabler to setting up an efficient NESO. We recognise the substantial effort and transition that has taken place to establish independence.

Key evidence we considered included NESO reducing its transitional services from National Grid in line with Transitional Service Agreement (TSA) exit plans. NESO exited 60% of its TSAs by the end BP3 and further bilateral engagement with NESO has shown this number to be higher. This indicates stronger-than-planned performance and that NESO is on track to achieve 1 October 2026 deadline for full independence of its supporting systems. We also note NESO's staged approach to application migration with the remaining applications expected to be delivered in the first months of the next business plan cycle.

NESO transitioned the majority of its Cyber Security and all of its Physical Security from National Grid. We note that the final Cyber Security migration milestones are due to complete in the first quarter of FY 2027, as expected from NESO's original TSA Exit Plan. We also note that separation of Physical Security completed successfully, and all Physical Security Operational Controls are in place and under NESO control.

Several deliverables were delayed slightly, with the transition of all foundational services still ongoing. Digital Workplace Services rollout was expected to have commenced in April 2026, and several Identity and Access Management services are due to go-live in the first few months of NESO1. In addition, though substantial progress was made towards the transformation of systems and data for People, we note that a few activities remain for the first quarter of FY 2027. This consists of consolidation and implementation activities. Despite this, we remain confident that NESO will fully exit its TSA arrangements by 1 October 2026.

Finally, we note that stakeholder feedback was generally positive under this Performance Objective. However, this is a limited factor in our assessment as we note that stakeholders were unlikely to have engaged with the majority of activities NESO undertook due to the nature of this work. Stakeholder comments focused more on interactions with NESO through use of its new website and other customer facing elements – which we have considered under other Performance Objectives.

Part 2: Value for Money

This section covers our detailed assessment on NESO's demonstration of Value for Money. We explain our overall grading, assessment and the key evidence we considered in our assessment.

Overall grading and assessment

We graded NESO's performance as 'below expectations' for NESO's delivery of value for money.

NESO did not demonstrate consistent governance processes to evidence value for money. Although there were some examples of good practice, NESO mainly provided basic information on budgeted versus outturn spend or compared expected costs to expected benefits/outcomes with limited evidence of optimising value - preventing a 'meets' expectations grading.

Assessment and key evidence

NESO costs are recovered on a pass-through basis. This means NESO has flexibility to prioritise spend where doing so delivers most impact and is aligned with its statutory and legal duties. However, under the pass-through model the responsibility lies with NESO to demonstrate with evidence that it has achieved an optimal balance between maximising benefits from its activities whilst minimising costs.

Decision End-scheme assessment of NESO's BP3 performance - evidence chapters

For BP3, we implemented a more frequent process to engage with NESO on value for money. Whilst this allowed us to engage with NESO more frequently, the information NESO provided - whilst getting better over time - did not meet the quality required to meaningfully assess value for money. As such, whilst we have not identified evidence of obviously poor value for money decision making, NESO has not provided sufficient positive evidence and therefore we cannot conclude value for money has been demonstrated.

Over the course of BP3, NESO's reporting focussed mainly on explaining differences between outturn costs and planned costs - predominately showing if original estimates were accurate. NESO spent £686m against proposed spend of £690m for BP3, a ~£120m year-on-year increase from the previous incentive period. This increase was due to NESO undertaking new assigned roles and increased scope for existing roles. For BP3, there was under and overspend in several areas, netting to £4m underspend overall.

The areas of underspend, by NESO's own assessment, were largely deferred spend (£34m) into the next incentive period rather than efficiency savings (net deferral saving of £24m as £10m was brought forward from the previous incentive period). Specifically, the savings NESO reported for BP3 were largely attributed to: deferred spend on land purchase for the contingency control centre, deferred spend on Wokingham site improvements, a later than expected fit out of London offices and lower Run the Business (RtB) spend as a result of slower than anticipated recruitment and lower consultancy spend.

The overspend NESO reported for BP3 was attributed to: higher spend on Digital, Data and Technology (DD&T) as a result of higher than anticipated licencing and support costs for new applications and some additional dis-synergies from National Grid separation, connections reform spend being higher than planned due to expanded scope and heightened delivery complexity and separation costs, which due to phasing, were higher than expected but within overall budget.

We expect NESO to demonstrate and provide evidence of its systematic considerations to optimise value in its spending decisions. These could include, but are not limited to: benchmarking - comparing NESO costs to other relevant organisations to identify value; optimisation - what proportion of benefits can be delivered with change in spending; options analysis - what alternatives have been considered and rationale for choices made; prioritisation - is spend necessary and prioritised against other activities; risks and resilience - have future uncertainties been appropriately considered and managed; and innovation - can spending to digitalise or automate provide greater overall benefits.

We assessed value for money across all of NESO's functions. We saw most positive evidence of value for money[5] in DD&T investments and note the CMF improved visibility and decision-making but could be more effectively used. We also saw some positive

[5] For clarity, this includes costs for physical security controls for ESO Wokingham.

evidence in NESO's People function, which used clear external benchmarking and robust scrutiny.

Overall, for the majority of NESO's spend, we saw limited positive evidence to demonstrate value for money. In many areas, NESO provided descriptive evidence of need without options or benchmarking, and in some areas the evidence was largely limited to the provision of organograms with team descriptions.

We note NESO has committed to doing a zero-baseline review of its costs and to improve its cost reporting in line with our expectations in its next business plan period to address the issues outlined in our assessment.