Decision

Performance Panel’s end-scheme assessment of NESO’s performance for BP3

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The RIIO-2 price control for National Energy System Operator (NESO) covered the period 2021-26. NESO’s business plan periods and incentives framework run over two-year periods with a final one-year period. The third and final business plan period of RIIO-2, known as “BP3”, ran from 1 April 2025 to 31 March 2026.

As part of the incentive framework, the NESO Performance Panel and Ofgem assessed NESO’s performance for each business plan period. This report details the Panel’s assessment of NESO’s performance at the BP3 end-scheme review stage. We are publishing this report as the Secretariat for the NESO Performance Panel. **This report contains the views of the NESO Performance Panel, not Ofgem.**

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BP3 incentives framework

Background

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

For BP3, Ofgem set an overarching performance framework that focused on NESO's delivery of strategic outcomes (known as Performance Objectives) and delivery of value for money. The Performance Objectives each have associated Success Measures, which should provide clarity on what successful delivery of a Performance Objective looks like and how this will be measured. These changes aim to ensure 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.

The NESO Performance Panel (the Panel) plays a key role in the assessment of NESO's performance. The Panel carries out an assessment of NESO's performance as part of the end-scheme review and provides a recommendation to Ofgem. The Panel provides its view on whether NESO has overall fallen below, met or exceeded expectations in the delivery of its Performance Objectives.

Approach

NESO published its BP3 end-scheme report in May 2026. The Panel convened in June 2026 to consider and assess NESO's BP3 performance.

Following the process outlined in Chapter 3 of the NESO Performance Arrangements Governance Document, the Panel assessed NESO's performance in delivering its Performance Objectives and provided an overall view on whether NESO fell below, met or exceeded expectations. The Performance Panel chose to carry out a more strategic and targeted assessment, in line with the guidance, instead of the full assessment and grading approach undertaken by Ofgem.

The Panel's recommendations informed Ofgem's formal assessment of NESO's performance. Ofgem's assessment will be published alongside the Panel's assessment in August 2026.

NESO Performance Panel assessment

Context

The Panel's assessment reflects the degree of progress they consider NESO has made against the commitments set out in its BP3 plan. Panel members individually assessed NESO's performance before meeting to discuss and align on a final shared assessment. There was a spread of individual views, however, Panel members reached a consensus after discussion and debate. This report primarily explains the Panel's consensus shared assessment. However, we have tried to reflect any notable differing views (both positive and negative) in the narrative below.

The report is structured to set out the Panel's overall view of NESO's achievement of Business Plan aims, recommendations for NESO's next business plan period and the Panel's performance assessment for each Performance Objective.

Overall assessment

Overall, the Panel considered that NESO **met expectations** in the delivery of its Performance Objectives. The Panel considered that NESO delivered most of its Performance Objectives well. 6 out of the 8 Performance Objectives were thought to be delivered in line with expectations, 1 Performance Objective exceeded expectations, and 1 Performance Objective was below expectations.

The Panel considered NESO delivered its strongest performance in delivering its core capabilities. This included NESO's operation of the system and delivery of resilience capabilities. The Panel also noted that NESO demonstrated considerable progress, in light of its expanded remit, in establishing itself as an independent system operator through improvements and transformation to its IT systems.

For most of the Performance Objectives that met expectations, the Panel recognised the breadth of NESO's ambitions but also gaps and/or delays in delivery. More comprehensive delivery against the BP3 plan would have likely seen the Panel's expectations exceeded. In addition, the Panel highlighted a need for more consistent and quality openness and transparency with industry – with clearer communication of the challenges NESO is dealing with.

The Performance Objective for Connection Reform and NESO's connections performance was considered materially below expectations. The significance of this Performance Objective, the level of outturn performance, and the consequential effects for the wider sector and other Performance Objectives meant the Panel settled on an overall performance grade of meeting expectations.

The Panel recognised the significant progress NESO made over the five years of the RIIO-2 price control period. It was noted that NESO delivered essential and substantial changes to evolve from being the Electricity System Operator (ESO) at the start of RIIO-2 to becoming NESO by the end of the price control period. Moreover, NESO continued to deliver core responsibilities well. The Panel indicated that the scale and challenge of this transformation was not underestimated, and NESO should be congratulated on progress.

In addition, the Panel commented that NESO set out an ambitious, accessible and well-written plan for BP3.

However, across NESO's overall performance it was felt that NESO could have done more to engage openly and transparently with industry. Across several areas of activity, the Panel thought more meaningful engagement with industry could have been achieved if there was better quality, consistency and if NESO had more clearly communicated the challenges being dealt with. The Panel also noted a lack of clarity in various underlying assumptions underpinning NESO's modelling, planning and decision making in BP3.

Panel members also highlighted a lack of clarity with regards to governance and the roles and responsibilities between NESO, DESNZ and Ofgem. Although not necessarily NESO's fault, the Panel noted that it was sometimes unclear which party was ultimately responsible for leadership and decision making. The Panel strongly supported the ongoing work between the three bodies to create better clarity for external stakeholders.

Although the Panel did not undertake a comprehensive value for money assessment, several Panel members noted that NESO needed to improve the quality of its value for money justification and reporting. Costs have risen significantly since NESO's inception to achieve separation from National Grid and to have in place the appropriate level of staff to fulfil NESO's new functions. However, the Panel expected additional information and rationale from NESO to inform stakeholders of how NESO is delivering longer-term value.

Recommendations

The Panel would like to propose some direct recommendations for NESO to consider in its next business plan period:

- NESO should further improve its openness and transparency with industry. The *quality* of NESO's communication should be the focus, to ensure it is targeted to stakeholder requirements and provides clarity on NESO's decisions in a timely manner. It is particularly important that data publications meet industry needs regarding quality, usability and that realistic targets and milestones should be communicated for the delivery of outcomes.

- NESO should prioritise gathering the lessons learned regarding Connections Reform as this was the most notable and material area of underperformance. A Panel member recommended that this could be achieved through undertaking a programme audit.

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- NESO should look to undertake and share cost benchmark analysis against other relevant system operators and organisations to support its reporting on value for money. This could support NESO in clearly communicating with stakeholders its resource needs to establish the right size of the organisation.

NESO's achievement of business plan aims

Strategic Whole Energy Plans

Key messages

The Panel considered that NESO **met expectations** for this Performance Objective. The Panel noted that NESO made progress in delivering the foundational capability and structure required for strategic planning, but several key deliverables were delayed. The Panel noted that stakeholders raised continued uncertainty in the underlying assumptions and methodologies used for NESO's outputs, as well as the delays to deliverables.

Rationale

The Panel noted that NESO delivered several important outputs under this Performance Objective, such as methodologies for Regional Energy Strategic Planning (RESP), the Strategic Spatial Energy Plan (SSEP) and the Gas Options Advice Document. One Panel member highlighted that these outputs were received well by the market. Further examples of progress made by NESO included the setup of RESP teams and progress made towards the Centralised Strategic Network Plan (CSNP). Though SSEP was delayed, Panel members felt that the justification for this delay was robust and acknowledged the challenges of doing this for the first time.

The Panel discussed several other delayed or missed deliverables, including the delay to the transitional CSNP2 and SSEP pathways. Several Panel members noted that this created uncertainty across wider planning and reform programs, highlighting that stakeholders continued to raise concerns on delivery timelines. Further uncertainty was created by the limited transparency on the methodologies and modelling assumptions that went into these outputs.

Finally, several Panel members highlighted a lack of clarity with system planning-related governance and accountability arrangements between NESO, Ofgem and government. Stakeholders indicated low confidence in how planning decisions are made and how trade-offs are resolved - with engagement often sought with limited notice and with unclear input expectations or definition of requirements. This was another dimension to the Panel's key message on stakeholder uncertainty, recognising that it was not all within NESO's gift to solve.

Enhanced Sector Digitalisation and Data Sharing

Key messages

Overall, the Panel considered that NESO **met expectations** for this Performance Objective. Delivery of the Data Sharing Infrastructure (DSI) Plan and the implementation of the DSI Coordinator role were noted as highlights. However, delays in the delivery of some Success Measures were identified and the Panel felt that quality, transparency and usability of data published by NESO was inconsistent.

Rationale

The Panel noted that NESO delivered most of the planned activity under this Performance Objective and demonstrated continuous progress towards building the collaborative frameworks and governance required to support sector-wide digitalisation and data sharing. Specifically, the delivery of the DSI and the implementation of the DSI coordinator role were seen as significant achievements, together with the delivery of the sector digitalisation plan. However, one Panel member noted that this was delivered several months later than originally planned. Additionally, the Panel recognised the progress towards the improvement of Distributed Energy Resources visibility and one Panel member highlighted the improvement of NESO's Open Data Portal.

However, the Panel noted that delays in the delivery of the DSI Minimum Viable Product and the Transformation to Integrate Distributed Energy negatively impacted their assessment of performance. Further, it was noted that NESO did not fully deliver sector-wide digital ecosystem interoperability by the end of the BP3. Many Panel members raised continued stakeholder concerns surrounding data quality, consistency and verification, practical usability of datasets and tools, and user experience across platforms.

Operating the Electricity System

Key messages

Overall, the Panel agreed that NESO **met expectations** for this Performance Objective. Whilst panel members had mixed views, the Panel concluded that NESO operated a consistent and reliable electricity system over the BP3 period and had performed reasonably well in its efforts to reduce balancing costs. However, the Panel highlighted several areas for improvement, particularly around clarity, pace and transparency of operational decision-making.

Rationale

The Panel noted several areas of strong performance from NESO. These included; NESO's operation of the system close to its zero-carbon operation target, continued operation of a reliable electricity system, delivery of key milestones within the Balancing Programme (such as the transition to the Open Balancing Platform and the non-BM Quick and Slow Reserve market services), and improvements to wind forecasting. In addition, the Panel welcomed NESO's reported balancing cost savings of £514m - although noting that overall balancing costs remained high, and demand forecasting was below target. The Panel also considered stakeholder views, including concerns that balancing costs were material but delivery under this Performance Objective had the highest stakeholder satisfaction score from NESO's stakeholder survey.

Panel members held differing views on skip rate performance. Whilst the overall reduction to 30% was welcomed, the lack of parity between differing technology types was a driver behind the mixed views shared by the Panel. A Panel member also noted that despite an overall reduction, 30% is still a high skip rate that needs further attention from NESO. The Performance Panel recognised the progress NESO made to reduce this rate to the current level, but recommended NESO dedicate additional resources to ensure this rate is lower in the future.

The Panel highlighted that NESO needs to maintain its agility and clarity in decision making to sustain its good performance. This position resulted from Panel members surfacing concerns from stakeholders including; the increasing number of escalation points behind operational processes, slow decision-making timelines, occasionally reactive operational coordination, slow progress on demand forecasting and limited transparency around operational decisions and trade-offs.

Connections Reform

Key messages

The Panel considered that NESO performed **below expectations** for this Performance Objective. However, the Panel recognised the scale and complexity of Connections Reform and the progress that had been made. The Panel indicated that multiple failures across several aspects of this objective, the impact of these failures on wider industry and investor confidence and significant delivery delays led to an overall poor view on performance. The Panel highlighted Connections Reform as the most significant and challenging Performance Objective in BP3 and the weakest area of NESO's performance.

Rationale

Despite the material delivery delays, the Panel agreed that NESO made progress towards delivering a major connections reform programme. While acknowledging the complexity and challenge of delivering the outcome, several Panel members felt that these challenges were not unexpected and reflected that earlier alignment, clearer governance structures, sufficient NESO resourcing, and better coordination on delivery with stakeholders could have mitigated some of the negative impacts.

The Panel highlighted NESO's poor performance in several areas. Panel members raised systemic issues with governance, coordination and data readiness. Errors were made on contract offers, which the Panel noted led to increased inflow that NESO was unable to deal with sufficiently. One Panel member believed that the issues with connections reform had reduced investor confidence and negatively impacted the way the UK is viewed as an investment opportunity.

A key component of the Panel's assessment was NESO's failure to meet its Success Measures - notably the delay towards having 100% of the projects enter the Gate 2 to Whole Queue process by the end of December 2025. Panel members highlighted material data errors and omissions as another failure of NESO's delivery and attributed these errors to the large negative sentiment from stakeholders.

Finally, the Panel concluded that NESO did not meet its Success Measure to support customer engagement. One Panel member noted that the lack of direct customer contact left developers at risk when NESO decided to cease live account managers for projects looking to connect. In addition, it was noted that NESO encouraged stakeholders to use its Connections Portal for engagement, however the portal's ineffectiveness created further issues in managing inflow.

Fit-for-Purpose Markets

Key messages

The Panel considered that NESO **met expectations** for this Performance Objective. NESO generally delivered its Success Measures, additional Ofgem expectations and demonstrated good progress towards ongoing projects. However, the Panel had mixed views on NESO's competitive procurement for balancing services and noted delays to several key deliverables. The Panel also noted stakeholder concerns around transparency, complexity and accessibility of NESO's markets.

Rationale

The Panel noted good performance from NESO towards delivering its market reform, especially its delivery of key projects in the Capacity Markets and Contracts for Difference. The Panel also noted NESO's delivery against the 2025 Markets Roadmap, including reform to frequency services, stability and reactive power services and demand-side flexibility. In addition, the Panel highlighted NESO's progress and successful collaboration with the government towards Reformed National Pricing.

However, the Panel had mixed views on NESO's performance towards the competitive procurement of balancing services. Some members found NESO's achievement of 2 out of its 3 targets satisfactory and an improvement to NESO's past performance, whilst others considered that the overall Success Measure was not achieved. The Panel also noted that some deliverables, such as the first Gas Market Strategy (previously Gas Future Market Plan) publication, were delayed beyond their publication targets.

The Panel considered that the current market landscape is still too complex. Whilst it was noted by one Panel member that NESO's move towards co-creation with stakeholders and participants in NESO's markets was a positive, another Panel member noted that stakeholders continue to face barriers to participation and challenges with market access. The Panel also noted that stakeholder feedback highlighted the need for additional transparency and improvement in stakeholder communication - particularly when operational or rule changes for services affect market participants directly.

Secure and Resilient Energy Systems

Key messages

The Panel considered that NESO **exceeded expectations** for this Performance Objective. The Panel noted that NESO's delivery of outputs, including the North Hyde Report, were strong and that overall communication and transparency was good – resulting in positive stakeholder feedback.

Rationale

The Panel concluded that NESO met its intended outcome for this Performance Objective, as well as the additional Ofgem expectations. The Panel considered that several key outputs from NESO were of good quality, including the Emergency Processes Assessment, Energy Resilience Assessment (ERA) and industry preparedness reporting. In particular, the Panel noted NESO's report on the North Hyde incident. This was considered a significant and unplanned test of NESO's emerging resilience and investigative capability.

Panel members also noted strong positive scores from NESO's stakeholder survey. Key stakeholder feedback noted by the Panel included high levels of confidence in system reliability and security, constructive engagement and transparency - particularly in NESO's resilience-related work, and a willingness to work collaboratively with the sector on resilience approaches and key metrics.

Whilst delivery under this Performance Objective was seen as strong, several Panel members highlighted areas that could further improve. For example, clearer communication from NESO on a long-term resilience strategy, stronger articulation of climate and system risk assessment methodologies, greater transparency on fuel-mix and supply risks, and further progress needed to demonstrate consistent, end-to-end resilience outcomes across the sector.

Clean Power 2030 Implementation

Key messages

The Panel considered that NESO **met expectations** for this Performance Objective. While delivery of some key Success Measures were delayed, Panel members felt NESO played a key role in progressing Clean Power 2030 (CP2030) and showed progress towards its planned outputs. Panel members noted a lack of clear evidence behind NESO's end-of-year performance reporting which limited the assessment. Panel members also acknowledged the predominately negative views from stakeholders, noting the likely impact from other performance areas such as Connections Reform.

Rationale

The Panel recognised NESO's delivery of Success Measures under this Performance Objective. This included the CP2030 Transmission Operator (TO) Delivery Tracker in June 2025, a strategic approach to System Access Planning with TOs and wider stakeholders, and a common dashboard for tracking transmission projects.

The Panel noted other Success Measures have been delayed and remain in progress. For example, delivery of a formal stakeholder engagement plan, progress against System Access Planning objectives and additional dashboards for CP2030 projects.

Panel members indicated that there was a lack of detail and evidence in NESO's end-of-year performance reporting. This made it difficult to fully assess the quality of these outputs and the rationale behind any delays, which limited the panel's overall view. The Panel noted further evidence was needed to demonstrate NESO's support on developments for Long Duration Energy Storage.

The Panel noted mixed views from stakeholders on performance. On the one hand, it was noted that stakeholders broadly recognised NESO's leadership role, expertise and strategic capability. However, the Panel also noted significant negative stakeholder feedback from NESO's stakeholder survey. The Panel acknowledged that NESO's performance in other areas, such as Connections Reform and other network planning outputs, likely impacted stakeholder views under this Performance Objective. It was further noted by one Panel member that delays under this area should not be given material consideration as it would have been more detrimental for stakeholders if the CP2030 programme was implemented before connections reform was managed.

Separated NESO Systems, Processes and Services

Key messages

The Panel considered that NESO **met expectations** for this Performance Objective. While some Success Measures had not been completed, the Panel considered that NESO demonstrated continued progress in separating its systems, processes and services - while maintaining operational continuity and stability. However, the Panel noted difficulties navigating multiple, fragmented IT systems and a need for greater clarity on NESO's resourcing model.

Rationale

The Panel highlighted that the transition of a significant proportion of NESO's services from National Grid, alongside the development of its own digital, operational and service management capabilities, represented a positive milestone for NESO. In addition, several Panel members highlighted that NESO achieved its target of exiting 60% of Transitional Service Agreements by the end of BP3. Whilst the Panel noted minor delays, such as the complete separation of physical and cyber security from National Grid, the delivery of foundational IT services, and building systems and data for people-related functions - the Panel recognised the scale and complexity of these tasks. In addition, the Panel highlighted that these milestones were all achieved without major disruption to NESO's core services.

Panel members also noted stakeholder feedback regarding fragmented IT systems, instances of unclear ownership and challenges navigating multiple portals when switching from National Grid to NESO systems.

Finally, one Panel member felt more evidence could have been provided by NESO to justify how NESO best resourced its systems, processes and services and its cost base as it matures as a fully standalone public organisation.

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Appendices

Appendix 1 List of Panel members 2025-2026

- Joanna Butlin (Independent Panel Chair)
- Robert Hull (Independent Panel member)
- John Carnwath (Independent Panel member)
- Citizens Advice (represented by Andy Manning)
- Energy UK (represented by Kisha Couchman)
- Energy Network Association (represented by Amberle Gregory and Michael Rieley)
- Association of Decentralised Energy: Demand (represented by Sarah Honan)[1]

[1] The Panel member was unable to participate in the BP3 assessment and ADE: Demand did not provide an alternate member.