

Guidance

NESO Business Plan: Guidance Document

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National Electricity System Operator (NESO) will need to submit a Business Plan for its third Business Plan cycle (BP3) in the RIIO-2 framework, commencing on 1 April 2025 and ending on 31 March 2026. This document provides guidance on the information that should be included in the Business Plan.

This Guidance Document outlines the key dates for the submission and determinations of the Business Plan; the contents of the Business Plan; how the Authority will assess the Business Plan; and the duration of the Business Plan cycle.

This is a draft version for consultation. It would only apply to NESO following its designation and would not apply to the existing Electricity System Operator (ESO).

This is issued in advance of designation to provide transparency and support the overall timelines for BP3. We intend to make a final decision on this guidance later this year.

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Version History

Version	Changes	Purpose	Publication date	Go Live
1	n/a	To provide guidance on the ESO's second Business Plan for the period 1 April 2023 to 31 March 2025.	3 September 2021	29 November 2021
2	Changes to align with NESO's regulatory framework for the final year of RIIO-2.	To provide guidance on NESO's Business Plan for the period 1 April 2025 to 31 March 2026.	22 August 2024	TBD

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1. Introduction

- 1.1 This chapter sets out the purpose of this Guidance Document and its status from a compliance perspective.
- 1.2 NESO is an independent, non-profit, Government-owned public corporation, licenced and regulated by Ofgem. Upon its designation in 2024, NESO took on all the existing roles and responsibilities of the ESO and longer-term planning, forecasting and market strategy activities in respect of gas. It also took on new and enhanced responsibilities, including providing expert advice to government, whole energy system resilience, and driving the coordinated development of the whole energy system. NESO can unlock substantial benefits for consumers by helping to shape the best pathway to a Net Zero energy system, while maintaining energy security and minimising costs for consumers. NESO's Business Plans are a key component of its regulatory framework, as they provide transparency on NESO's aims, activities and spending, and help support accountability to Ofgem and wider stakeholders.
- 1.3 The ESO's five-year RIIO-2 price control covers the period starting 1 April 2021 and ending 31 March 2026. 'Day 1'¹ of NESO took place within the middle of an existing business plan period (BP2)². As such, the Business Plan submitted by the ESO in August 2022³ will remain in place until March 2025. NESO will publish a Business Plan for the third Business Plan cycle (BP3), which will run from 1 April 2025 to March 2026. This will be the final Business Plan of the RIIO-2 price control period.
- 1.4 This Guidance Document provides NESO with specific guidance for BP3, setting out the process by which NESO must submit the Business Plan to the Gas and Electricity Markets Authority ('the Authority')⁴ and the governance and process by

¹ References to "Day 1" or "NESO Day 1" in this document mean the first day of NESO (i.e. the date when both designation of the Independent System Operator and Planner (ISOP) and the ISOP licences come into effect).

² BP2 refers to the ESO's second business planning cycle under the RIIO-2 price control, which runs from 1 April 2023 to 31 March 2025.

³ nationalgrideso.com/document/266156/download

⁴ The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority ('the

which the Authority and the NESO Performance Panel will assess the Business Plan.

1.5 The NESO Business Plan Guidance Document will be issued by the Authority under Part D of Condition G1 (Business Plan) of NESO's licences (subject to final designation of the NESO and its licences by the Secretary of State). As set out in Condition G1.13, the Authority may make appropriate provision about or impose requirements in the Business Plan Guidance Document, which may include, but will not be limited to:

(a) the dates for the submission of the Business Plan;

(b) the contents of the Business Plan;

(c) the processes for engagement with stakeholders, including any consultations; and

(d) how the Authority will assess the Business Plan and make a Plan Determination.

1.6 This document may be revised and reissued in accordance with Part D of Condition G1.

1.7 Before issuing new or amending the NESO Business Plan Guidance Document, the Authority will publish on the Authority's Website:

(a) the text of the proposed NESO Business Plan Guidance Document;

(b) the date on which the Authority intends the NESO Business Plan Guidance Document or amended NESO Business Plan Guidance Document to come into effect; and

- (c) a period during which representations may be made on the content of the NESO Business Plan Guidance Document, which will not be less than 28 days.

Compliance

- 1.8 Where provisions of this Guidance Document require the compliance of the licensee, the licensee must comply with those provisions as if the Guidance Document were part Condition G1.
- 1.9 For the avoidance of doubt, this document is subordinate to the licence. This document does not change any definitions or obligations contained within the licence and in the event of any ambiguity over the Guidance Document, the licence will take precedence.
- 1.10 The content of this Guidance Document does not alter or supplement NESO's compliance with its wider obligations under legislation, its licence or industry codes.

2. The Business Plan process

This chapter provides an overview of the Business Plan process. It provides guidance on the steps, processes and timings involved in NESO's Business Plan cycle for BP3. This covers the period starting on the 1 April 2025 and ending 31 March 2026.

Overview

- 2.1 Condition G1 of NESO's licences requires it to produce, publish and submit to Ofgem a Business Plan, according to the process and timelines set out in guidance document. Condition G1 also requires NESO to engage with relevant stakeholders when preparing the Business Plan in line with the guidance in this guidance document. This chapter sets out further requirements for these processes for NESO's Business Plan submission for BP3.
- 2.2 NESO's submission of its Business Plan for BP3⁵, the final year of the RIIO-2 price control, will follow a bespoke process. This will reflect the constrained timelines to produce a plan following NESO's introduction as a new organisation partway through a regulatory year and existing price control for the ESO. The process outlined in this document is likely to change for future submissions, including for the Business Plans from April 2026 onwards when RIIO-2 ends.

Duration of the business plan cycle

- 2.3 BP3 will cover a one-year period from 1 April 2025 to 31 March 2026. This is the last year of the RIIO-2 price control which runs from 1 April 2021 to 31 March 2026.
- 2.4 NESO is expected to deliver its Business Plan and adhere to its relevant submission timing, in the absence of any changes or further updates from Ofgem.

⁵ BP3 will be the first Business Plan cycle that NESO, as a new standalone organisation, has prepared and submitted a Business Plan under its new licences. However, its predecessor the ESO has already submitted two Business Plans under the RIIO-2 price control.

Stages in the business plan process for BP3

- 2.5 Figure 1 provides an overview of the key stages and timings in the Business Plan process for BP3. The content required for NESO’s Business Plan submission for BP3 is outlined in Chapter 3, whilst further details on Ofgem’s determinations are in Chapter 4.

Figure 1: Business Plan process for BP3



Step 1) The Draft Business Plan

- 2.6 NESO should engage with stakeholders to inform and publish a draft version of the Business Plan by 2 December 2024 or another date agreed with Ofgem. This deadline will be the last date for publishing the draft Business Plan and starting a 'formal' consultation period on its contents.
- 2.7 The draft version of the Business Plan should reflect stakeholder views and feedback provided to NESO throughout the duration of the previous Business Plan cycle. It should also explain, in line with Condition C2 of NESO’s licenses, how

NESO plans to carry out its functions with regard to its strategic priorities outlined in the Strategy and Policy Statement (SPS)⁶.

Step 2) The Plan Review

- 2.8 The formal Business Plan consultation period should strike a balance between being a sufficient duration to enable stakeholders to respond with their views and also enable time for NESO to update the Business Plan in response to those views, prior to the final submission in Step 3. NESO should ensure it engages with a wide spectrum of stakeholders, including but not limited to the NESO Performance Panel; electricity and gas industry parties; the Authority; and any other interested parties, including consumer representatives and academics.
- 2.9 Ofgem expects to review and provide feedback on the draft Business Plan during this step. This review will be focussed on providing feedback on key areas, rather than a full plan assessment. This is to minimise the risk of a major misalignment of views between NESO and Ofgem for the final Business Plan submission. This in turn will help streamline the determinations process.
- 2.10 The draft Business Plan will also be reviewed by the NESO Performance Panel. Ofgem will coordinate a process for the NESO Performance Panel to share any feedback with NESO ahead of its final Business Plan submission.

Step 3) The Final Business Plan

- 2.11 NESO must publish a final version of its Business Plan by 31 January 2025. The final Business Plan should demonstrate how NESO has incorporated the views of stakeholders, Ofgem and the NESO Performance Panel. This should include an explanation of the reasons why key themes raised by stakeholders may not have been factored into the final Business Plan.

⁶ [Strategy and Policy Statement for Energy Policy in Great Britain \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

Step 4) The Authority's Draft Determination

- 2.12 We will provide and publish a 'Draft Determination' on the final Business Plan by 31 March 2025. This will follow our review of the final Business Plan, stakeholder responses received by NESO and the NESO Performance Panel's views on the draft Business Plan.
- 2.13 Before issuing the Draft Determination, we may seek further clarifications from NESO on any aspect of its Business Plan (for example, if any unclear or ambiguous points remain). NESO should respond to these requests promptly.
- 2.14 In our Draft Determination, we will set out for consultation our proposals for:
- our **assessment of NESO's proposed Performance Objectives**, including our views on any missing areas or changes that may be required;
 - our **Value for Money assessment**, including views on any activities or investments that should not be funded or areas where more demonstration of value is needed; and
 - the **reporting requirements** for BP3, including regular reports on progress and spending, and Performance Measures for NESO.
- 2.15 We discuss each of these aspects in more detail in Chapter 4.

Step 5) The Authority's Final Determination

- 2.16 Following a review of stakeholder feedback to the Draft Determination, Ofgem will publish a 'Final Determination' which will build on and finalise the decisions made in the Draft Determination. The Final Determination will consider all consultation responses received.
- 2.17 Ofgem will aim to publish a Final Determination in a timely manner to provide clarity to NESO, however final timelines will depend on the nature and volume of feedback received.

Revisions to the Business Plan

- 2.18 We expect NESO to remain flexible and adaptable throughout the business plan cycle and respond to changing situations. NESO should deviate from the plan where it identifies opportunities for greater consumer benefits. Equally, if an action in the plan turns out not to be in consumers' best interests, then NESO should change its approach and explain why.
- 2.19 Whilst the Business Plan document will not be revised once published, we expect any changing context and changes from the plan to be appropriately explained through NESO's within-year reporting throughout the rest of the Business Plan cycle.

3. Contents of the Business Plan

This chapter outlines our expectations on the contents of NESO’s Business Plan and provides specific guidance on what different elements of the Business Plan should contain.

Overview

3.1. Condition G1 of NESO’s licences requires it to include the following minimum content within its Business Plan:

- a forecast of the total expenditure that NESO expects to incur for the regulatory year ahead;
- an explanation of and justification for the forecast expenditure;
- where and when required by this guidance document, a summary of the licensee's key strategic aims in respect of the period specified in this document;
- a summary of the licensee's key work priorities and major planned deliverables for the regulatory year, including how they relate to its latest key strategic aims; and
- any other required contents set out in this guidance document.

3.2 Condition C2 of NESO’s licences require it to explain in its Business Plan how it plans to carry out its functions in a way that has regard to the strategic priorities set out in the Strategy and Policy Statement (SPS) pursuant to section 165 of the Energy Act 2023⁷.

3.3 This chapter expands on these requirements for the Business Plan submission for BP3. We note that the requirements in this document are specific to BP3, reflecting NESO’s introduction partway through an existing price control. The requirements

⁷ [Energy Act 2023 \(legislation.gov.uk\)](https://legislation.gov.uk)

outlined in this document are likely to change for future submissions, including the NESO's Business Plan from April 2026 onwards, when RIIO-2 ends.

Strategic Aims

- 3.4 Strategic Aims are the key outcomes that NESO intends to achieve to deliver its overall organisational vision, including its strategy for delivering these outcomes. They set out what NESO is seeking to achieve in the medium to longer term, beyond its annual Business Plan submission. Therefore, Strategic Aims provide clarity on what is underpinning NESO's shorter-term objectives, commitments and investments.
- 3.5 We are not requiring the development and submission of a new set of Strategic Aims for NESO as part of the BP3 submission. This is because, firstly, NESO is still operating under an existing strategy developed for the RIIO-2 period⁸ and, secondly, because NESO will have limited time following its go-live to produce a fully developed new strategy prior to its BP3 submission.
- 3.6 However, NESO must explain how its Business Plan for BP3 links to, and builds on, the original medium-term strategy set out by the ESO at the start of RIIO-2. This includes providing transparency on any key changes to those aims. Where practicable, NESO may also choose to establish additional or revised Strategic Aims to reflect its newer responsibilities as NESO. This will provide helpful context for Ofgem and stakeholders when reviewing the annual commitments discussed in Chapter 4. We would expect these to be initial Strategic Aims that could be further developed prior to the next Business Plan in April 2026, when NESO will have had more time to establish itself and its longer-term objectives.
- 3.7 In line with its licence requirements, NESO must also explain how it plans to carry out its functions in a way that has regard to the strategic priorities set out in the SPS. As this is a new requirement for BP3, we are not setting further detailed requirements in this guidance document and NESO will have discretion to determine

⁸ ESO RIIO-2 ambition: <https://www.nationalgrideso.com/document/141256/download>

how best to meet this requirement. We will review NESO's submission for BP3 and consider whether any further specification is required in future.

Plan aims and outputs

3.8 The BP3 submission must clearly set out what NESO is aiming to achieve by 31 March 2026 across its breadth of different functions, and specifically how it will achieve this. To demonstrate this, NESO should include within its Business Plan, at a minimum, the following categories of content.

Performance Objectives and Success Measures

3.9 As set out in G1.4 of NESO's licences, NESO must set out its key work priorities for the regulatory year. These are the key objectives NESO is aiming to deliver by the end of BP3 (which, for the purposes of this guidance document and the BP3 regulatory framework, are referred to as 'Performance Objectives').

3.10 The Performance Objectives should meet the following principles:

- Aligned with energy sector and consumer priorities: they should be aligned with NESO's statutory duties (including priorities in the SPS), focussed on areas that can maximise consumer interests, and have considered stakeholder priorities;
- Comprehensive: NESO should consider the breadth of its roles when setting the Performance Objectives. Where relevant, they can be cross-cutting objectives applicable to multiple functions;
- Provide continuity: NESO should explain how they link back to and build on previous RIIO-2 aims. Also, NESO should reflect how commitments made by the ESO in BP2 are encompassed by Performance Objectives or alternatively explain where and why previous commitments may have changed; and
- Ambitious: they should be set at a stretching level of ambition, such that if achieved by NESO, this would be equivalent to an 'exceeding expectations' performance outcome.

- 3.11 Performance Objectives in the plan should each be supported by tailored Success Measures. Success Measures should provide clarity on how successful delivery of the Performance Objectives should be measured. For example, this could include the on-schedule delivery of milestones for a product/system, positive feedback from stakeholders, performance against metrics, or evidence on the delivery of benefits from relevant activities.

Major Deliverables

- 3.12 As set out in G1.4 of NESO’s licences, NESO must set out in its Business Plan the Major Deliverables for the regulatory year. Major Deliverables should be specific, measurable and timebound outputs that are key to achieving the Performance Objectives for BP3 (e.g. implementation of a system or product). In most cases, we would expect delivery of these major deliverables to be relevant Success Measures.
- 3.13 The Major Deliverables should focus on the delivery of a key output that is essential for the Performance Objective to be achieved, rather than outlining every step of delivery.
- 3.14 To ensure there is continuity between Business Plans, NESO should provide transparency on how ongoing or outstanding deliverables committed to for BP2 are being captured within BP3. This could include for example, a summary of how specific BP2 deliverables relate to Performance Objectives or Major Deliverables for BP3. This should include clearly drawing out in the Business Plan where any planned deliverables for the RIIO-2 period are no longer being taken forward, and the reasons why.

BP3 Performance Tracker

- 3.15 In order to ensure there is a clear record and effective monitoring of Performance Objectives, Ofgem may require NESO to record its Performance Objectives, Success Measures and Major Deliverables⁹ in a published Excel template (the “BP3 Performance Tracker”). NESO should publish the BP3 Performance Tracker on its

⁹ As noted earlier, in most cases, we would expect delivery of the Major Deliverables to be relevant Success Measures.

website as part of its Business Plan submission. This would replace the existing requirement for BP2 to set out deliverables in a Delivery Schedule.

Internal costs and value for money

Overarching requirements

- 3.16 As set out in G1.4 of NESO’s licences, NESO must include within its Business Plan submission its most recent forecast of its internal costs for the BP3 period and a clear explanation and justification for these costs.
- 3.17 NESO should clearly show how total expected internal costs for BP3 have changed compared to expenditure in BP2, and the ESO’s original expected spend over the RIIO-2 period. NESO should explain which cost changes are driven by the introduction of new/enhanced NESO roles and Enabling Functions versus which are changes in costs for carrying out existing ESO roles in BP2.
- 3.18 NESO should explain the key drivers for cost changes and explain how it is delivering value for money for consumers through its BP3 proposals. For example, for areas of material cost increases or new investments, NESO should explain what value to consumers that additional expenditure will create. Where underlying costs are increasing for the delivery of a pre-existing ESO activity, NESO should explain what is causing this and what action it has taken to minimise the extent of those cost increases. NESO should also explain what steps it has taken to deliver efficiency within its overall Business Plan proposals and investments in general.
- 3.19 NESO should provide breakdowns of its costs and specific information on certain cost categories, in line with the requirements in the next section. This is to demonstrate to stakeholders how it is delivering value for money for specific investments and activities.

Specific requirements and supplementary submissions

- 3.20 For BP2, the ESO provided specific information on its costs for the RIIO-2 period through the Business Plan Data Template (BPDT), the BPDT Strategic Narrative, the Digital, Data, and Technology (DD&T) Annex, and cost-benefit analyses (CBAs). The sections below describe our requirements in these areas for BP3.

BPDT

- 3.21 NESO is required to submit an updated BPDT alongside its BP3 submission in a format and template agreed with Ofgem. We will publish the BPDT template on our website prior to the BP3 submission. NESO should use this template to submit its detailed breakdown of BP3 costs.
- 3.22 The BP3 BPDT submission should include both NESO's forecast costs for BP3 and ESO's latest expectations of outturn costs for the entire RIIO-2 period. We no longer require a BPDT Strategic Narrative for BP3 as we have reflected through the BP2 process that this does not add value beyond the justifications already provided in the Business Plan itself.

Demonstration of benefits and CBAs

- 3.23 Throughout its Business Plan narrative, NESO should clearly explain how the Business Plan will deliver benefits for consumers. As NESO has discretion around specifically how it can best meet its statutory duties and key policy objectives (such as the SPS), it should therefore explain how its proposals aim to do this, in a way that will maximise benefits for the energy consumers. For investments or major activities with more significant relative expenditure, NESO should clearly show what options it considered and why its proposed approach delivers the greatest net benefits and therefore value for money for consumers.
- 3.24 For BP3, NESO is only required to submit CBAs for major new activities or investments that NESO chooses to undertake in BP3 that have not been included in previous RIIO-2 plans. For the avoidance of doubt, NESO is not required to undertake a CBA for new NESO functions and responsibilities imparted on it through legislation and its licence for Day 1, as the benefits of these new responsibilities have already been considered. However, it may be appropriate at future points for NESO to perform CBAs for any material new investments or activities established to deliver these new NESO responsibilities. Ofgem will work with NESO to agree the scope of the new activities that require a separate CBA. We expect the level of detail provided in the CBA to be proportionate to the level of spend NESO expects the activity to require.
- 3.25 For the avoidance of doubt, CBAs should: identify benefits and clearly articulate how the activities in question lead to those benefits, clearly justify any assumptions

that are made and clearly set out how anticipated costs and benefits are measured. Where financial benefits are identified, these should be either directly measurable or measurable through a proxy that has a direct cost associated with it. For benefits that cannot be easily measured, NESO should include these in qualitative terms and signpost them within the section on CBAs in the Business Plan.

IT investments

- 3.26 For BP3, NESO is expected to provide the same level of information as in BP2 for IT investments that are new or have materially changed since BP2.
- 3.27 For any new IT investments, or for investments that have materially changed since BP2, NESO will be required to provide, where relevant; an overview of the investment, the current state of the investment, the case for change for the investment, a roadmap for the investment, the future state of the investment, the approach taken to identify the investment, costs associated with the investment, risks identified with the investment, alternative options identified before taking on this investment and any additional information relating to the investment if, and when needed.
- 3.28 For existing IT investments made during the previous Business Plan cycle that have not materially changed, NESO will not be required to provide duplicate information that has already been received through BP2 and/or existing data received through the Cost Monitoring Framework (CMF). Specifically, for BP3, NESO is required to provide an update on: the overview of the investment, the current state of the investment, the roadmap of the investment, any changes to the future state of the investment, costs associated with the investment and any additional information relating to the investment if, and when needed.
- 3.29 For the avoidance of doubt, NESO's submission will not need to comply with the Technology Business Management (TBM) model for BP3¹⁰. Further detailed guidance

¹⁰ The TBM Council publish the TBM taxonomy. At the time of writing, version 4.0 is the latest version of the TBM taxonomy: <https://www.tbmcouncil.org/learn-tbm/tbm-taxonomy/>

on the specific IT investment requirements is provided in the BP2 IT Investment Plan Guidance Document¹¹.

Non-IT investments

- 3.30 For BP3, we expect NESO to report on non-IT capital expenditure (capex) investments. For any significant non-IT capex expenditures (such as, a new control centre or new offices), NESO should provide: an overview of the investment, the costs of the investment, the expected benefits from the investment and a roadmap of the investment, excluding any commercially sensitive information.

Enabling Functions

- 3.31 Enabling Functions are functions that deliver services on behalf of the whole organisation. This includes: IT & telecoms, property management, HR & non-operational training, finance, audit & regulations and insurance and procurement.¹² Some of these services will continue to be provided by National Grid Plc through the Transitional Service Arrangements (TSA) and Operational Services Agreement (OSA), as NESO looks to develop its own standalone capabilities.
- 3.32 NESO should clearly outline which of its total Enabling Function costs it expects to incur through the TSAs/OSA and which it expects to incur directly. This distinction should also clearly show the breakdown between ongoing/run the business costs, versus one-off costs incurred to deliver new systems or capabilities.
- 3.33 NESO's Enabling Function cost estimates should be informed by its most recent TSA/OSA exit plans and should consider any changes to the initial Day 1 TSA/OSA charges that NESO expects to materialise because of its TSA/OSA exit plan. Where relevant, NESO should provide a range of forecasts for Enabling Function costs to demonstrate total costs in different TSA/OSA exit scenarios. NESO should clearly explain its assumptions behind these estimates, including which areas of its

¹¹ [Decision on IT Guidance for ESO Business Plan Guidance | Ofgem](#)

¹² These were previously referred to as "Shared Services" in BP2. We have updated the term to reflect NESO's separation from National Grid Plc.

Enabling Functions it expects to develop accelerated, standalone capabilities for during BP3 and how this will provide overall value for money.

4. Ofgem’s determinations for BP3

This chapter outlines the scope and content of Ofgem’s determinations on NESO’s Business Plan submission for BP3.

Overview

- 4.1 Part C of Condition G1 of NESO’s licences sets out at a high level what Ofgem’s determinations on NESO’s business plans will consider. This includes our views and conclusions on the key strategic aims, activities and costs outlined in the Business Plan, in line with the requirements of this document.
- 4.2 As set out in F1.3 of NESO’s licences, NESO must have regard to any relevant Plan Determination made by the Authority in accordance with Condition G1, including but not limited to any determination by the Authority that the licensee must: deliver a specific activity or set of activities at a different cost than proposed by the licensee in its Business Plan; or not carry out an activity at all.
- 4.3 This chapter expands on these licence conditions and outlines the specific areas we intend to make determinations on for BP3. This process is for BP3 only and may change for subsequent Business Plan periods as we develop an enduring regulatory approach.

Key elements of our determinations

- 4.4 As noted in Chapter 1, we expect our determinations to cover three areas, outlined further below:
 - An assessment of NESO’s Performance Objectives;
 - A value for Money assessment; and
 - Reporting requirements, including Performance Measures.

Performance Objectives assessment

4.5 When making our determination of NESO’s Performance Objectives, our assessment will consider whether the Performance Objectives and Success Measures:

- Sufficiently cover key areas and priorities - reflecting the SPS, industry feedback and consumer interests, and that no gaps remain;
- Are suitably stretching and ambitious; and
- Are clear and measurable.

4.6 We expect to work with NESO prior to its final Business Plan submission to minimise scope for misaligned views. If gaps or differences of opinion remain, we may add, remove or amend the Performance Objectives to ensure clarity on how NESO’s performance will be considered. We will explain these changes, as part of our determinations, to provide clarity on the reasons.

4.7 Our determinations on the Performance Objectives will provide an ex-ante view on what NESO needs to do to perform well and exceed expectations in its end of year performance assessment (as set out in more detail in the NESO Performance Arrangements Governance Document).

Value for Money assessment

4.8 Through our Value for Money assessment, we will make a determination on two aspects:

- Whether the proposals in the Business Plan, including any new investments, have been sufficiently justified to be undertaken and funded by consumers; and
- Whether the Business Plan has demonstrated overall value for money for consumers, and where particular areas of activity or investment may need further demonstration in order for NESO to perform well in its end of year performance assessment.

4.9 For the first part of our assessment, where we do not consider NESO has sufficiently shown an activity or investment is in the interest of consumers, we will reject that

activity or investment for funding. To avoid ambiguity, we will be clear on the specific activity/investment that should not be taken forward.

- 4.10 For all remaining activities that we have approved for funding, we will carry out a holistic Value for Money assessment. This will provide an overall view on whether the proposals for BP3 provide value for money for consumers. This overall view will be informed by our assessment of individual functions, investments and activities in the Business Plan. We will highlight within our determinations the key areas that have driven our overall conclusions, and clearly specify areas of strong and weak demonstration of value for money.
- 4.11 Our assessment will consider relevant factors used in our ongoing performance assessment of NESO's value for money, such as the demonstration of business suitability, consumer benefits and use of industry best practice.
- 4.12 We will not use a Red Amber Green (RAG) rating of NESO's IT investments to inform our Value for Money assessment, which was used for BP2¹³. Our RAG ratings of the ESO's IT investments during the BP2 incentive scheme will be reflected in our Value for Money assessment and ongoing monitoring through the CMF for BP3. As such, we do not expect that undertaking a RAG rating at the start of BP3 will add additional benefit to the existing levels of scrutiny on NESO's costs. For the avoidance of doubt, this approach does not preclude us from using a RAG rating if we deem it necessary for BP3, or from April 2026 onwards, when RIIO-2 ends.
- 4.13 Our determinations on value for money will provide an ex-ante view on where NESO may need to seek additional efficiencies within its expenditure, or provide additional evidence of benefit/value, in order to perform well and exceed expectations in its end of year performance assessment (as set out in more detail in the NESO Performance Arrangements Governance Document).

Reporting requirements

- 4.14 Following our Business Plan assessment, we will make determinations on the reporting NESO will be required to produce in order to demonstrate achievement of the

¹³ [Decision on IT Guidance for ESO Business Plan Guidance | Ofgem](#)

Performance Objectives and value for money, and which will provide additional reputational incentives on NESO. This will include determinations on:

- The frequency and content of within-scheme reporting against Performance Objectives and value for money;
- Performance metrics – these are measure of performance which will have clear, ex-ante performance benchmarks for below/meets/exceeds expectations. We will make decisions on the type, methodologies and reporting frequency;
- The methodologies and frequency for stakeholder satisfaction surveys; and
- Regularly reported evidence (RRE) – these are numeric measures which are relevant evidence of the successful delivery of NESO’s Business Plan aims, but for which it is not possible to set reliable performance benchmarks and/or where the data is available too infrequently to be a useful performance metric. We will make decisions on the type, methodologies and reporting frequency.

4.15 Given the compressed timelines for the BP3 period and the benefits of ensuring continuity over the RIIO-2 period, we do not currently expect to make any major changes to the Performance Measures for BP3 compared to BP2¹⁴. We will conduct a fuller review to inform NESO regulation from April 2026 onwards, when RIIO-2 ends.

¹⁴ [Business Plan 2 Final Determinations - Electricity System Operator | Ofgem](#)

Annex 1: Glossary

Table 1: Glossary of key terms used in NESO’s Business Plan Guidance Document

Element	Description
Activity	A subset of responsibilities within a function.
Business Plan	Details NESO’s Performance Objectives, associated Success Measures, Major Deliverables and costs for the Business Plan cycle.
Business Plan cycle	The Business Plan cycle is the period for which the Business Plan is applicable. The Business Plan cycle which covers the incentive scheme starting on 1 April 2025 and ending on 31 March 2026 is called BP3.
Delivery schedule	A grouping of deliverables for either a role or the Business Plan in BP2.
Electricity System Operator (ESO)	The entity which is expected to be designated as NESO in 2024.
Function	A group of NESO activities as set out and defined by NESO in the Business Plan.
Incentives scheme	The process over a business plan cycle to assess NESO’s performance.
Major Deliverable	Specific, measurable and timebound outputs that are key to achieving the Performance Objectives for the annual Business Plan submission. In most cases, we would expect delivery of these Major Deliverables to be relevant Success Measures.
NESO Performance Panel	A mix of independent experts and industry representatives that are responsible for reviewing NESO’s plans and performance, as well as performing an End of Scheme evaluation of NESO’s performance.
Performance Measure	A measure of NESO’s performance, including performance metrics, stakeholder satisfaction and other regularly reported evidence.

Performance Objective	An annual key outcome or output aligned with NESO regulatory duties and industry needs, with associated Major Deliverables and Success Measures.
RIIO-2 period	RIIO-2 covers the period starting 1 April 2021 and ending on 31 March 2026.
Role	One of the three roles used to structure obligations under the incentive framework for BP2: control centre operations; market development and procurement; and system insight, planning and network development.
Strategic Aim	Key outcomes that NESO intends to achieve to deliver its overall organisational vision, including its strategy for delivering these outcomes. Strategic aims are set in the medium to longer term, beyond the annual Business Plan submission, and provide clarity on what is underpinning NESO’s Performance Objectives.
Success Measure	Supporting evidence used to evidence <i>how</i> each Performance Objective has been delivered.
Value for Money assessment	Considers whether NESO has delivered value for money, striking the optimal balance between maximising benefit delivered from outputs whilst minimising costs.