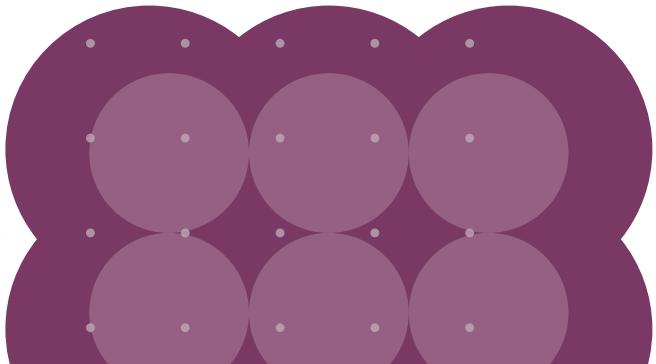
NESO1 Cost Narrative

NESO
National Energy System Operator

Contents



Executive Summary

The cost template sets out the cost envelope for our NESO1 business plan. Cost projections are based on a strategic top down planning approach, rolling forward our BP3 plan and adjusting the cost base where we expect to take on new activities or see material changes to our previous cost assumptions. Setting these financial boundaries supports an ex-ante assessment of our plan based on a clear understanding of the strategic context, expected outcomes, economic rationale, and value for money. Within these boundaries we can then explore, prioritise and refine delivery options as well as manage risk, strategic alignment and affordability.

Following publication of our BP3 plan, we provided further transparency of costs in our BP3 Activity Annex. Our cost template is aligned to the cost reporting structure outlined in that annex.

Operating cost base

People costs

The starting point for building our NESO1 cost base is the exit headcount in our BP3 submission. The same number of roles have been costed assuming an overall year on year wage inflation target of 5% over the prior year.
Annual salary increases for our staff population are subject to collective agreements in place at the time as per the national collective bargaining framework agreed between management and recognised trade unions. As outlined in our remuneration policy, manager salaries are generally reviewed annually and are targeted broadly at mid-market of our peer group. Our forecast increase of 5% across the total employee population is an estimate based on prior year's settlements. Actual salary increases in the NESO1 period will be set in accordance with our published remuneration policy, with the oversight and approval of the NESO remuneration committee.

Non-people costs

Our core assumption is that non-people costs will increase by 3% year on year. This assumption is based on inflation, using CPIH as the benchmark. As of September 2025, CPIH stands at 4.1% year-on-year. The Bank of England expects inflation to decline gradually through late 2025 and into 2026, and most forecasters share this outlook.

Investments

We have outlined the Digital Data and Technology (DD&T) investments we will make during the NESO 1 period in our NESO1 Digital Data and Technology Annex. Investments have been grouped by roles and categorised based on themes which better explain their purpose and impact. To create alignment with the BP3 portfolio of investment we have mapped the BP3 investments to the new NESO1 investments based on the mappings outlined in Appendix 5.1 and 5.2 of the NESO1 DD&T Annex. Categorisation of BP3 investments by role may therefore differ to our BP3 Activity Annex.

The costs and deliverables for DD&T investments are fully documented in the DD&T Investment Annex and are not discussed in this document.

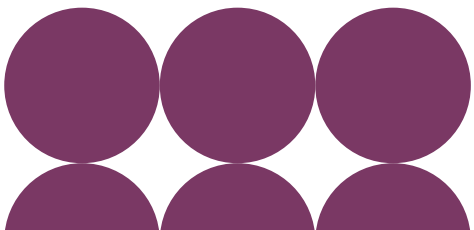


Table Narrative

Energy Markets

Basis of Preparation

Headcount and 3rd party contracts have been rolled forward from our BP3 plan with inflationary uplifts applied. Headcount remains flat over the NESO1 period across all activities at a total of 254 FTE.
We have not included any forecast costs for investment in regulatory change arising from our GB regulatory and Trade and Co-operation Agreement (TCA) obligations. This is because of the inherent uncertainty of externally driven change.

Level of Confidence

Our BP3 plan was resourced to support government's REMA programme. Following the decision to retain a single national wholesale electricity price and reject zonal pricing, we are reviewing the level of resources to support the successor programme Reformed National Pricing (RNP) and have therefore not made any adjustment to cost forecasts.
Planning and discovery activities for investment in regulatory change will be manged through the BAU teams within Energy Markets. Funding for regulatory changes required over the NESO1 period will be assessed and sanctioned through our internal sanctioning committee. We will provide cost forecast updates as part of our regular engagement with Ofgem.

Strategic Energy Planning

Basis of Preparation

For most activities within Strategic Energy Planning (SEP) we have assumed that the costs for NESO1 will be aligned to our BP3 resource requirements and have rolled forward forecasts with an inflationary uplift. Note that for 2025/26 we formed a central SEP engagement team by reallocating 44 FTE from within the SEP directorate.
The areas where we have adjusted our cost estimates are as follows.

Regional Energy Strategic Planning (RESP)

Table 3.2 in our cost template includes 153 FTE for RESP in FY26, which is 12 FTE lower than in the BP3 cost annex reflecting 12 FTE that were moved into the central SEP engagement team. Our NESO1 plan assumes the addition of a further 45 FTE in FY27 and a reduction of 10 FTE in FY28. Our planned headcount for RESP of 198 FTE (210 FTE including central resource) is at the low end of the range of resource requirements set out in our Blueprint (190-266 FTE). This reflects a decision to optimise the balance of permanent and partner resources and onboard a technical partner to provide additional support as we implement RESP for the first time. Our forecast costs therefore reflect lower headcount but additional consultancy costs for FY27 (£4.5m) and FY28 (£1.1m).

We are delivering RESP through a hub-and-spoke model, where the central hub provides oversight, digital tools, and national alignment, while regional "spokes" develop locally informed plans, engage stakeholders, and coordinate bottom-up data and insights. To operationalise this model, we have forecast costs to stand up six regional offices, each tailored to the geographic and stakeholder complexity of its region. Forecast property costs in table 3.2 are £6.2m for FY27 and £3.2m for FY28. Cost estimates cover one off set up costs in FY27 of £3.4m for all six properties covering refurbishment as well as legal, surveyor and project management costs. Annual running costs of £3.0m FY27 and £3.2m FY28 cover rent, rates, utilities and service charges, based on our estimated space requirement of approximately 4,000sq ft per location. Costs are derived from a bottom-up analysis using Oktra market benchmarks, which considered regional variations in lease and refurbishment costs.

Zero Carbon Operation Strategy

Our BP3 plan included £5.4m consultancy spend to support enhanced DER visibility, which is being delivered through our Transformation to Integrate Distributed Energy (TIDE) programme. We have rolled forward this cost forecast into FY27 but have decreased the forecast spend to £1.5m in FY28 to reflect the current uncertainty of the scope of work beyond FY27.

Hydrogen Planner

We have included forecast costs for planning of hydrogen transport and storage infrastructure within our existing strategic energy planning activities (SSEP, CSNP and RESP). We have costed 30 roles split across Gas Network Analysis, Gas Engineering Standards and Insights & Reporting. Our estimate of the number and grades of roles is based on SME input and experience in developing other areas of strategic planning capability. We recognise that there is uncertainty in this estimate and actual recruitment into these roles will be subject to development of a business case and further internal governance.

Central Costs - CP30 Flexpool Resources

In our BP3 plan we made provision for a pool of 40 power systems engineering capability to support additional workload driven by CP30 (Table 3.2 'Central Costs'). The planned cost of this resource was attributed to the strategic energy planning role, recognising that this capability could be deployed across NESO. During BP3, it was agreed at Quarterly Finance Risk Review (QFRR) and OpCo that 7 FTE were to be reallocated from this pool into the Energy System Resilience teams to address the growing complexity and operational demands of resilience planning. This shift was driven by the need to strengthen NESO's modelling and emergency response capabilities in light of emerging threats such as severe weather, cyber risks, and cross-vector interdependencies. The reallocation supported the development of NESO's first Energy Resilience Assessment and enhanced readiness for seasonal outlooks and restoration standards.

As NESO transitions from BP3 into NESO1, this reallocation is being formalised meaning the roles are now permanently embedded within the Resilience and Emergency Management role. This reflects the organisation's capacity requirements more accurately in whole-system resilience and the recognition that emergency preparedness and risk modelling are central activities. Importantly, this adjustment has been made without increasing the overall cost base. We have maintained total headcount and budget envelope by reallocating internal resources, ensuring that the organisation remains agile and cost-efficient while responding to the evolving energy landscape.

Level of Confidence

We have a medium degree of confidence across strategic energy planning due to the volatile nature of the external environment and its subsequent impact.

Energy Insights

Basis of Preparation

In BP3 we set out our resourcing plans for our expanded role in energy insight and policy advice. We do not foresee any material level of change to the resources required over the NESO1 period.

Level of confidence

We have a high degree of confidence in our NESO1 cost forecast for Energy Insights.

Security of Supply

Basis of Preparation

Further to our BP3 plan we have added 4 FTE to our core modelling team as noted in the narrative for table 3.2 (CP30 Flexpool Resources).
We have incorporated 15 new roles in our plan for Hydrogen security which will allow us to assess the role of Hydrogen in future energy security and resilience, including supply adequacy, infrastructure risk and transition planning. The forecast of new roles required is based on SME estimates.

Level of confidence

Our role in Hydrogen planning and security is new and untested. We will make a further assessment of resource requirements as this role develops and before we begin recruitment.

Energy System Resilience

Basis of Preparation

Further to our BP3 plan we have added 3 FTE to our emergency response team as noted in the narrative for table 3.2 (CP30 Flexpool Resources).
Note that the 23 FTE supporting energy sector security were included within DD&T under the Chief Information Security Officer (CISO) in our previous plan. The team has been transferred into our resilience and emergency management directorate. The move of the team to REM ensures a division between those who look at security and resilience of the sector versus those that look at NESO.

Level of confidence

Energy System Resilience is an expanded role under our NESO remit, and we will continue to test whether the resource levels are appropriate for the services that we deliver. We are currently working through an operating model to understand resource/cost needs to meet the needs of the role. This is currently an area of low confidence and has therefore not included within the NESO 1 plan. This will be subject to internal governance and approval.

System Operations

Basis of Preparation

In NESO1 we have not changed the level of resources required from our BP3 plan with resource costs being rolled forward with inflationary increases. An additional £4.3m has been included in FY27 for System Access Reform development. This work is underway in FY26 and will require third party expertise and assurance as we explore and identify requirements for better optimised outage planning.

Level of confidence

System Operations is a mature function within NESO, so for the core activities we perform there is a degree of confidence in our cost forecasts. However, there are areas where we continue to adapt to drive lower balancing costs, reduce skip rates, manage operational risk and system security, and improve system access to meet CP30 targets. In these areas we have a lower level of confidence in our cost forecasts with an underlying assumption in our plan that new initiatives can be accommodated within the current operating cost envelope.
In respect of Systems Access Reform we have a medium degree of confidence in the planned costs due to work undertaken and in progress in FY26. Note delivery of the solution is factored into the investment plan.

Network Operability and Connections

Basis of Preparation

In NESO1 we have not changed the level of resources required from our BP3 plan with resource costs being rolled forward with inflationary increases.

Level of confidence

The connections reform programme is a key area of focus with high levels of uncertainty regarding resourcing. We are continuing to plan into the future however due to the uncertainty we are assume that spend remains in line with BP3. Connections reform is an area of high uncertainty.

Facilitating Sector Digitalisation

Basis of Preparation

In NESO1 we have not changed the level of resources required from our BP3 plan with resource costs being rolled forward with inflationary increases.

Level of confidence

We have a high degree of confidence in the planned costs. The staffing level of 12 FTEs is in line with the resource requirement that has been sanctioned through our sanctioning committee. We will continue to review the resource levels as the Data Sharing Infrastructure project progresses.

Role Delivery Support

Basis of Preparation

We have assumed a flat level of headcount based on our BP3 resource plan for the NESO1 period.

We are increasing our data maturity, which include developing driving our data culture, trust and transparency. In FY27 and FY28 we have included an additional spend within operating costs of £5m to continue our Managed Service Providers relationships looking at data management services. This work was funded through investment in FY26, so does not represent an overall increase in cost (reduction of £6.3m in data investment in FY27 and £6.5m in FY28). We have chosen to use MSPs due to the transitional nature of the work undertaken.

Level of confidence

We have a high degree of confidence in relation the increasing our data maturity, due to the arrangements already being in place.

Corporate Functions

Basis of Preparation

For most activities we have assumed that levels of headcount remain flat to the BP3 plan with inflationary uplifts to people costs and contracts. Exceptions are detailed below.

Graduates

The Early Careers programme creates a key path to managing skills risk within NESO and abiding to our role as a talent incubator for the industry. We are looking to double the cohort by close of FY28.
Following approval by our Executive Committee, the NESO Early Careers programme for FY27 has been launched and we plan to hire approximately 50 more learners across our graduate, apprenticeship, internship and employability programmes. The numbers we are recruiting are based on the demand from across the business with confirmation that there will be sufficient open positions to accommodate learners as they roll off the programme.

Property Costs

Corporate functions property costs cover the lease, service charge, business rates, hospitality and maintenance costs for our core business and operational sites. Costs are broadly flat in FY27 with the additional rental costs for our new London property being offset by one-off costs in BP3 associated with moving and setting up a new lease. Costs in FY28 reflect expected year on year increases in rent and service charges across the property portfolio. Costs associated with regional properties to support our RESP model are included in table 3.2 Strategic Energy Planning.

Finance & People Day 2

In the finance and people functions our planning assumption is that the teams delivering the Day 2 systems will transition back to their relevant directorates from mid-2026. This is consistent with our DD&T delivery model, where product owners are embedded in the business rather than being DD&T led. Forecast costs across our finance and people functions is £3.1m in FY27 and £6.3m in FY28. The teams will be focussing on building the support model. They will assess and triage and lead adoption of regular system updates as well as delivering the backlog of updates not initially adopted in the first release. They will also lead and deliver mini-projects for future enhancements such as consolidating existing tools into the system, delivering long term cash forecasting and business and workforce planning. We are beginning to work through the target resource model which will be reflected in budget resource allocations.

People Business Partners

Our assumption in BP3 was that most of the cost of the people business partners would be attributed to separation of systems and processes from National Grid in FY26. Therefore, underlying costs have increased by £1.2m in FY27 onwards. As we separate from National Grid and stand up our own services, business partners will provide critical support to the business functions to manage people risk in line with our target operating model. In addition to that we have added a further £1.8m of 3rd party spend in FY27 and £1.6m in FY28.
These additional costs are required to underpin the people function in providing critical services to business functions on managing people risk in line with our operating model. This impacts three key areas; job architecture, cultural transformation and learning and development. Current expectations are that costs are temporary with NESO looking to deliver and develop across NESO1 before returning to an optimised position that serves the future needs of NESO.

Level of Confidence

We have a high level of confidence in the forecast for mature activities which are not impacted by the separation from National Grid systems and processes, such as assurance, external affairs and regulation. We will continue to embed our people, finance and procurement activities alongside the exit from National Grid systems and processes and will assess resource levels throughout the NESO1 period.

Cyber & Physical Security

Basis of Preparation

In NESO1 we have not changed the level of resources required from our BP3 plan with resource costs being rolled forward with inflationary increases.

Level of confidence

We have a reasonable level of confidence in our cost estimates, which may need to be refined as we exit from National Grid services. Given NESOs position we have a low-risk appetite and will continue to monitor the external environment and invest conscientiously to ensure we are within our appetite.

Digital & Technology Support

Basis of Preparation

As we move to increase our proportion of cloud-based products and adopt AI tools we recognise that there will be an increase in run and consumption costs. We have looked at our consumption patterns and projected forwards to gauge what would be reasonable for an organisation such as NESO. We have included an additional £10m in FY27 and £15m in FY28 in the NESO1 plan.

Level of confidence

We have a medium degree of confidence in relation to run and consumption costs given that we currently do not have past experience as an organisation and cannot predict what dis-synergies there may be in negotiating contracts as a smaller organisation outside of the National Grid Group. As an example, the environment in which NESO operates is becoming increasingly complex, therefore it is likely that the modelling scenarios and data consumption also grow congruently.

Transformation

Basis of Preparation

Table 4.5 outlines the resource requirement for delivery of our transformation projects. Cost associated with the FTE in this table are attributed to investments, so there is no material operating cost for this table.

Contingency Control Centre

We have removed the investment cost related to our contingency control centre arrangements in all years. This is because we are reviewing the needs case and setting out the strategic context and rationale for this investment. The cost out turn for this project is therefore highly uncertain. We will continue to work with Ofgem to share updated views of likely cost as this project progresses.

National Grid Separation (Day 2)

The 86 FTEs for Day 2 activity in FY26 are spread across our finance (28 FTE), people (20 FTE) and DD&T delivery (38 FTE) teams. Our finance and people teams are supporting the delivery of a replacement suite of integrated HR, finance and procurement systems which will offer streamlined, standardised, automated processes, and be scalable to enable future technological advances such as Artificial Intelligence (AI). The DD&T team will deliver new foundational services that will include our own corporate network, technology platforms, applications, and end user computing capabilities. Successful delivery of these systems and infrastructure will be a key enabler to exit TSA agreements by September 2026.

Following delivery of our Day 2 project, we have assumed that the finance and people FTEs will return to their directorates to embed new system releases and processes (described in table 4.2 Corporate Functions). DD&T project resources will support the OSA project which will deliver operational separation from National Grid covering critical services such as CNI hosting, networks, control room telephony, metering operations, and contingency arrangements. Full exit of the Operational Service Agreements with National Grid is not expected until 2031, and we will continue to refine the project resourcing requirements, with resources not required to support OSA transition likely being utilised within the broader programme and change management team (Table 4.1 Role Delivery Support).

Level of confidence

Costs are inherently uncertain in major transformation programmes. Our current view is that we will deliver our Day 2 separation programme within the £110m which has been sanctioned by the NESO board.

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