



Making a positive difference
for energy consumers

Direct Dial: 020 901 7000

Email: ESOperformance@ofgem.gov.uk

Date: 15 March 2022

Dear stakeholders,

Call for evidence on ESO's mid-scheme performance 2021-23

Background

In April 2021, we introduced the RIIO-2 price control for the Electricity System Operator (covering the period between 2021-26).¹ We have introduced a pass-through funding approach, supported by incentives to deliver value for money, which will enable the ESO to be agile and adapt quickly. The incentives framework will run over a two-year period (aligning with the business plan period) and is underpinned by the ESO Roles Guidance that sets out our expectations for the ESO's activities and outcomes.² We will evaluate the ESO's combined performance on outputs and costs, across the full spectrum of its roles and the incentives will provide the ESO with additional returns where the ESO has delivered exceptional performance.

The ESO Performance Panel and Ofgem will assess the ESO's performance every 6 months.³ The Panel and Ofgem will identify areas where the ESO are performing in line with expectations, where it is exceeding expectations and where it is not meeting expectations. This will give the ESO early feedback on its performance and the opportunity to act on this and make any necessary improvements during the remaining months of the scheme.⁴

¹ RIIO-2 Final Determinations: <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

² ESO roles and principles 2021-23: https://www.ofgem.gov.uk/sites/default/files/docs/2021/03/eso_roles_guidance_2021-23_1.pdf

³ The Panel and Ofgem 6-month review: <https://www.ofgem.gov.uk/publications/electricity-system-operators-six-month-review-2021-23>

⁴ Further detail on the ESO regulatory and incentives framework can be found in the ESORI guidance document: [ESORI Guidance Document 2021-2023 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/publications/esori-guidance-document-2021-2023)

Stakeholder views

Stakeholder feedback will continue to be a key part of the framework. It is one component of the evaluation criteria we will use to assess the ESO's performance.⁵ We want to utilise the knowledge and experience of a wide array of industry parties and independent experts to gain a comprehensive picture of the ESO's performance. This is vital for overcoming the information asymmetries between the ESO and other parties, including Ofgem.

We are publishing this call for evidence to request stakeholders' feedback on the ESO's performance from April 2021 to date. We would appreciate feedback on any roles (see the Annex for a description of the ESO's roles and activities) and any deliverable in the ESO's business plan.⁶ This may include areas where you believe the ESO has met or exceeded expectations and/or the areas where you may have concerns that expectations are not being met. We are happy to receive feedback in written format, but we are also more than happy to receive feedback via more informal routes (e.g., by email, phone etc). We would appreciate if you could send your feedback to ESOPerformance@ofgem.gov.uk **by 19 April.**

Next steps

The ESO will publish a report on its performance covering the first year of BP1 in May. We will hold an online stakeholder event in June. Following this, the ESO Performance Panel will convene in June to make its mid-scheme assessment of the ESO's performance using the evaluation criteria. A report will be published detailing the panel's assessment. We will also assess the ESO's performance using the evaluation criteria and will publish a report detailing our assessment.

We look forward to hearing from you. If you have any questions on the contents of this letter, please contact us at the email address listed above.

Yours sincerely,

Maryam Khan

Senior Manager, ESO Regulation

⁵ The evaluation criteria include plan delivery, metric performance, stakeholder evidence, demonstration of plan benefits and value for money. Further information can be found in Chapter 3 of the ESORI Guidance document 2021-23: *ibid*

⁶ ESO business plan delivery schedule: <https://www.nationalgrideso.com/document/189126/download>

Annex – ESO’s roles

For the 2021-23 incentive period, we will evaluate the ESO’s performance against each role.⁷ The three roles and activities⁸ are listed below.

| Role | Activities & outputs |
|---|---|
| Role 1 - Control centre operations | <p>Activity 1a: System operation</p> <ul style="list-style-type: none"> ▪ Balancing efficiently ▪ Maintaining security of supply ▪ Making trade-offs across time horizons ▪ Ensuring future operability ▪ Coordinating with other network operators ▪ Minimising outage changes caused by error ▪ Oversight of balancing services markets ▪ Maintaining effective and reliable IT systems ▪ Operating the network carbon free <p>Activity 1b: System restoration</p> <ul style="list-style-type: none"> ▪ Restoration plans and tools ▪ Restoration policy ▪ Restoration services procurement <p>Activity 1c: Transparency, data, and forecasting</p> <ul style="list-style-type: none"> ▪ Provision of market information ▪ Driving the energy sector digitalisation ▪ Using and exchanging data ▪ Forecasting ▪ Data use and exchange |
| Role 2 - Market development and transactions | <p>Activity 2a: Market design</p> <ul style="list-style-type: none"> ▪ Competitive market-based procurement ▪ Close to real time procurement ▪ Delivering accessible markets ▪ Signalling procurement needs ▪ Coordinated procurement across the whole system |

⁷ The ESO’s Roles and Principles:

https://www.ofgem.gov.uk/system/files/docs/2020/03/eso_roles_and_principles_guidance_2020-21.pdf

⁸ The ESO’s deliverables for 2020-21 are listed in its Forward Plan addendum:

<https://www.nationalgrideso.com/document/173131/download>

| | |
|--|---|
| | <p>Activity 2b: Electricity Market Reform</p> <ul style="list-style-type: none"> ▪ User experience with the EMR portal ▪ Implementation of policy and rule changes ▪ Providing support to EMR parties ▪ Making accurate prequalification decisions ▪ Improving EMR processes ▪ Monitoring compliance with rules ▪ Security of supply modelling <p>Activity 2c: Industry codes and charging</p> <ul style="list-style-type: none"> ▪ Managing codes changes ▪ Improving GB rules and standards ▪ Influencing, implementing, and administrating European rules ▪ Promoting efficient charging and access arrangements |
| <p>Role 3 - System insight, planning, and network development</p> | <p>Activity 3a: Connections and network access</p> <ul style="list-style-type: none"> ▪ Managing connections ▪ Outage and medium-term access planning <p>Activity 3b: Operational strategy and insights</p> <ul style="list-style-type: none"> ▪ Providing energy insights ▪ Producing analytically robust scenarios and long-term forecasts ▪ Ensuring coordinated scenario development <p>Activity 3c: Optimal network investment</p> <ul style="list-style-type: none"> ▪ Identifying network needs and solutions ▪ Coordination between network assessments ▪ Procurement of network solutions ▪ Consistency with distribution network planning |