

The Electricity System Operator Regulatory and Incentives Framework from April 2018

Consultation on our minded to decision

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Overview:

The Electricity System Operator (ESO) sits at the centre of our energy system. As the system evolves, we believe the role and structure of the ESO needs to evolve with it. We are proposing to create a legally separate ESO function within National Grid plc in order to mitigate conflicts of interest, and to ensure it is well positioned to both respond to and help facilitate the energy system transformation.

A new regulatory framework for the ESO is key to achieving the aims of legal separation. This document is our consultation on our proposed changes to the ESO regulatory and incentives framework from 1 April 2018. Our proposals represent a material change from the previous approach. They aim to encourage the ESO to more proactively identify how it can maximise consumer benefits across the full range of its activities. Our proposals include an updated set of principles for the ESO; a requirement to develop forward plans with industry; the regular reporting of performance metrics; the introduction of a new ESO Performance Panel; and a move towards a broader, more evaluative financial incentive.

We intend to make a final decision on the framework changes early next year. Whilst we expect this framework to remain in place for the next three years, we intend to keep it under review in the first year, and make any necessary refinements alongside the legal separation of the ESO in April 2019. The lessons we learn from this new framework will also inform of the development of the ESO's RII0-2 scheme from April 2021.

Associated documents

A more independent ESO

Statement on the future of Electricity System Operation (12 January 2017)

https://www.ofgem.gov.uk/system/files/docs/2017/01/statement_on_the_future_of_electricity_system_operation.pdf

Future Arrangements for the Electricity System Operator: its role and structure (12 January 2017)

<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-its-role-and-structure>

Future Arrangements for the Electricity System Operator: Response to Consultation on SO Separation (3 August 2017)

<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-response-consultation-so-separation>

Future Arrangements for the Electricity System Operator: Informal Consultation on ESO Licence Drafting (1 December 2017)

https://www.ofgem.gov.uk/system/files/docs/2017/12/licence_separation_informal_consultation.pdf

The ESO regulatory and incentives framework

Electricity System Operator Incentives from April 2017 (4 August 2016)

<https://www.ofgem.gov.uk/publications-and-updates/electricity-system-operator-incentives-april-2017>

Final Proposals for Electricity System Operator incentives from April 2017 (1 March 2017)

<https://www.ofgem.gov.uk/publications-and-updates/final-proposals-electricity-system-operator-incentives-april-2017>

Future Arrangements for the Electricity System Operator: the regulatory and incentives framework (7 February 2017)

<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-regulatory-and-incentives-framework>

Future Arrangements for the Electricity System Operator: Working Paper on the Future Regulatory Framework (11 July 2017)

https://www.ofgem.gov.uk/system/files/docs/2017/07/future_so_reg_framework_july_2017_working_paper.pdf

Interactions and links

A Smart, Flexible Energy System – a call for evidence, (10 November 2016)

<https://www.ofgem.gov.uk/publications-and-updates/smart-flexible-energy-systemcall-evidence>

Open letter on the RIIO-2 Framework (12th July 2017)

<https://www.ofgem.gov.uk/publications-and-updates/open-letter-riio-2-framework>

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Executive Summary

The Electricity System Operator (ESO) has a key role in our energy system. Ofgem, BEIS and National Grid jointly agree that a more independent ESO can achieve benefits for consumers by enabling a more secure, competitive and flexible system. We are therefore proposing to introduce a legally separate ESO company within National Grid plc by 1 April 2019, to enable it to take on a more proactive role in shaping the energy system transformation.

We believe that a new regulatory framework is needed to support our future aims for the ESO. We believe the period from April 2018 to March 2021 provides a window to try new approaches to regulating and incentivising the ESO which are more aligned with our future aims. This will then inform the development of a single, consolidated regulatory scheme for the ESO under the RIIO-2 framework. This document is our consultation on our proposed changes to the ESO regulatory and incentives framework from 1 April 2018. This follows on from our initial consultation in February, our working paper in July and our stakeholder workshops held in October.

Our work in this area has drawn from our regulatory stance on *Driving Value in Monopoly Activities through Competition and Incentive Regulation*.¹ This includes our aim to engineer our price control processes, incentive mechanisms and reporting requirements to ensure the governance of monopoly companies and the development and delivery of their strategies are aligned with the interests of consumers. As well as managing the uncertainty facing network companies and Ofgem by considering all available tools.

A new approach to ESO regulation

Our rapidly changing energy system needs an ESO that proactively responds to system challenges and maximises consumer benefits across the full spectrum of its activities. Our review of the past framework has identified the need for fundamentally new approaches. In particular, we believe we need be clearer about our expectations for the ESO and make it more clearly accountable to its wider stakeholders. We also believe we need to move away from the use of narrow mechanistic incentives, towards a broader evaluative incentive approach. The previous mechanistic approach to incentives worked better in a more stable environment, when we had discrete and easier to measure objectives for the ESO. However, we do not believe that this approach will support the more proactive, more holistic and more customer focussed behaviours we expect from the ESO in future.

¹ <https://www.ofgem.gov.uk/publications-and-updates/ofgems-regulatory-stances>

Our proposed framework changes from April 2018

We are proposing a suite of changes to the ESO regulatory framework from 1 April 2018. This includes an update to the seven principles we set out for the ESO in July, which are designed to set clear expectations about the behaviours we expect from the ESO under its licence. We are proposing a requirement on the ESO to produce forward-looking plans with its stakeholders to demonstrate how it will maximise consumer benefits against each principle. The plan would include a transparent set of performance metrics, which the ESO would report on regularly throughout the year to help stakeholders track the ESO's performance against the plan and principles.

At the end of the year, a new Performance Panel will score the ESO's performance in relation to each principle based on clear up front evaluation criteria. This will recommend where the ESO has gone beyond or fallen below expectations. This scorecard would be the key input into a decision by the Authority to financially reward or penalise the ESO up to a maximum cap and floor of $\pm\text{£}30\text{m}$. We propose that this incentive payment would be recovered from market participants through Balancing Services Use of System (BSUoS) charges in the same way as it is now.

Implementation and next steps

We welcome stakeholder views on all of these proposals by 19 January 2018. Subject to this consultation, we plan to make a final decision on the framework changes in February. Alongside this, we plan to publish a statutory consultation on the licence changes needed to introduce the new arrangements. We also plan to publish a supporting guidance document in order to create clarity around the new reporting requirements and incentive processes.

We recognise that our proposals represent a fundamental change to the previous framework. We therefore intend to review the effectiveness of this new framework over the course of 2018/19. Whilst our intention is that this overarching approach would remain broadly the same for the three-year period between 2018 and 2021, we will consider the need to make further refinements from 1 April 2019, alongside the legal separation of the ESO.

1. Context and interactions

Chapter Summary

The Electricity System Operator (ESO) sits at the centre of our energy system. We are proposing to create a legally separate ESO to enable it to take on a more proactive role in shaping the energy system transition. A redesigned regulatory framework is key to achieving this. We intend to improve the existing framework in a number of stages over the following years. This document is our consultation on our proposed changes to the ESO regulatory and incentives framework from April 2018.

1.1. This chapter summarises the background to this consultation. It explains what the Electricity System Operator (ESO) is and how its role and structure is changing. It then explains why we consequently believe we need a new regulatory framework for the ESO, what steps we have taken so far and what our future intentions are.

Introduction

1.2. Over 65% of a consumer's annual electricity bill is made up of the costs associated with producing, buying and transporting electricity over our networks. The ESO sits at the centre of this electricity system. It has a number of different roles, from the day-to-day operation of the system, through to managing new network connections and longer-term network planning. The ESO role is currently carried out by National Grid Electricity Transmission plc (NGET), which is also the owner of the transmission network in England and Wales. NGET is part of the wider National Grid plc group.

1.3. The energy system is undergoing significant change, as we seek to decarbonise our supplies and make the most of potential new technologies and business models. The electricity generation mix is moving towards even greater volumes of new smaller scale, intermittent sources of energy, connected directly to our distribution networks. Whilst digitalisation and the electrification of transport and heat will have significant implications for energy demand both locally and nationally. These changes mean it is no longer appropriate to consider different parts of the energy system in isolation. The ESO now needs to more proactively consider the entire electricity system's future needs and coordinate more closely with other energy sector parties, including different network companies.

1.4. The ESO has also taken on new accountabilities in recent years. In 2014, the ESO became the delivery body for the government's Electricity Market Reform (EMR). Whilst in 2015, we gave the ESO additional responsibilities to identify the need for investment in the transmission network and coordinate investment options. Each of these new roles resulted in the strengthening of measures to mitigate conflicts of interest associated with NGET having both SO and Transmission Operator (TO) functions.

Future arrangements for the Electricity System Operator

1.5. In January 2017, The Department for Business, Energy and Industrial Strategy (BEIS), Ofgem and National Grid plc issued a statement which stated that a more independent ESO can achieve benefits for consumers by enabling a more secure, competitive and flexible system.² The statement set out our joint views that the ESO should be underpinned by a governance structure that mitigates any actual or perceived conflicts of interest, and is ready to adapt further as system challenges continue to evolve. Alongside the joint statement, we issued two parallel consultations on the future arrangements for the ESO. One on its future role and structure³, and another on the future regulatory and incentives framework⁴.

A more independent ESO

1.6. In the first of these two consultations, we set out our view that change is required to the structure of the ESO to mitigate any actual or perceived conflicts of interest between National Grid's ESO function, TO function and other business interests. We proposed that by 1 April 2019, the ESO should be a separate company, within National Grid plc, with its own specific licence. We also proposed that there should be appropriate licence modifications to ensure sufficient separation between the ESO and other National Grid plc businesses. Alongside this, we outlined our views on how the ESO's roles in the energy system should evolve to ensure it can both respond to and help facilitate the energy system transformation.

1.7. In August this year, we published our response to this consultation, which outlined our direction of travel on the future separation arrangements for the ESO. This included some of the minimum requirements that we thought were necessary in order to achieve an effective separation. On 1 December, we then published an informal consultation on how we intend to separate NGET's electricity transmission licence in to two separate licences - a NGET (TO) licence, and a new ESO licence.⁵

A new regulatory and incentives framework

1.8. In order to achieve the goals of a more independent ESO, and in order to ensure the ESO performs its evolving roles as well as possible, we believe that we need a new and improved ESO regulatory framework. As set out in our February

² The statement on the future of Electricity System Operation:
https://www.ofgem.gov.uk/system/files/docs/2017/01/statement_on_the_future_of_electricity_system_operation.pdf

³ Future Arrangements for the Electricity System Operator - its role and structure:
<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-its-role-and-structure>

⁴ Future Arrangements for the Electricity System Operator - the regulatory and incentives framework:
<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-regulatory-and-incentives-framework>

⁵ Both consultations can be found at: <https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-so-reform>

consultation, we believe this is likely to require a series of step changes to different aspects of the framework over the coming years.

1.9. The current regulatory framework was designed for an integrated ESO and TO and was incrementally adapted over time as the ESO's role evolved. It is currently made up of several components. This includes the suite of obligations on the ESO in its licence, industry codes and primary legislation; the RIIO-T1 price control (described in Box 1); the incentives on the ESO in relation to EMR; and our incentives schemes on the ESO's external cost of operating the system. For a more detailed overview of the existing ESO regulatory framework, please see Chapter 2 of our February consultation.

Box 1: Interactions with the RIIO-T1 price control

The RIIO (Revenue = Incentives + Innovation + Outputs) T-1 price control sets the outputs that transmission network companies need to deliver for their consumers, and the associated revenues they are allowed to collect for the 8 year period from 1 April 2013 until 31 March 2021. Some key aspects of the current ESO regulatory framework are contained within NGET's RIIO-T1 price control. This includes the ESO's price control for its internal costs, customer satisfaction incentives and various funds for innovation.

Under its internal price control, the ESO is funded for carrying out its roles in the energy system. It has an allowance for its total expenditure on capital and operational costs of around £140m a year. The ESO has a financial incentive to minimise these internal costs whilst delivering its outputs and obligations. This is because it faces a 50% share of any over or underspend against its internal cost allowance.

As set out in our previous consultations, we are not re-opening the RIIO-T1 price control as part of our changes to the ESO framework during 2018-2021. We are therefore not introducing changes to the way we regulate the ESO's internal operating costs or altering its regulated rate of return during this price control period. Instead, we are considering how changes to the 2018-2021 ESO regulatory and incentives framework can interact effectively with and complement the RIIO-T1 price control.

1.10. Our future ambition is to simplify and consolidate this regulatory framework and make it more appropriate for a separate ESO company. However, we will not be able to change parts of this framework (namely the RIIO-T1 price control and the ESO's EMR incentives) until they expire in March 2021. We believe that the next three years, starting from April 2018, provides an excellent opportunity to improve the other parts of the framework to help support our future ESO aims. It presents us with an opportunity to try new and different approaches that could help inform our scheme from 2021 onwards. These timelines are illustrated in Figure 1 below.

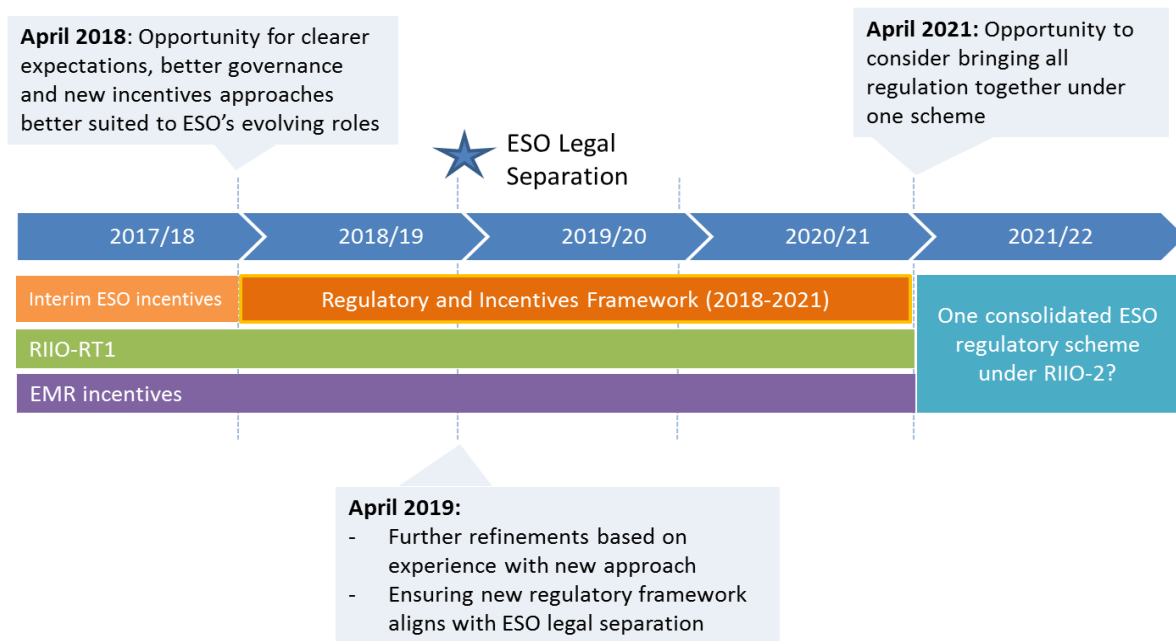
A new ESO regulatory framework: the process so far

'Interim' framework changes for 2017/18

1.11. In August 2016, we launched a consultation on ESO incentives from April 2017. We proposed maintaining the existing framework for an interim period whilst we conducted an in-depth review of the future options. Following this publication, our

concerns about the performance of the existing incentives heightened due to issues with the models underpinning these incentives. We therefore considered a number of alternative options. Following consultation, we ultimately decided to maintain the same incentive framework for a one-year interim period, but with a number of targeted changes. This included a reduction in the maximum penalty and reward associated with the incentive scheme, as well as a number of additional measures to improve the governance of the scheme. We felt this was a proportionate approach to setting incentives for a one-year period given our intention to conduct a more comprehensive review.

Figure 1 – timeline for ESO regulatory framework changes



1.12. We also introduced a number of clarifications in the ESO's licence in relation to its obligation to maintain an economic, efficient, and co-ordinated electricity system. We felt this would make it easier for the ESO and stakeholders to understand what we expected from the ESO for it to comply with its obligations.

Developing the 2018-2021 framework

1.13. In parallel to the August 2016 consultation, we also began work on a fundamental review of the framework that would apply beyond this interim period.

1.14. In our February 2017 consultation, we set out our key objectives and initial thinking for the future ESO regulatory and incentives framework. This included our objectives to introduce an approach that encourages the ESO to maximise the efficiency of the *whole* electricity system, both now and in the future; to make the ESO more clearly accountable to its stakeholders; and to give the ESO flexibility to find the best solutions to system challenges (working closely with other parties). We put forward a number of initial ideas for achieving these objectives. This included

using a more 'principles based' approach to ESO regulation, more transparent governance arrangements and using different types of incentives.

1.15. In July, we published a working paper on our updated thinking for the future regulatory framework. This included a high-level regulatory framework design, built around the four ESO roles proposed in our earlier consultations. It also introduced seven new principles for the ESO, designed to further explain our expectations for how the ESO should fulfil its roles and comply with its licence obligations.

1.16. We followed up this working paper with three stakeholder workshops in October. These were used to test our framework with industry and to assist us in assessing the different options for incentives from April 2018. In these workshops, stakeholders were generally supportive of our proposed new approach. Further details of stakeholder views from these workshops are provided in Chapter 3.

The RIIO-2 ESO framework

1.17. Alongside developing the framework for 2018-2021, we are considering what a consolidated ESO regulatory scheme could look like from 2021 onwards under the RIIO-2 framework.⁶ We believe bringing all aspects of the current ESO regulatory framework together (including the regulation of both internal and external costs) would benefit consumers by creating a more transparent and coordinated framework.

1.18. A key consideration for the future ESO scheme will be how it interacts with the RIIO-2 price controls for transmission and distribution network companies. We believe it is vital that all these regulatory regimes interact effectively to ensure all parties work together to deliver more efficient whole system outcomes.

Structure of this document

1.19. This document is structured as follows:

- Chapter 2 explains how our expectations for the ESO have evolved and why we believe this requires a new approach to ESO regulation and incentives. We then provide an overview of our future framework.
- Chapter 3 sets out our specific proposed changes to the regulatory and incentives framework from 1 April 2018 in more detail.
- Chapter 4 explains how we intend to implement our proposals, as well as our next steps.

⁶ Please see: <https://www.ofgem.gov.uk/publications-and-updates/open-letter-riio-2-framework>

2. A new approach to ESO regulation

Chapter Summary

Our rapidly changing energy system needs an ESO that proactively responds to system challenges and maximises consumer benefits across the full spectrum of its activities. A well-designed regulatory framework for the ESO is key to achieving this. Our review of the past framework has identified the need for a fundamentally new approach. In particular, we believe we need to move towards an approach where we set clearer expectations for the ESO, where the ESO is much more accountable to its stakeholders, and where we reward or penalise the ESO based on a broader assessment of its performance.

2.1. In this chapter, we explain how our expectations for the ESO have evolved and why we believe the existing ESO regulatory framework needs to change to drive these new behaviours. We then outline how we developed a new approach, including our rationale for moving to a fundamentally different type of financial incentive. Finally, we provide a high-level overview of our proposed new framework.

The evolving role of the ESO

2.2. As outlined in the previous chapter, the roles and behaviours we expect from the ESO have evolved significantly over recent years. Legal separation creates an opportunity for the ESO to adopt a mind-set and culture that focusses on performing these roles in a way that maximises customer benefits.

2.3. In particular, the unprecedented level of change in the system presents both new opportunities and challenges. The ESO will have a significant impact on the success of this transition. We believe the ESO needs to take a holistic view of the energy system and consider – working closely with its stakeholders and other network operators - how existing practices and arrangements need to evolve. This includes thinking about the steps needed to increase coordination, competition and efficiency across markets and networks.

2.4. In future, we expect the ESO to be more proactive in considering where it should deploy its existing resources and knowledge to unlock the most consumer value. We believe we need a fundamentally new approach to ESO regulation and incentives in order to support this.

Review of the past framework

2.5. The main tool we have used previously to drive the ESO's behaviour (in addition to the RIIO-T1 price control) is our ESO incentives scheme. To date, these schemes have predominantly focussed on encouraging the ESO to unlock shorter-

term efficiencies in way it balances the system and manages network constraints. We have achieved this by setting targets for balancing costs each year and exposing the ESO to a percentage share of any over or under spend against these targets. We have also set discrete target-based financial incentives on other areas of activity, such as wind generation and demand forecasting.

2.6. This 'mechanistic' approach to incentives – which has remained broadly the same since 2001 - worked relatively well in a more stable environment, when we had discrete and easier to measure objectives for the ESO. However, we do not believe that this approach will support the broader, more proactive and more customer focussed set of behaviours we expect from the ESO in future. The increasing volatility in the system has also led to significant challenges in setting realistic targets in recent years. A summary of findings from our review of the previous framework is in Box 2.

Box 2: Summary of the key findings from our ESO incentives review

Our review of the previous framework highlighted the need for a new approach which:

Creates a longer-term ESO focus: whilst the ESO has put effort into developing new contracting practices in order to reduce within year costs, it has not had the same incentive to develop solutions to longer-term electricity system challenges. This has led to concerns that opportunities have been missed to introduce more fundamental changes to arrangements, which could have delivered relatively greater cost savings (such as improved balancing market design). The rapid system transformation means that it is now more important that the ESO places a stronger emphasis on improving and changing current arrangements, rather than just driving efficiencies within them.

Creates a broader ESO focus: previous incentives have focussed on a narrow set of activities within the ESO's transmission system management role. Our review suggests that the ESO has responded to these incentives by prioritising these areas of activity. However, the ESO has not always considered the wider impact its actions could have (for example, how new contracting practices could affect competition), or whether its resources could be better deployed to drive benefits elsewhere. The ESO has the potential to deliver significant value for consumers in a large range of different areas across markets and networks. We believe future incentives need to account for these different activities and create a broader ESO focus on maximising overall consumer benefits.

Has the flexibility to cope with change: previous mechanistic incentives and detailed requirements on the ESO have struggled to cope with system change. This challenge is only likely to increase in future as we go through a period of unprecedented change. We believe that future approaches will therefore need to be more flexible in order to mitigate the increased risk of unintended consequences. Overly rigid approaches could also undermine the ESO's response to new challenges and restrict development of the best overall solutions.

Is well governed and facilitates industry involvement: the previous framework has suffered from a lack of transparency and governance challenges. Stakeholders have commented that they have not been able to comment meaningfully on the ESO's performance against its incentives, in part due to the complexity of the incentive models. We think the move to a separate ESO company presents an opportunity to create a more transparent framework, as well as a stronger platform for the ESO's customers to hold it to account. More external involvement in the ESO framework is particularly important in future as the asymmetry of information between Ofgem and the ESO is only likely to grow.

Developing a new framework

2.7. We have taken the key findings from our review of the previous framework and considered what new approaches could address the challenges we have identified. In doing so, we have drawn from a number of different sources, including economic analysis, industry and academic engagement, and research on regulatory approaches elsewhere.

2.8. At the heart of our thinking is an ambition to make the new ESO company more clearly accountable to its customers and stakeholders. We have therefore looked at examples of how this is achieved elsewhere. This has included looking at examples of transparent and inclusive forward planning exercises, regularly published performance reports and bringing in external scrutiny from independent expert and/or stakeholder panels.

2.9. Our framework design is strongly influenced by our experiences of moving to a more 'principles-based' approach to regulation in the retail market - recognising the importance of setting clear expectations for regulated companies, whilst at the same time avoiding prescriptive regulation that can restrict innovation and lead to unintended consequences. We believe a more principles-based approach would put greater responsibility on the ESO to understand and deliver what is best for its customers and consumers overall.

2.10. We have also commissioned work from the Energy Policy Research Group to see what we can learn from international comparators about designing a framework for the ESO that encourages it to maximise consumer welfare. This included a survey of different Independent System Operators (ISOs). This report is available on our website as an associated document to this consultation. Some of the key findings included that:

- the most successful ISOs heavily involve stakeholders in the proposal and development of new initiatives for more efficient system operation, and they also proactively encourage participation by providing transparent information and training;
- external oversight of ISO activity is supported through a much larger amount of publicly available information on ISO performance relative to integrated transmission system operators;
- for separate system operators, more flexible and transparent regulation processes (such as shorter term or even ex-post budgetary approval) are likely to be more suitable than traditional ex-ante network regulation;
- regulation of system operators should focus more attention on external and whole system costs rather than internal costs (given that these cost are of a significant order of magnitude greater).

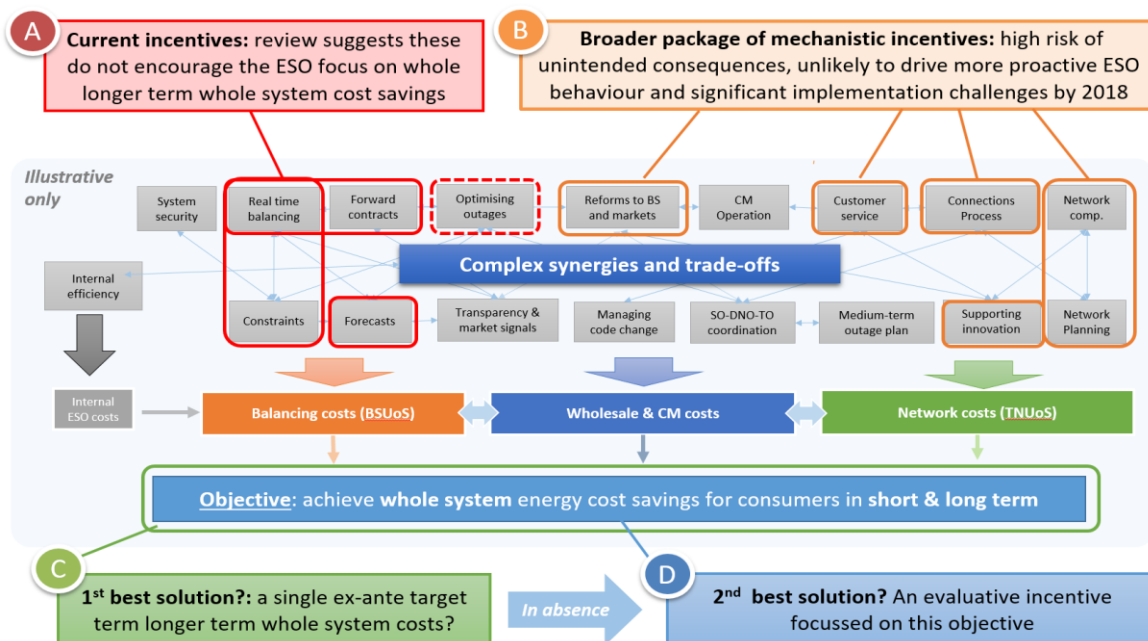
2.11. Our research to date has not only helped to shape the changes we propose to introduce from April 2018, but is also being fed into our thinking around the design of a consolidated ESO RIIO-2 scheme from April 2021.

Rationale for a new financial incentives approach

2.12. Under a 'for-profit' model, financial incentives remain a powerful tool for driving the ESO's performance. We believe that well-designed financial incentives can encourage the ESO to innovate, take risks and drive continuous improvements to the benefits of consumers. They can also help ensure the ESO maintains a sharp focus on maintaining a baseline level of performance, before it would be proportionate to take enforcement action.

2.13. Nevertheless, there are challenges in designing financial incentives that can successfully drive the ESO to identify how it can maximise consumer value across a broad and complex suite of roles. Figure 2 aims to illustrate that there are many synergies and trade-offs between the different activities the ESO can perform. Ultimately, we think the ESO is much better placed to choose how to use its resources to manage these trade-offs than we are; and that it is vital that our incentives do not undermine this. We have therefore considered a wide spectrum of different options with this objective in mind (which Figure 2 shows at a high level).

Figure 2 – High-level options for financial incentives



2.14. This includes ex-ante mechanistic incentives and evaluative incentives. Ex-ante, mechanistic incentives are target-based incentives. These are set prior to the incentive year and the reward or penalty is directly determined by outturn data against the agreed target. Evaluative incentives have a reward or penalty that is determined by an evaluation of evidence at the end of the year.

2.15. We believe that continuing to set mechanistic financial incentives on discrete areas of ESO activity (i.e. Options A or B) would not support our future goals. For

many of the outcomes we expect the ESO to achieve (for example, driving longer-term improvements to market competition), setting precise ex-ante targets does not appear to be easy or possible at this point in time. It seems likely that attempting to set mechanistic incentives across the broad suite of ESO activities would miss important outcomes and risk significant unintended consequences. We also do not believe that a package of different mechanistic incentives would encourage the ESO to adopt a more proactive mind-set. Rather than encouraging the ESO to maintain a constant focus on identifying the best outcomes for consumers, we feel this could create perverse incentives for the ESO to refrain from adapting its behaviours when situations change.

2.16. We recognise that mechanistic incentives can send a clearer signal and therefore act as sharper incentive. However, we believe that the only fully mechanistic incentive approach which could avoid the issues described above is one that is targeted at a broad enough outcome. In theory, an incentive based on a single, longer-term financial target for “whole system costs” (Option C) could most directly align the ESO’s and consumer interests. It would send a signal for the ESO to choose for itself how to maximise the impact of its resources. However, in practice, this single target would be extremely difficult to develop. This is particularly against a backdrop of continual change in the energy system and considering the difficulty of isolating factors which are outside of the ESO’s control.

2.17. In the absence of this ‘first-best’ approach, we believe the ‘second-best’ approach is to introduce a single evaluate incentive approach instead (Option D). This is where a decision on financial incentives is made at the end of the year based on an assessment of the ESO’s performance against its objectives (which would cover both short and long-term outcomes). This approach would be flexible enough to allow the ESO to identify and drive forward the areas with greatest consumer value within its full suite of roles, whilst at the same time retaining a financial upside to encourage the ESO to innovate and go beyond our baseline expectations. However, it strongly relies on a robust process and clear up front evaluation criteria to ensure the incentive is effective. We discuss this further in the next chapter.

Overview of our future regulatory and incentives framework

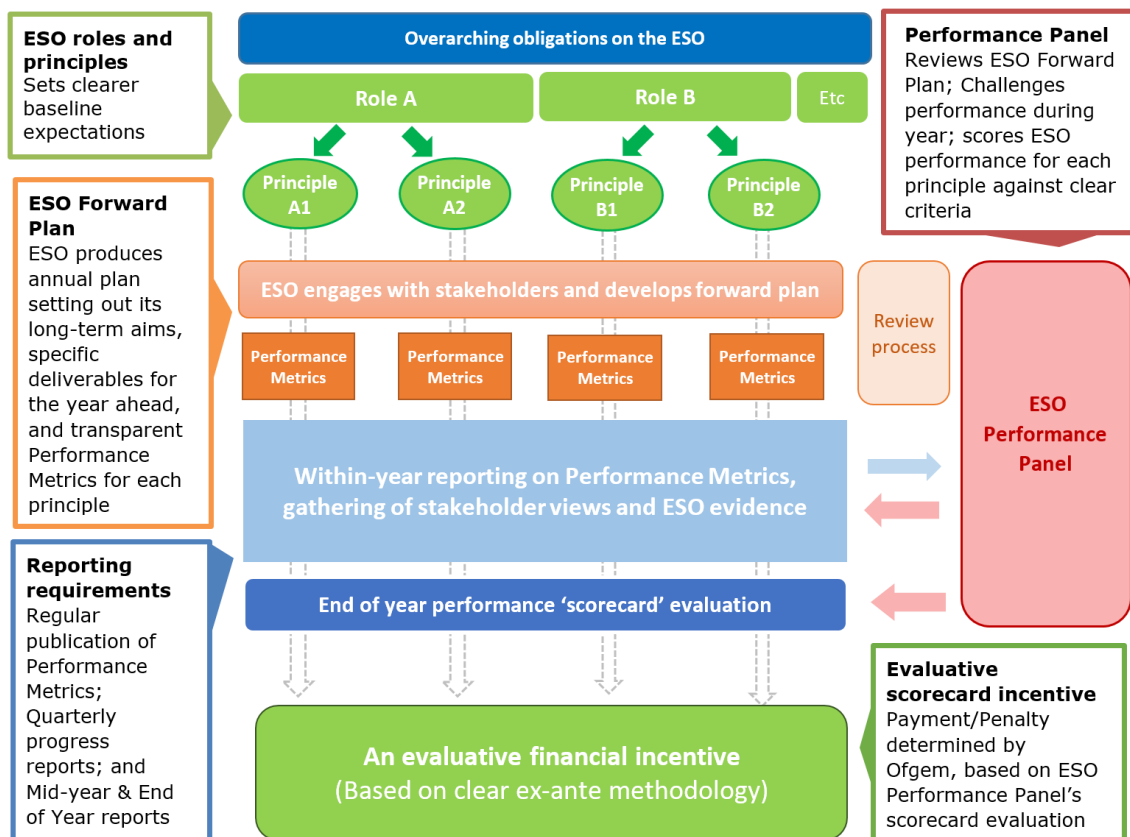
2.18. Figure 3 illustrates our proposed framework for the 2018-2021 period. This builds on the high-level model we shared with stakeholders in July and the feedback we received during our October workshops. We provide a summary of this framework below. A more detailed overview of our proposals is contained in Chapter 3.

2.19. Ultimately, this new framework aims to use all the different regulatory tools at our disposal in a more transparent and coordinated way. We believe it will be more likely to achieve our objective of driving the ESO to focus on driving whole energy system savings, both now and in the future.

2.20. Our framework is centred around us being clear about the behaviours and outcomes we expect from the ESO. We intend to achieve this through seven updated principles which will help clarify what we expect from the ESO under its licence. The

onus would then be on the ESO to engage with its stakeholders, and use its own expertise and knowledge to decide how to best meet these principles and maximise benefits for consumers.

Figure 3 – overview of our proposed 2018-21 incentives framework



2.21. A new forward planning process and the publication regular performance metrics will create more transparency around ESO activity and help ensure stakeholders are better able to hold it to account. This will also provide a better platform for stakeholders to shape the ESO’s activities and provide feedback on its performance throughout the year. We are proposing that a new ESO Performance Panel would play a key role in challenging and providing feedback on the ESO’s plans and within year performance. At the end of the year, the Performance Panel would evaluate the ESO’s performance in relation to each of the principles against some clear up front evaluation criteria. This evaluation would create a performance ‘scorecard’.

2.22. The Performance Panel’s end of year scorecard would then inform a decision by the Authority to financially reward or penalise the ESO up to a maximum cap/floor. We propose that this payment or penalty would then be recovered from market participants through Balancing Services and Use of System (BSUoS) charges. We anticipate this working in the same way as with the current incentives.

3. Our proposed framework changes from April 2018

Chapter Summary

We are proposing a suite of changes to the ESO regulatory framework from 1 April 2018. This includes an updated set of roles and principles for the ESO; a requirement on the ESO to produce forward-looking plans and performance metrics with its stakeholders; new within-year reporting requirements; a new 'evaluative scorecard' financial incentive; and the introduction of a new ESO Performance Panel. We welcome stakeholder views on these proposals.

Question box

- Q1:** Do you agree with our updated roles and principles for the ESO?
Q2: Do you agree with our proposals for the ESO Forward Plan? Do you think our proposed process for reviewing the ESO's Forward plan will create a sufficient incentive on the ESO to develop a plan and performance metrics that are appropriately challenging and comprehensive?
Q3: Do you agree with our proposals for within-year reporting? Do they appropriately balance the need for transparency with resource burden for the ESO?
Q4: Do you agree with the design of our evaluative scorecard incentive? Do you have views on the Panel scoring criteria or payment-penalty methodology?
Q5: Do you agree with our proposed scheme cap and floor of $\pm£30m$?
Q6: Do you agree with our proposal to introduce a new ESO Performance Panel?
Q7: Who should sit on the ESO Performance Panel? What is its appropriate size?
Q8: Who should chair the ESO Performance Panel?

3.1. This chapter outlines the changes we propose to make to the ESO regulatory framework from April 2018. This includes:

- an updated set of roles and principles for the ESO;
- a requirement on the ESO to engage with its stakeholder to produce an annual Forward Plan and transparent performance metrics;
- new within-year reporting requirements;
- a new 'evaluative scorecard' financial incentive;
- the introduction of a new ESO Performance Panel.

3.2. We welcome stakeholder views on all of aspects of the new framework, but particularly in relation to the questions above.

The ESO Roles and principles

Background

3.3. Setting clear expectations for the ESO is a crucial part of our proposed new framework. If we can be clear about what we expect from the ESO, what behaviours and what outcomes we expect the ESO to achieve, then the ESO should be empowered to utilise its own resources, experience and expertise to meet these expectations. Clear expectations provide transparency for all parties and serve as a route for industry to hold the ESO to account if the ESO fails to meet these expectations.

3.4. In our consultation in January on the ESO's role and structure, we explained four specific roles we expect the ESO to fulfil. These roles were further developed in our July working paper and accompanied by seven principles that described the outcomes or behaviours we expect the ESO to accomplish. We discussed these roles and principles with stakeholders at our October workshops and based on the feedback we received we have revised the ESO roles and principles. These revisions have particularly focused on the first role to better account for the ESO's role in ensuring a secure, stable supply of electricity and continued system operability. Although for presentational purposes each role is separate, in reality the roles have a large degree of overlap and interaction.

Our proposals

3.5. Our four proposed ESO roles are:

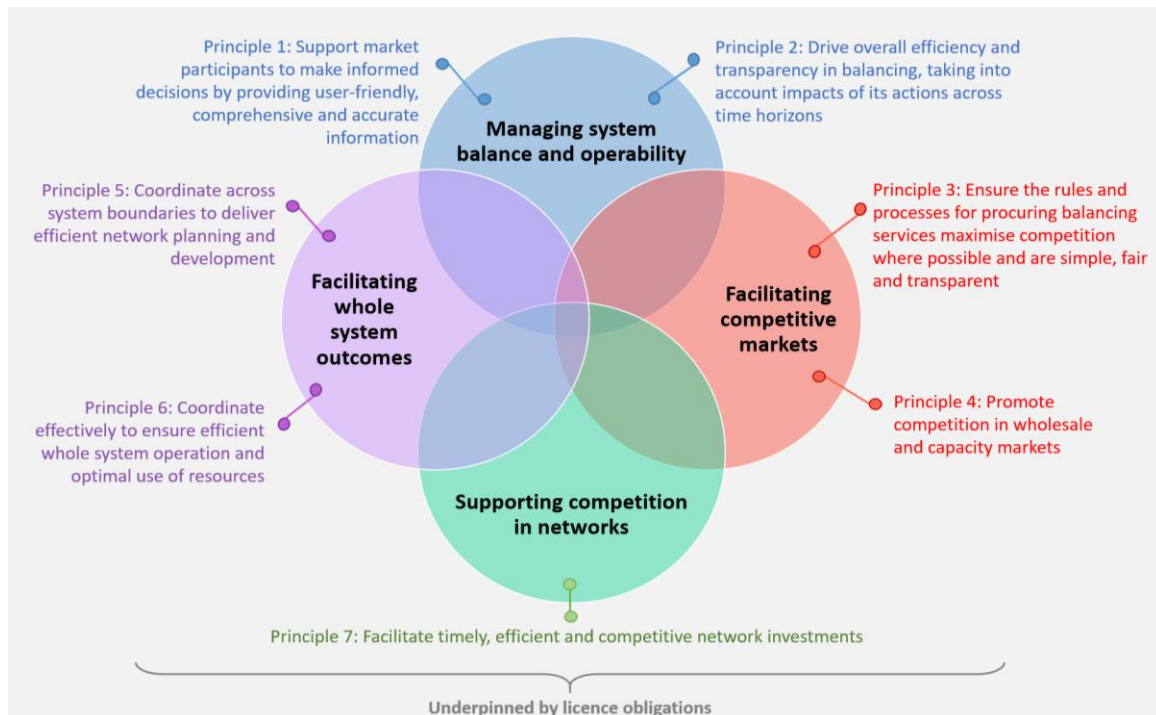
- Managing system balance and operability
- Facilitating competition in markets
- Facilitating whole system outcomes
- Supporting competition in networks

3.6. The seven principles, linked to each of these roles, explain our expectations of how the ESO should fulfil its licence obligations and are outlined in Figure 4. These principles are the key foundations of the new framework. They help to align expectations between the ESO, Ofgem and stakeholders, support the enforceability of the ESO's obligations and create a more transparent framework overall. The principles are drafted with a high level of generality, with the intention that they should be considered as overarching requirements or behavioural standards that can be applied flexibly to a rapidly changing electricity sector. The ESO's licence conditions underpin the roles and principles and remain the legal obligations that the ESO must fulfil.

3.7. Our supporting 'ESO Roles and Principles' Appendix document provides further explanation of the ESO's roles and principles. This includes guidance on the behaviours or outputs we expect to see when the ESO fulfils its roles. Such guidance should be considered as a non-exhaustive list of examples of how we currently

envisage the ESO to fulfil its roles when undertaking day to day actions to operate and balance the GB transmission system. Subject to this consultation, the guidance in this document will supersede the previous guidance that we issued as part of our July working paper.

Figure 4 - ESO Roles and Principles



Box 3: Stakeholder feedback on ESO Principles

Our workshops in London and Glasgow on 3 October 2017 and 27 October 2017, included a presentation and subsequent discussion on the ESO roles and principles. Overall, the proposed roles and principles were welcomed by stakeholders and were considered to capture the majority of the main responsibilities and activities of the ESO. Specific comments from stakeholders included:

- The ESO's role as system balancer is more complex than the first iteration of the roles and principles suggested. Operability and security of supply elements need to be captured sufficiently.
- The overall framework needs to encourage the ESO to take a more long-term perspective. One suggestion was that this should be anywhere from 20 to 50 years ahead.
- The ESO must work with industry to facilitate competition in markets. This cannot be achieved by the ESO alone.
- Whole system thinking must include identifying barriers that prevent different types of network companies from collaborating to achieve whole system outcomes.

The ESO Forward Plan

Background

3.8. A key objective for our future framework is to make the ESO more clearly accountable to its customers and wider stakeholders. We want the ESO to place its customers and stakeholders at the centre of its decision-making. We expect it to be continuously engaging with both existing and potential future stakeholders in order to identify how it can best meet its principles and improve its performance.

3.9. Our research has found that transparent forward planning exercises can provide a strong platform for stakeholders to both shape the actions of a business and hold it to account for delivering against its commitments. Our proposal to introduce a forward plan requirement – which we first proposed in our July working paper - has received strong support from stakeholders. The ESO discussed the potential structure of this plan with stakeholders at our workshops in October.

Our proposals

3.10. We propose to introduce a requirement on the ESO to engage with its stakeholders to produce a Forward Plan before the start of each regulatory year (April to March). This plan would set out the ESO’s longer-term vision for how it intends to drive consumer benefits under its different roles and principles. It would also set out the specific steps the ESO intends to take in the year ahead to meet these aims. The final plan should contain an unambiguous set of deliverables with clear dates and milestones.

3.11. As part of this process, the ESO would also propose a set of performance metrics linked to each of the principles. These metrics should create transparency around the ESO’s performance and help stakeholders track the ESO’s progress against its Forward Plan. Each performance metric would also be supported by performance benchmarks. These would set out and clearly justify what outcomes constitute performance that is under, in line with and above expectations, with reference to the baseline behaviours and outcomes defined by the ESO principles. An illustrative example of this can be seen in Figure 5.

Figure 5 – Example of performance metrics and benchmarks

Principle X			
Performance Metric	Performance benchmarks		
	below expectations	in line with expectations	above expectations
% error in activity	> X%	X-Y%	<Y%
Costs of an activity	>£Xm	£X-Ym	<£X-Ym
Number of instances of X	<X	X - Y	> Y
Stakeholder survey on performance against deliverable	1-5	6-8	9-10
Delivery of a longer term aim or initiative	Description of outcome / evidence to be used	Description of outcome / evidence to be used	Description of outcome / evidence to be used

3.12. As well making the ESO more accountable to its stakeholders, the plan and performance metrics form one of the key inputs into our proposed new 'evaluative scorecard incentive' (described further below).

3.13. As the ESO is responsible for developing the Forward Plan, it will have the responsibility for proposing forward thinking deliverables and a comprehensive and challenging set of metrics. We believe this is appropriate under a principle-based approach, where we want the ESO to identify for itself how to best manage its resources to drive consumer benefits. However, we recognise we may need some 'hooks' in the process to ensure that ESO meets both ours and stakeholders' expectations.

3.14. The ESO would be required to consult on a draft version of the Forward Plan (including the performance metrics and benchmarks) by the end of January each year. The ESO will then be required to take account of any feedback received before publishing a final version of its plan. From April 2019, the ESO Performance Panel (described further below) would also have a key role in reviewing and providing feedback on the plan.

3.15. We will also provide a 'Formal Opinion' on the final plan by the end of April each year. This will provide our views on the coverage of the deliverables and performance metrics, as well as the level of challenge within them. This could include identifying specific areas of the ESO's plan and metrics which we do not believe go beyond our baseline expectations. This Formal Opinion would be considered by the Performance Panel as part of its end of year evaluation of the ESO's performance. As a result, an unambitious plan could leave the ESO with more to do in certain areas in order to unlock incentive payments and avoid incentive penalties.

3.16. We welcome stakeholders views on the process around the ESO's Forward Plan, and in particular, whether it will create sufficient incentive on the ESO to deliver an ambitious and challenging plan, and appropriate performance metrics.

Within-year reporting requirements

Background

3.17. The ESO has a number of detailed reporting requirements included in its licence. This includes requirements to report on demand forecasts, SO-TO funding and transmission losses. These reports can help both industry and ourselves keep track of the ESO's performance and provide challenge when necessary.

3.18. Respondents to our previous consultations have supported more regular and coordinated reporting on the ESO's performance. Stakeholders have also previously called for more narrative to be included alongside the data the ESO publishes.

3.19. We want to ensure that stakeholders have access to as much information about the ESO's performance as possible. This has been successful in helping

stakeholders hold ISOs to account in the United States. At the same time, we want to ensure that reporting requirements are proportionate and do not create undue burden. We believe the next three years provide an opportunity to streamline existing reporting requirements.

Our proposals

3.20. From April 2018, we propose requiring the ESO to publish monthly updates of the performance metrics agreed at the start of the year as a default, but to allow some flexibility for metrics where monthly measurement is less practical (for example, metrics based on stakeholder surveys).

3.21. In addition, we propose that the ESO should produce quarterly reports, where it will provide narrative around the reasons for its performance against its metrics and an update on its progress against its plan. This will help drive greater transparency around the ESO's performance and provide more ability for wider stakeholders to hold it to account.

3.22. Halfway through the regulatory year, we also propose that there should be 'Mid-Year Review' of the ESO's performance. This will be an opportunity for the ESO to engage with stakeholders, the Performance Panel, and Ofgem on its progress against the Forward Plan and the justifications around its performance. Following this meeting, the Performance Panel would produce a short summary report highlighting areas of good performance and any areas where concerns exist that should be tackled over the remaining six months of the year. In practice, we do not expect this review to be the only point in time where the ESO receives feedback on its performance. In particular, we expect to provide regular feedback to the ESO as part of our ongoing monitoring and regulatory relationship.

3.23. We believe these measures will help create strong reputational incentives on the ESO to perform well throughout the year. They should also facilitate more dialogue between the ESO and its stakeholders throughout the year, helping it to give it an indication of its performance against each principle under its new evaluative scorecard incentive.

Evaluative scorecard incentive

Background

3.24. Financial incentives can have a strong influence on the ESO's behaviour. We believe that well-designed financial incentives can encourage the ESO to innovate, take measured risks and continually improve its performance to the benefit of consumers. Stakeholders have broadly supported the use of financial incentives on the ESO in future. However, many have stressed the importance of designing them carefully to avoid unintended consequences. They also believe it is important that the ESO is only financially rewarded for performance that goes beyond 'business as usual' expectations.

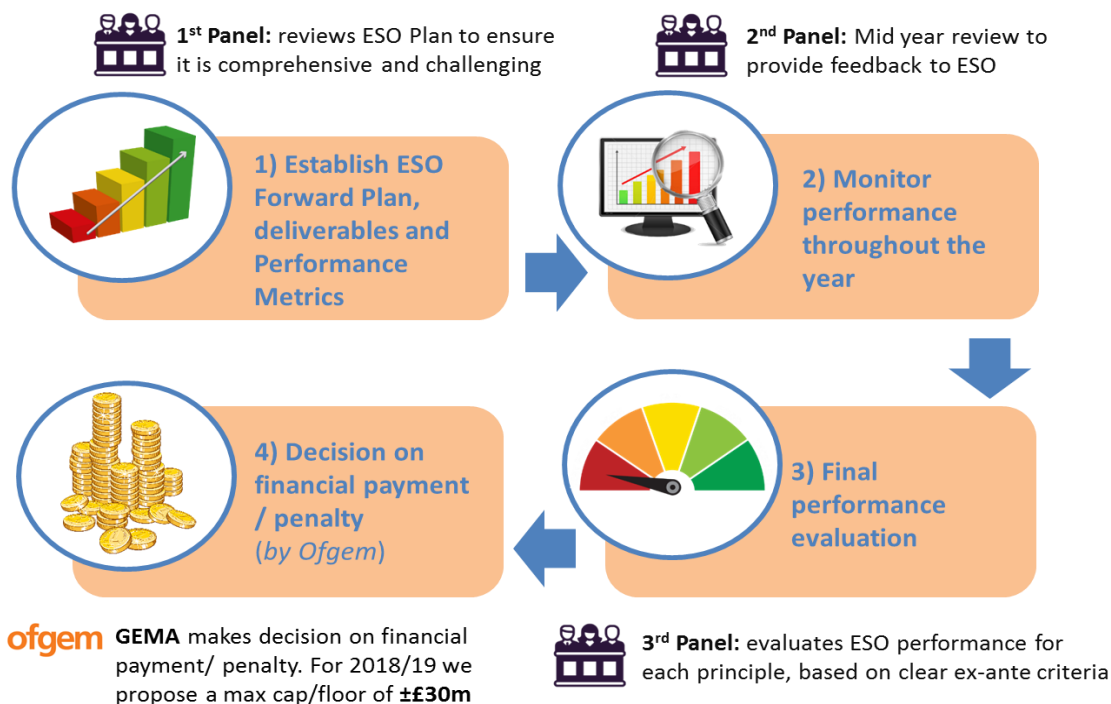
3.25. As explained in Chapter 2, we believe there is a strong case to move away from discrete mechanistic financial incentives, towards a more evaluative incentive approach. We believe this will be more able to capture the broader, more proactive and more customer focussed set of behaviours that we expect from the ESO in future. This approach would also be more flexible, helping to support a more responsive and dynamic ESO that responds to changes and new developments. We received broad support for moving to a more evaluative approach during our workshops in October (please see Box 4 for more information).

3.26. This approach inherently involves more subjectivity than a mechanistic incentive approach. For it to be successful, it is therefore vital that the approach to carrying out the evaluation is clear in advance. If this is not the case, this could undermine the incentive and create misaligned expectations.

3.27. We have therefore aimed to design an evaluative incentive that has a clear process and evaluation criteria in order to mitigate these risks. Our proposals build on the other proposed aspects of the framework to help create a transparent approach. In particular, the combination of the ESO principles, Forward Plan, performance metrics and our Formal Opinion should help to make it clearer what the ESO needs to deliver to unlock incentive payments and avoid incentive penalties.

Our proposals

Figure 5: Proposed evaluative incentive process



3.28. Our proposed approach involves a financial reward or penalty which we will determine at the end of the year following a holistic evaluation of the ESO's

performance. This evaluation would be carried out for each of the ESO principles by the Performance Panel, in line with a clear process and predefined criteria. The process, illustrated in Figure 5, would work as follows:

- Step 1** The ESO's Forward Plan (including the performance metrics and performance benchmarks) will help define at the start of the year some of the information that will be used for the end of year evaluation. This should provide some certainty to the ESO about how its performance would be measured. However, importantly, this does not restrict other information from being considered in the end of year evaluation. For example, if the ESO identifies new initiatives that could deliver consumer benefits during the year, then these can be submitted as evidence. Our Formal Opinion of the ESO's plan may also identify areas where we believe that successful outperformance of a metric or delivery of an initiative should have less relative weight, providing the ESO with an early view of where more might be expected for it to perform well under the incentive.
- Step 2** Throughout the year, the ESO's performance will be closely monitored against its performance metrics. We also expect to monitor external factors and engage with industry and the ESO in order to build a complete evidence base of the ESO's performance. This and the mid-year review process should also help ensure consistent feedback to the ESO and reduce the scope for misaligned expectations.
- Step 3** After the end of the year, the ESO will submit a final evidence report on its performance during the year. This would include an overview of performance against the Forward Plan (including the final performance metrics), justifications for this performance and any evidence of delivered or future consumer value. The Performance Panel and Ofgem will then review the evidence. We will produce a briefing report for the Performance Panel, highlighting any areas of concern or areas where we believe the ESO has performed above expectations. During this time, there will also be the opportunity for the Performance Panel to ask the ESO to clarify any ambiguous points in the evidence. Following this, the panel will hold an end of year review meeting for the ESO to present its evidence. The Performance Panel will then score the ESO's performance against each of the seven principles using the predefined scoring criteria.
- Step 4** We would then use the panel's recommendation to determine the ESO's incentive payment or penalty for that year, in line with a clear payment/penalty methodology. This methodology would specify a relationship between the score and a resultant financial reward or penalty, up to a maximum cap and down to a minimum floor.

3.29. The above paragraphs outline the key steps in the evaluative scorecard incentive. In the following paragraphs, we expand on some of the key components of this incentive, including the panel's scoring criteria; the methodology for determining

a payment/penalty; the maximum financial cap and floor for the scheme; and the approach to recovering payments and penalties.

Panel scoring criteria

3.30. A crucial factor in the success of the new approach is having clear, well-understood scoring criteria. We propose that the Performance Panel will use a number of inputs to evaluate the ESO’s performance. In determining a score for each principle, the key criteria the panel should take into account are:

- **Evidence of delivered benefits:** The extent to which the ESO has demonstrated and evidenced the achievement of additional consumer benefits
- **Evidence of future benefits:** The extent to which the ESO has provided evidence of actions/activities that may lead to longer-term consumer benefits
- **Plan ambition and delivery:** The level of ambition in the ESO’s Forward Plan and performance benchmarks, and the extent to which the ESO has delivered the measures and deliverables identified in the plan
- **Stakeholder inputs:** Stakeholder views and evidence on the ESO’s over/under performance
- **Performance metrics:** Outturn performance against performance metrics. This should include a consideration of the ESO’s justifications for its performance (for example, innovative ESO activity and/or external factors that were out of the ESO’s control). The Panel should also consider whether significant over/under performance for a particular performance metric should result in that metric having a greater relative influence on the overall score.

3.31. Using these criteria, the panel will assign a score of weak (1), poor (2), average (3), good (4) or excellent (5) for each ESO principle. Figure 6 provides a guide of the type of outcomes we expect should be associated with each score.

Figure 6: Conditions for each score category

Score	Criteria for each principle
Weak (1)	<ul style="list-style-type: none"> × Very weak/no demonstration of delivered consumer benefits × No evidence of long-term thinking or future consumer benefits × Very low level of ambition in ESO Annual Plan × Negative stakeholder views on ESO performance × Below expectations for all Performance Metrics, without any strong justifications
Poor (2)	<ul style="list-style-type: none"> × Weak demonstration of delivered consumer benefits × Little evidence of long-term thinking or future consumer benefits × Low level of ambition in ESO Annual Plan × Mostly negative stakeholder views on ESO performance × Below expectations for most Performance Metrics, without any strong justifications
Average (3)	<ul style="list-style-type: none"> ✓ Adequate demonstration of delivered consumer benefits ✓ Adequate evidence of long-term thinking or future consumer benefits ✓ Mixed ambition in ESO Annual Plan ✓ Mixed stakeholder views on ESO performance ✓ Performance of all/most Performance Metrics in line with expectations

Good (4)	<ul style="list-style-type: none"> ✓ Strong demonstration of delivering consumer benefits ✓ Good evidence of long-term thinking and evidence for future consumer benefits ✓ Good level of ambition in ESO Annual Plan ✓ Mostly positive stakeholder views on ESO performance ✓ Mostly exceeding expectations for all Performance Metrics, with strong justifications
Excellent (5)	<ul style="list-style-type: none"> ✓ Very strong demonstration of delivered consumer benefits ✓ Significant Evidence of long-term thinking and evidence of future consumer benefits ✓ High level of ambition in ESO Annual Plan ✓ Positive stakeholder views on ESO performance ✓ Exceeding expectations for all Performance Metrics, with strong justifications

3.32. A key principle for the ESO being able to achieve an above average score is that it has gone beyond baseline expectations. This means taking new steps within that year to deliver better practices, business models and technologies that lead to material improvements in the ESO’s performance (and which are not currently expected as part of its outputs and obligations). The Performance Panel should only take account of evidence of consumer benefits if it relates to ‘new’ actions by the ESO with that year. However, that does not preclude new steps to go above and beyond expectations in pre-existing activities.

3.33. We also need to ensure continuity between different regulatory years. For many of the actions we expect the ESO to take in future, the benefits may not materialise for several years. It is vital that the evaluation process does not create a perverse incentive for the ESO to identify new areas for potential consumer benefits each year but ultimately not deliver them.

3.34. We therefore propose to specify that the Performance Panel should look back at previous plans and reports to consider whether longer-term initiatives and previous commitments are being delivered. The ESO’s failure to deliver previous commitments (unless there are good reasons) would strengthen the case for a below average score.

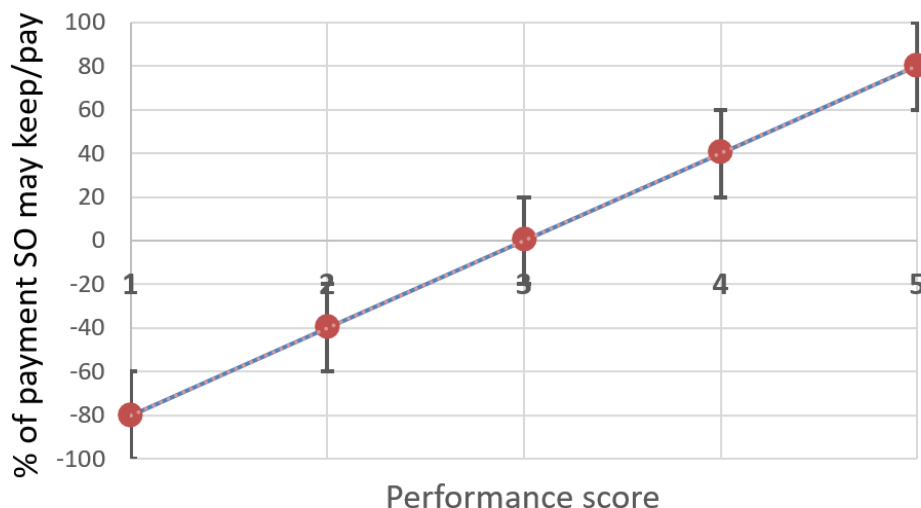
3.35. This represents our latest view on the incentive elevation criteria and how the different bits of evidence (including the performance metrics) should be taken into account. As described in the next chapter, we intend to work with stakeholders over the next few months to finalise the precise details, and will set this out in a published incentive guidance document.

Payment/penalty methodology

3.36. A core element of the new framework is to incentivise the ESO to deliver consumer benefits across the spectrum of its different activities. We therefore propose that the ESO’s total financial incentive pot should be split equally among each of the seven ESO principles.

3.37. The Performance Panel’s recommended score will be used to define a default payment or penalty in relation to each principle. As shown in Figure 7, we are proposing a simple linear score:reward relationship.

Figure 7: Proposed score:reward relationship



3.38. It is unlikely that the scoring decision will ever be a simple 'clear cut' decision. We therefore propose to give each score category a band of financial reward/penalty. This is to balance the competing demands of certainty for the ESO but leeway for the Authority to make informed judgements. For example, a score of 5 (excellent) would allow the ESO to keep between 60% and 100% of the financial reward associated with that principle. The final decision would be informed by the Performance Panel's evaluation report but taken by the Authority.

3.39. We recognise that there are likely to be differing levels of consumer value associated with each principle. However, in the absence fully knowing where this consumer value is, and in order to send a signal for the ESO to adopt a broader focus and provide it with some up front certainty, we believe equally split pots is an appropriate approach for the first year. We intend to keep this under review.

Maximum scheme cap and floor

3.40. We propose that there should be a symmetrical incentive cap and floor of up to $\pm\text{£}30\text{m}$ for 2018/19. This would be an increase from $\pm\text{£}15\text{m}$ for last year's scheme. We are proposing this value for a number of reasons. Firstly, our confidence with the incentives scheme has increased; by moving away from mechanistic incentives towards an evaluative approach, we believe there is a reduced risk of volatility and significant windfall gains and losses. Secondly, we are incentivising the ESO over a broader set of roles.

3.41. However, as this would be the first year using the new approach, we also do not feel it is appropriate to go above this value. We welcome stakeholder views on whether this value is proportionate and will make a final decision alongside our statutory consultation early next year. In any case, we intend to keep the cap and floor under review, and may decide to change this in 2019/20 and 2020/21 if necessary.

Recovery of incentives payments

3.42. We propose that incentive payments and penalties should continue to be recovered through BSUoS charges levied on market participants during that incentive year. We anticipate that this would happen in same way as it does now, as set out in the Connection and Use of System Code.⁷ Under this approach, the ESO forecasts its performance throughout the year and adjusts BSUoS charges accordingly. The ESO would then adjust the charges for that relevant year following the incentive payment/penalty decision by the Authority.

3.43. We recognise that a more evaluative incentive approach might lead to additional uncertainty about what the final BSUoS charges would be. We aim to mitigate this by providing feedback to the ESO throughout the year. But we welcome views on whether the existing cost recovery method remains appropriate.

Box 4: Stakeholder feedback on incentives and panel design

Our workshops held in London and Glasgow on the 11 and 27 October 2017 provided an opportunity for us to discuss with stakeholders our proposals for incentives design, and the concept of the ESO Performance Panel. Stakeholders were generally in support of maintaining financial incentives on the ESO and moving towards a more evaluative approach from April 2018. They also broadly welcomed the introduction of a panel, but stressed the need to ensure this panel represents a cross section of views. All agreed that the membership of the panel is key to ensuring the process is successful.

Some other specific comments from attendees included:

- The ESO should only be rewarded for actions that go beyond business-as-usual and incentives need to encourage the ESO to consider longer-term thinking.
- The evaluative approach brings a certain element of risk for the ESO, and as such it is important that there ESO is clarity in the evaluation criteria. The evaluation criteria has to find the right balance in giving room for judgements to be made but not creating too much uncertainty for the ESO.
- In the absence of knowing which areas of activity were of most important, balanced weighting of the ESO principles for the purposes of incentives should be the default position in the first year.
- The ESO Performance panel should not be a decision making body; it should act as an advisory body only.
- There was a general view that the panel's report should be published so there is transparency with industry.
- The reporting and panel requirements need to be proportionate. An overly burdensome process would detract from the ESO delivering consumer benefits.

⁷ Section 14 of the CUSC: <https://www.nationalgrid.com/uk/electricity/codes/connection-and-use-system-code>

The ESO Performance Panel

Background

3.44. One of our key aims for the future ESO framework is to facilitate more external involvement than previously. We want to pool the knowledge and experience of a wide array of industry parties and experts in order to comprehensively challenge the ESO on its performance. This is vital for tackling the growing information asymmetry between the ESO and ourselves.

3.45. We have previously set out our views that the introduction of new external panel could play valuable role in ESO regulation. In particular, a panel could help challenge the ESO on its performance and support decision making in areas where performance is harder to measure or more subjective. Our thinking in this area has drawn lessons from several panels used by Ofgem currently, including the RIIO Stakeholder Engagement Incentive Panel, the retail challenge panel and the Network Innovation Competition (NIC) panel.

3.46. Stakeholders have generally welcomed our suggestion to use an external panel in ESO regulation. However, some have also expressed concerns. In particular, there is a concern that a panel made up of existing market participants may not consider the needs of smaller or potential future energy system parties. This concern is heightened where the panel has a greater role in shaping decisions. Stakeholders also feel that the panel would need a clear scope and purpose.

Our proposals

3.47. As outlined throughout this chapter, our proposed ESO Performance Panel plays a key role in our new regulatory framework. We believe a well-designed panel will help reduce the information asymmetry between the ESO and Ofgem, strengthen incentives on the ESO to demonstrate its performance to a wider audience (rather than just the regulator), and add greater transparency to the performance evaluation process. We feel that greater transparency is particularly important under a move to a more evaluative incentive.

3.48. We recognise that careful consideration needs to be given to the design of the Performance Panel, particularly in relation to its membership. Following this consultation, we aim to develop the detailed panel arrangements. Our intention is then to put the Performance Panel in place by mid-2018, prior to the first mid-year review process. We are very interested in stakeholder views on our latest thinking on the design of the panel, which is outlined below.

The role of the panel and meeting frequency

3.49. As summarised in the sections above, we propose that the Performance Panel's role would be to:

- (i) **In January/February in year t-1:** provide its views on the coverage and level of ambition in the ESO's Forward Plan, deliverables and performance metrics.
- (ii) **In October in year t:** challenge the ESO and provide feedback on its performance as part of the mid-year review.
- (iii) **In June in year t+1:** perform an end of year evaluation of the ESO's performance, and score the ESO for each of its principles against predefined scoring criteria.

3.50. The Performance Panel would meet with the ESO at these three key points during the annual cycle. For the final performance evaluation, the panel would produce a report that would be made publically available. It is important to note that the Performance Panel would not have any decision-making powers. Instead, its performance evaluation would form a recommendation that goes to the Authority, who would make the decision on any financial reward or penalty.

3.51. It is also important to note we do not see the Performance Panel as a substitute for wider stakeholder input. The ESO's wider stakeholder community would provide vital input throughout the performance year. This includes: providing helping to shape the ESO Forward Plan; providing within-year feedback, including through any survey-based performance metrics; and providing evidence at the end of the year to aid the Performance Panels' evaluation. The Performance Panel would be required to take account of and represent these views when performing its roles.

Panel membership

3.52. The Panel's membership is a key aspect of its design. We have considered a range of options for its potential membership, including:

1) Fully Independent	2) Industry reps only	3) Mixture of independents and industry reps
<ul style="list-style-type: none">• Independent experts with knowledge of the energy system, system operation, or monopoly regulation• No affiliation with any existing industry parties	<ul style="list-style-type: none">• Representatives from across the different sections of industry, including different market participants and network companies	<ul style="list-style-type: none">• Appropriate mixture of persons from options 1 and 2.• Independent chairperson

3.53. A fully independent membership would remove the risk that the panel's recommendations are based on particular company interests. In particular, an independent panel may be more likely to represent a wider set of stakeholders, including future industry parties and consumers. This may also mean that less members are required to sit on the panel, reducing the scope for process issues.

3.54. However, industry representatives would bring direct knowledge and experience of the impact of the ESO's actions. They would therefore be better placed

to understand specific industry views and comment on the detail of the ESO's performance.

3.55. Ultimately, we think the Performance Panel should contain members with a diversity of knowledge and expertise. This will help ensure that it can comprehensively challenge and evaluate performance across the full spectrum of ESO activities. For this reason, our current preference is that a mixture of industry parties and independent experts would be the most appropriate (Option 3). For example, this could involve representatives from:

- Large and Small Generation
- Network operators
- A large demand user
- Distribution connected and/or emerging technologies
- A consumer representative
- An academic expert
- A person with system operation experience from another industry or country

3.56. We welcome stakeholders' views on the membership of the Performance Panel. We believe that panel size should be sensible in order to ensure the evaluation process can run as smoothly as possible. Larger panel sizes may result in higher cost and burden. An odd number of panel members may also help to alleviate any disagreements on scoring during the evaluation process.

Panel chairperson

3.57. The chair of the Performance Panel has an important and influential role. We believe there are two lead options for a chairperson:

- An independent person, who has a working knowledge of the ESO's role but does not represent a particular ESO customer; or
- An Ofgem chair, who would be a senior representative with working knowledge of the ESO and its role.

3.58. We believe an independent chair would be more likely to encourage panel members take an appropriate level of ownership of the Performance Panel's activities. However, as this is a new framework, we believe it may be sensible to initially start with an Ofgem chair to help guide the process. We could then potentially transition to an independent chair once the panel is more established.

Panel funding

3.59. There would be costs involved in operating the panel, particularly as we would expect to financially remunerate any independent parties. Our current preference is for the panel to be funded as a pass through in the ESO's licence. It would therefore be passed on to BSUoS charge payers. We believe this is appropriate as it is these parties who are most likely to benefit from the introduction of the panel.

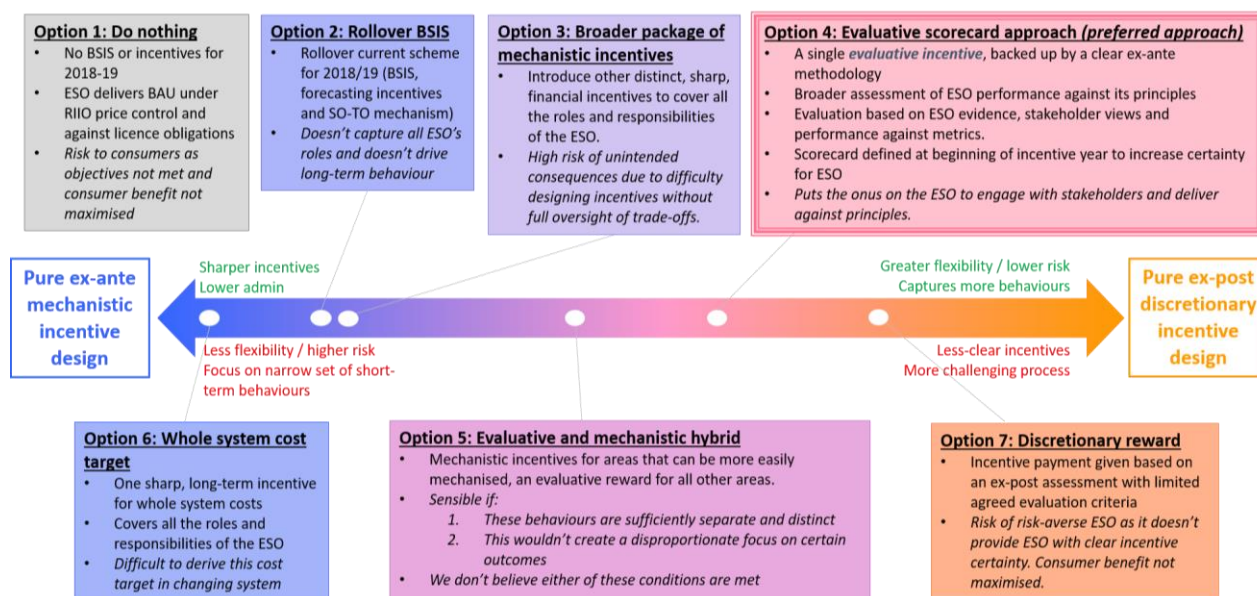
Impact Assessment of our proposed changes

3.60. We have designed a framework which we believe will be able to better meet the objectives we set out in our February consultation.⁸ As highlighted in Chapter 2, our proposals have heavily drawn from the lessons we have learned from the past framework and our research on relevant experiences elsewhere.

3.61. Whilst it is not possible to fully quantify the costs and benefits associated with these changes, we have carried out an impact assessment of these combined changes by comparing it to a number of alternative options for 2018/19, including the baseline of the current framework. This also includes the option of 'do nothing', as well as different options along the spectrum of mechanistic to evaluative incentives (as illustrated in Figure 8).

3.62. Please see our Impact Assessment for a full evaluation of the costs and benefits of these different options, which is published as an associated document to this consultation.

Figure 8: ESO Incentives for 2018-19 – Options Analysis



⁸ See Chapter 1: <https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-regulatory-and-incentives-framework>

4. Implementation and next steps

Chapter Summary

We are proposing a number of changes to the ESO's licence in order to introduce our new regulatory and incentives framework. These licence changes will be supported by a separate guidance document that will explain the new reporting requirements and incentives process in more detail. Following this consultation, we intend to finalise the changes to the framework from April 2018 and publish our final decision in February. At this point we will also publish our statutory licence change consultation. We recognise these changes are a fundamentally new way of regulating the ESO. We therefore plan to review the effectiveness of the new framework over the course of 2018/19 and make any necessary changes from 1 April 2019.

Question box

Q9: Do you agree with our proposed approach to implementing our new framework?

Q10: Do you have any comments on our draft licence changes?

4.1. This chapter explains how we propose to implement the proposals outlined in the previous chapter. It also explains how to respond to this consultation and provides an overview of our timelines and next steps.

Implementing our proposals

ESO Roles and Principles

4.2. The ESO's updated roles and principles (and associated guidance) will sit outside of the ESO's licence in a separate published document. This guidance was first issued as part of our July 2017 working paper. The updated document published alongside this consultation should be considered as a draft version for consultation. It will be finalised and come into effect when we make our final decision in early 2018. Until then, the version of the guidance published in July 2017 will continue to have effect, and compliance with it may be taken into account from the date of its issue.

4.3. The principles represent our current view of the behaviours expected from the ESO in order to maintain and economic, efficient, and co-ordinated system. However, we recognise that the continual change in the energy system may mean that these principles may need to change in future. We will therefore keep them under review. Where we believe changes are needed, we would consult with impacted parties, including the ESO. For the purposes of the new incentive process, any changes to the principles would only apply from the start of the next regulatory year.

ESO Forward Plan, reporting requirements and evaluative scorecard incentive

4.4. In order to introduce the proposals outlined in Chapter 3, we intend to make a number of changes to Chapter 4 of the special conditions of NGET's electricity transmission licence.

4.5. We are proposing to create a new special condition to establish the new arrangements in relation to the Forward Plan, reporting requirements and new incentives process. For our latest draft of these licence changes please see Appendix 1. This appendix also contains a summary of our proposed changes to the existing licence conditions. This mainly involves the removal of conditions that relate to the current incentives. We welcome views on these proposed changes.

4.6. We are also developing a guidance document to support these new licence conditions. This document will provide additional clarity around the new requirements on the ESO and set out the detail of how the incentives process would work. In particular, we propose that this guidance document would contain final details in relation to:

- the criteria against which the ESO's performance is assessed;
- the process and procedures in place for assessing the ESO's performance (including details around the ESO Performance Panel);
- the requirements the ESO must fulfil as part of the new framework, including the various reporting requirements;
- the information and evidence included in the performance assessment;
- how the Performance Panel's recommendation will be used by the Authority to determine an incentive payment or penalty.

4.7. The policies outlined in Chapter 3 form the basis of this guidance document. Following this consultation, we aim to finalise these details and publish a final document early next year.

4.8. We will then keep this document under review during the regulatory year. Where we make any material changes, we would consult with any impacted parties, including the ESO. To create certainty for the ESO, any changes that materially change the incentive process would only apply from the following regulatory year.

ESO Performance Panel

4.9. Following this consultation, we intend to finalise key details around the ESO Performance Panel, including its membership, terms of reference and the precise format of the meetings. Our aim is then to have the panel fully in place by mid-2018, prior to the first mid-year review process.

Next steps

Responding to this consultation

4.10. We would like to hear the views of interested parties in relation to any of the issues set out in this document. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

4.11. Responses should be received by 19 January 2018 and should be sent to: electricitySOreform@ofgem.gov.uk

4.12. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

4.13. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

4.14. Any questions on this document should, in the first instance, be directed to David Beaumont (0207 901 7469).

Summary of Questions

Q1: Do you agree with our updated roles and principles for the ESO?

Q2: Do you agree with our proposals for the ESO Forward Plan? Do you think our proposed process for reviewing the ESO's Forward plan will create a sufficient incentive on the ESO to develop a plan and performance metrics that are appropriately challenging and comprehensive?

Q3: Do you agree with our proposals for within-year reporting? Do they appropriately balance the need for transparency with resource burden for the ESO?

Q4: Do you agree with the design of our evaluative scorecard incentive? Do you have views on the Panel scoring criteria or payment-penalty methodology?

Q5: Do you agree with our proposed scheme cap and floor of $\pm£30m$?

Q6: Do you agree with our proposal to introduce a new ESO Performance Panel?

Q7: Who should sit on the ESO Performance Panel? What is its appropriate size?

Q8: Who should chair the ESO Performance Panel?

Q9: Do you agree with our proposed approach to implementing our new framework?

Q10: Do you have any comments on our draft licence changes?

Final Decision, statutory consultation and ESO Forward Plan

4.15. Following the consultation, we will take account of stakeholder views and make any necessary changes to our policy. We then aim to publish a final decision on the policy as well as a statutory licence change consultation in February. We also aim to publish our incentive guidance document alongside this.

4.16. Our intention is to publish a final direction to change the licence in March 2018. These licence changes would then come into effect on 1 June 2018, and apply from 1 April 2018.

4.17. We anticipate that the ESO will consult on a draft version of its first Forward Plan early next year. We encourage stakeholders engage with this process to help shape the plan and ensure it represents a diversity of views.

Ongoing review of the new framework

4.18. We recognise that our proposals represent a fundamental change to the previous framework. We therefore propose to review the effectiveness of this new framework over the course of 2018/19. Whilst our intention is that this framework would remain broadly the same for the three-year period between 2018 and 2021, we are prepared to make further refinements from April 2019 (alongside the legal separation of the ESO) based on our experience of this new approach if necessary.

4.19. The findings from this review will also inform the design of our consolidated regulatory scheme for ESO under the RIIO-2 framework, which is due to commence in April 2021.

List of appendices

The appendices to this document are listed below.

Appendices 3-5 are published as associated documents to this consultation and can be found on the main web page for this consultation:

</publications-and-updates/electricity-system-operator-regulatory-and-incentive-framework-april-2018>

Appendix	Name of Appendix
1	Draft licence changes
2	Feedback on this consultation
3	Impact Assessment for the 2018/19 Regulatory Framework for the Electricity System Operator
4	ESO Roles and Principles document
5	Report from the EPRG on international ESO Regulation

Appendix 1 – Draft licence changes

This appendix contains a draft version of the changes we propose to make to Chapter 4 (System Operator – Revenue Restriction) of the Special Conditions of National Grid Electricity Transmission Plc’s (NGET) electricity transmission licence.⁹

We intend to introduce a new condition (4M) to enable the changes we have described in Chapter 3. An initial draft of this new condition (4M) is outlined below.

Our proposed changes to the existing conditions mainly involve deletions or minor changes. We have therefore described them in the table below, rather than providing tracked changes.

We welcome views on these proposed changes and the drafting of our new proposed condition. Following this consultation, we will make any necessary changes before publishing a statutory consultation on our final proposed licence changes in February.

Overview of licence changes

Term	Description of change
New condition	
4M: Performance Incentives for the Electricity System Operator	New licence conditions to bring new regulatory and incentives framework into effect. Includes: <ul style="list-style-type: none"> • Requirements around the ESO Forward Plan • Reporting requirements • Ability for authority to direct incentive payment in line with guidance document
Current conditions	
4A: Restriction of System Operator Internal Revenue	No change
4B: Balancing Services Activity Conditions: Interpretation	Minor changes to 4B.1 to 4B.3 to include reference to new special condition 4M.
4C: Balancing Services Activity Revenue Restriction on External Costs	Deleting references to current Balancing Services Incentives Scheme and forecasting incentives. Changes to link incentives payment and penalties to new incentive in 4M. <ul style="list-style-type: none"> • Make 'IncPayExt_t' to refer to new Condition 4M rather than current paragraph 4C.11. • Delete references to 'FIIR_t' in 4C.1 • Delete all Parts D to M
4D: Restriction on contracting with BSC parties	Reviewing whether to extend beyond 31 March 2018.
4E: Requirement to Conduct a Review and Continue to Develop	Delete. Becomes "4E: Not used".

⁹ Please see: <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

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Enduring Models for Forecasting the Costs of Procuring and Using Balancing Services	
4F: Requirement to Develop Enduring Methodologies for the Purposes of Identifying a Target for the Costs of Procuring and Using Balancing Services	Delete. Becomes "4F: Not used".
4G: Black Start Allowed Revenue	No change
4H: Wind Generation Forecasting Incentive	Delete. Becomes "4H: Not used".
4I: Requirement to Report on System Transmission Losses	Delete. Becomes "4I: Not used".
4J. SO-TO mechanism	Amend condition to remove quarterly reporting requirements and existing incentive. <ul style="list-style-type: none"> • Delete 4J.1 (b) • Remove references to $OIPay_t$ from 4J.2 • Delete Parts E and Part F
4K: Not used	No change
4L: Financial incentives on EMR	No change
Key Blue = new condition Green = no change Yellow = amend Red = delete	

Special Condition 4M: Electricity System Operator Reporting and Incentive Arrangements

Part A: Introduction

- 4M.1 The purpose of this licence condition is to:
- (a) establish the arrangements known as the Electricity System Operator Reporting and Incentive (ESORI) scheme, which includes the arrangements for determining the amount of the IncPayExt_t term in respect of Relevant Year t under paragraph 4C.1 of Special Condition 4C (Balancing Services Activity Revenue Restriction on External Costs); and
 - (b) make provision for the arrangements relating to the governance and revision of the ESORI arrangements.

Part B: Function of the ESORI Scheme

- 4M.2 The function of the ESORI Scheme is to create transparency around the licensee's actions and its performance and encourage it to identify and make changes to improve the way it performs its role as the System Operator for the benefit of consumers.

Part C: Establish the Forward Plan

- 4M.3 The licensee shall have in place, at the start of each Relevant Year, a Forward Plan that sets out:
- (a) in relation to each of the Principles, the changes the licensee considers it needs to make to the way it performs its role as the System Operator in order to benefit consumers, in both the Relevant Year t, and in as many of the years following the Relevant Year t as is reasonably possible (the "Long Term Vision");
 - (b) the steps the licensee proposes to take to meet the Long Term Vision in the Relevant Year (the "Deliverables"); and
 - (c) for each of the Principles, the information by which the licensee proposes to measure its performance against the Long Term Vision and Deliverables during the Relevant Year (the "Performance Metrics"), including what outcomes the licensee proposes would constitute a reasonable representation of performance that is:
 - (i) below the expectations of the FP Consultees in paragraph 4M.5;
 - (ii) in line with the expectations of the FP Consultees; and
 - (iii) above the expectations of the FP Consultees;
- 4M.4 The licensee shall, in developing the Forward Plan in respect of Relevant Year t, consult on the contents of the Forward Plan, including all the information specified in paragraph 4M.3, prior to 31 January in Relevant Year t-1.
- 4M.5 The licensee shall, in fulfilling its obligations under paragraph 4M.4 in relation to the Forward Plan, consult with:
- (a) current and potential new electricity industry parties;
 - (b) the Authority;
 - (c) the ESO Performance Panel (for a Forward Plan in respect of Relevant Year 2019/20 and any Relevant Year thereafter); and
 - (d) any other interested parties, including consumer representatives and academics.
- (together the "FP Consultees").
- 4M.6 The licensee shall, following consultation with the FP Consultees:
- (a) consider any responses made as part of the consultation;

- (b) make any changes to the Forward Plan that it considers appropriate;
 - (c) demonstrate in the Forward Plan how it has taken into account the responses of the FP Consultees when making the changes under paragraph 4M.6(b); and
 - (d) publish any non-confidential responses to the consultation on its website.
- 4M.7 The licensee shall publish on its website a final version of the Forward Plan for Relevant Year t on or before 31 March in Relevant Year t-1.
- 4M.8 The licensee shall:
- (a) keep the Forward Plan under review at all times during a Relevant Year t, including taking into account any representations made by FP Consultees in that year; and
 - (b) make any appropriate changes to the Forward Plan for the Relevant Year t+1, ahead of any consultation on the contents of the Forward Plan under paragraph 4M.4 of this condition.
- 4M.9 The Authority will, in accordance with the ESORI Guidance Document established under Part D of this condition, compile and publish a Formal Opinion containing its views on the content of the Forward Plan on or before the 1 May in the Relevant Year.

Part D: The ESORI Guidance Document

- 4M.10 The Authority will issue, and may from time to time revise, a document, to be known as the ESORI Guidance Document, that explains the process by which the Authority will assess the performance of the licensee and how it will determine the IncPayExt_t term in respect of Relevant Year t.
- 4M.11 The Authority may without limitation, make appropriate provision about or impose requirements in the ESORI Guidance Document in respect of:
- (a) the criteria against which the performance of the licensee will be assessed;
 - (b) the process and procedures that will be in place for assessing the performance of the licensee, including the role of the ESO Performance Panel in this process;
 - (c) the requirements the licensee must fulfil as part of the assessment process, including the information the licensee must provide and its attendance at ESO Performance Panel meetings;
 - (d) the information used for the performance assessment, including how the Forward Plan, the Formal Opinion, the Mid Year Report and the End of Year Report will be used in that evaluation;
 - (e) how the assessment of the performance of the licensee will be used by the Authority to determine IncPayExt_t for the Relevant Year t; and
 - (f) any other matters relating to the regulation, governance, or administration of the ESORI Scheme.
- 4M.12 Where provisions of the ESORI Guidance Document require the compliance of the licensee, the licensee must comply with those provisions as if the ESORI Guidance Document were part of this condition.
- 4M.13 Before issuing or issuing any material revision of the ESORI Guidance Document under this condition, the Authority shall consult with the licensee.

Part E: Within Year reporting, Mid-Year Report and End of Year Report

- 4M.14 The licensee shall publish information on its performance in relation to the Principles and the Forward Plan on a regular basis, in line with the requirements in ESORI Guidance Document.

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- 4M.15 The licensee shall, on or before 7 October in Relevant Year t , prepare and publish a report on its website (the “Mid-Year Report”), containing the latest available information specified in paragraphs 4M.16 (a) to (c) in respect of that Relevant Year t .
- 4M.16 The licensee shall, on or before 7 May prepare, publish and submit a report to the Authority (the “End of Year Report”) setting out how the licensee has performed during the Relevant Year $t-1$, including:
- information on the progress it has made against the Deliverables;
 - a summary of the licensee’s performance against the Performance Metrics, including the explanations and justifications for its performance; and
 - any evidence of benefits to consumers that have been, or will be, delivered during that Relevant Year, or in the following Relevant Years, as a result of the actions taken by the licensee during that Relevant Year.
- 4M.17 The licensee must ensure to the best of its knowledge that the information provided in respect of paragraphs 4.14 to 4M.16, including any explanations and justifications for its performance, is accurate and correct.
- 4M.18 Where the ESO identifies that the information provided in respect Part E of this condition is not accurate or correct, the ESO must notify the Authority and publish or resubmit corrected information as soon practicably possible.

Part F: Incentive payments

- 4M.19 The Authority will direct by 31 July, or such later date that it considers appropriate, the value of IncPayExt_t in respect of Relevant Year $t-1$ as determined under this condition and the ESORI Guidance Document.
- 4M.20 For each Relevant Year t , the value of IncPayExt_t will be no greater than a maximum value of £30m and not less than a minimum value of -£30m unless otherwise directed by the Authority.

Part G: Definitions:

Deliverables	means the steps the licensee intends to take during a Relevant Year to meet the Long Term Vision as set out in 4M.3(b);
ESO Performance Panel	means a panel established by the Authority to make recommendations to the Authority on the performance of the licensee in a Relevant Year, as set out in further detail in the ESORI Guidance Document;
ESORI Guidance Document	means a document developed and published by the Authority in accordance with Part D of this condition;
ESORI Scheme	means the arrangements established in respect of special condition 4M;
Formal Opinion	means an opinion published by the Authority on the licensee’s Forward Plan in accordance with condition 4M.9;
Forward Plan	means the plan established and published under Part C of this condition;
Long Term Vision	means the changes the licensee intends to make to the way it performs its role as the System Operator in accordance with 4M.3(a);
Performance Metrics	means, in relation to each of the Principles, the information used to measure the licensee’s performance against the Long Term Vision and Deliverables as set out in 4M.3(c); and
Principles	means the principles set out in the document entitled ‘Electricity System Operator Principles’ published by the Authority on its website, as amended from time to time.

Appendix 2 - Feedback on this consultation

We want to hear from anyone interested in this document. Send your response to the person or team named at the top of the front page.

We've asked for your feedback in each of the questions throughout it. Please respond to each one as fully as you can.

Unless you mark your response confidential, we'll publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send your comments to stakeholders@ofgem.gov.uk