

System operator, transmission operators,  
distribution network operators, generators,  
suppliers, traders, aggregators, consumers and  
other interested parties

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Date: 14 May 2018

Dear colleagues,

## **Ofgem Formal Opinion on the Electricity System Operator (ESO) Forward Plan 2018-19**

### **The ESO regulatory and incentives framework from April 2018**

The ESO sits at the centre of our energy 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. We regulate the ESO<sup>1</sup> to help ensure the actions it takes align with the interests of consumers.

We recently published our [decision](#) on changes to the ESO regulatory and incentives framework from 1 April 2018. Our new arrangements<sup>2</sup> represent a material change from previous years as the new incentive framework uses a broader, more evaluative approach. These new arrangements aim to encourage the ESO to proactively identify how it can maximise consumer benefits across the full spectrum of its roles. The new framework includes a final set of Principles for the ESO<sup>3</sup>; a requirement to develop a Forward Plan with stakeholders; a requirement to publish regular performance metrics and reports; the introduction of a new Performance Panel; and a move towards a broader, more evaluative financial incentive.

We expect this framework to remain in place for the next three years. However, we intend to keep it under review during the first year, and make any necessary refinements alongside the legal separation of the ESO in April 2019. The lessons we learn from the new arrangements will also inform the design of the RIIO-2 framework for the ESO, which is due to commence in April 2021.

### **The ESO Forward Plan – purpose and our expectations**

A key objective for our framework is to make the ESO more clearly accountable to its stakeholders. We want the ESO to place consumers at the centre of its decision-making. We expect it to be engaging continuously with both existing and potential stakeholders in order to identify how it can best meet its Principles and deliver additional benefits for consumers. To facilitate this, we have introduced a requirement on the ESO to engage with its stakeholders to produce a Forward Plan before the start of each regulatory year. This plan should set out the ESO's long-term vision for how it intends to drive consumer benefits under its different Roles and Principles. It should also set out the specific steps the ESO intends to take in the year ahead to meet these aims. The final Forward Plan should contain deliverables with clear dates and milestones that are as unambiguous as possible.

The ESO is also required to include a set of performance metrics linked to each of the Principles. These metrics are intended to create transparency around the ESO's performance by helping stakeholders to track the ESO's progress against its Forward Plan. Each performance metric should be supported by performance benchmarks. These should set out and clearly justify what outcomes would constitute performance that is: under baseline expectations; in line with baseline expectations; and exceeding baseline expectations (with reference to the baseline behaviours and outcomes defined by the ESO Principles).

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<sup>1</sup> 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 of companies. The ESO is due to become a legally separate function within National Grid plc from April 2019.

<sup>2</sup> We have provided further [guidance](#) on the reporting and incentive arrangements.

<sup>3</sup> Our baseline expectations around each Principle is defined in the [ESO Roles and Principles guidance](#).

The Forward Plan will be a key input into the end of year incentive decision. Overall, the plan should be ambitious. By that we mean:

- 1) A clear long-term strategy and vision in relation to the Principles;
- 2) A comprehensive breadth/coverage of tangible steps/activities/deliverables that the ESO is intending to undertake during the year to meet its longer term vision for each Principle;
- 3) A sufficient level of stretch in what constitutes expected performance levels.

The ESO must also evidence clearly how its Forward Plan meets and/or exceeds baseline expectations for each Principle and the extent of additional consumer benefits its actions will create. Furthermore, the ESO also needs to demonstrate that it has extensively engaged and responded to stakeholder feedback when consulting on the Forward Plan in order to validate the deliverables and performance metrics.

### **Ofgem Formal Opinion - purpose**

We want to be as clear as possible to the ESO about the ambition of the Forward Plan. This includes the extent to which the ESO has articulated a clear long-term strategy and vision for each Principle, the level of coverage and stretch of the deliverables and performance metrics and the extent to which the deliverables and performance metrics go beyond, or fall below, baseline expectations.<sup>4</sup> Therefore, we responded to the ESO's consultation on its draft Forward Plan (which can be found [here](#)) and have produced this Formal Opinion in response to the final version of the plan.

This Formal Opinion is intended to increase transparency about our expectations of the ESO in order to drive performance in the interests of consumers. We expect the ESO to take this Formal Opinion into consideration and respond accordingly by providing the necessary evidence/information requested throughout the year.

### **The evaluation process**

The ESO's performance will be evaluated at the end of the year against the outcomes that it has delivered for each Principle. It is important to recognise that the ESO's performance will not be evaluated solely on the delivery of its plan and/or Performance Metrics. The ESO Performance Panel will use the following criteria to evaluate the ESO's performance and determine a score for each Principle: (1) ESO evidence of delivered benefits; (2) ESO evidence of future benefits / progress against longer term initiatives; (3) stakeholder views; (4) plan delivery and (5) outturn performance metrics and justifications.

The end of year incentive decision will ultimately be determined by Ofgem. We expect a high level of service based on commitments under RIIO and expectations in NGET's licence, and incentive payments will only be rewarded for going above and beyond this baseline.

The Formal Opinion is assessing the ambition of the Forward Plan. It will be taken into consideration when the Performance Panel assess the ESO's performance against (4) plan delivery and (5) outturn performance metrics and justifications. When undertaking this assessment, Ofgem's views at the beginning of the year (in the Formal Opinion) will be one relevant piece of information that will give the Performance Panel an indication of the level of ambition in the ESO Forward Plan (how stretching and ambitious the ESO's Deliverables, Performance Metrics and Performance Benchmarks are). It will also be used to help the Performance Panel understand baseline expectations (the extent to which the Deliverables and Performance Metrics for each Principle either meet, exceed or fall below Ofgem and stakeholders' expectations).

**As the Formal Opinion forms part of a holistic, evaluative assessment, it is worth noting that nothing in this statement limits the ability for the ESO to receive the maximum reward/penalty at the end of the year.<sup>5</sup>**

### **Ofgem Formal Opinion**

The ESO published its final Forward Plan on 27 March 2018 following consultation with stakeholders. In reaching our Formal Opinion, we have reviewed the evidence provided in the final Forward Plan documents (the Forward Plan, the Delivery Schedule, the Performance metrics definition document and

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<sup>4</sup> Page 12 of the [guidance](#) describes the purpose and content of the Ofgem Formal Opinion.

<sup>5</sup> For the 2018/19 incentive year, the maximum reward/penalty the ESO can achieve is ±£30million. As a default, this will be split equally among each of the seven Principles (±£4.29m per Principle).

the Stakeholder Engagement Report) and have assessed the stakeholder feedback the ESO has received to its Forward Plan consultation.

We have provided our high level comments below and a detailed assessment for each Principle in the Appendix.

### The ESO's engagement

This is the first year of the new framework where we have asked for a full and comprehensive range of initiatives to deliver significant additional consumer value across all the ESO's Roles and Principles. The ESO has engaged proactively with the new framework and has actively consulted with stakeholders on what its deliverables and ambition should be going forward across its Roles and Principles. We think the Forward Plan is an important step in improving transparency with stakeholders, understanding stakeholders' expectations and building confidence in the new scheme. Next year, the licence requirement will support a longer timeframe for the ESO to produce, consult and revise its Forward Plan and there will be more time for industry participants to feed into this process.

### Ambition

The new regulatory and incentives framework is aiming to encourage the ESO to move away from a focus on narrow, mechanistic incentives and instead to carry out its activities to maximise consumer benefit across its Roles and Principles. We consider that the long-term vision articulated in the Forward Plan demonstrates that the ESO is starting to change the way in which it carries out its role. The long-term vision that the ESO has articulated in the Plan for Principles 1, 3 and 7 is in line with our expectations, however there are some areas where we would expect the ESO to go further and better reflect the outcomes described in the Roles and Principles guidance. In particular, under Principle 4, we would like the ESO to think more holistically about the strategic role it has in developing and shaping the framework, instead of limiting its ambition to the Charging Futures Forum (CFF) secretariat and code administrator roles. Principles 5 and 6 could be more ambitious by considering the wider whole system strategy and the cross-cutting element of the whole system coordination work. We have provided more detail on this in the Appendix.

Some of the deliverables in the plan demonstrate that the ESO is thinking in line with the Roles and Principles guidance, however more information will be needed throughout the year to demonstrate how the deliverables go beyond baseline expectations (including but not limited to those already set out in the RIIO-T1 Business Plan and NGET's licence). Going forward, we would like to see a greater explanation of how the deliverables align with the long-term vision of the plan. We also require further evidence about the additional benefits these initiatives will deliver for consumers (including robust evidence / rationale for any estimate(s) of consumer benefit).

We recognise the effort that the ESO has put into developing metrics for the plan and we note that some of the metrics are still under development. A number of the metrics in this year's plan relate to the ESO's existing activities and it is not clear how they fit with the new vision. Going forward, we would like to see metrics that are increasingly aligned with the long-term vision of the plan and the outcomes we are driving at in the Roles and Principles Guidance. Generally, we also think there is a need for greater explanation and evidence to show why a number of these metrics go beyond baseline expectations to deliver additional consumer value. It is important for the ESO to remember that the assessment at the end of the year will be based on a wider evaluation of their overall performance against the Principles and a demonstration of consumer benefit. For some of the Principles, we will be expecting performance to go beyond the metrics in order to merit and justify an incentive reward. We also encourage the ESO to take on board stakeholder feedback wherever it is in the interests of consumers.

We have provided more detailed comments for each Principle in the Appendix (including our comments on the ESO's long-term vision, the deliverables and the performance metrics).

### **Next steps**

We appreciate all the work that has gone into developing the Forward Plan and the stakeholders that have provided comments.

We strongly encourage stakeholders to continue engaging with the ESO to shape its plans and activities over the course of next year and beyond. If you have any feedback on the ESO's performance throughout the course of 2018/19, including both positive examples and areas of concern, you can

provide details of these to us by sending an email to our new mailing list:  
[ESOperformance@ofgem.gov.uk](mailto:ESOperformance@ofgem.gov.uk).

We will be forming and implementing the new ESO Performance Panel and intend to engage with industry over the final details. We are aiming to have this in place by the first Mid-Year Review process in October/November 2018 at the latest.

Yours sincerely,

Philippa Pickford

**Associate Partner, Systems & Networks**

## Appendix - Assessment by Principle

We have provided more detailed comments below for each Principle. We have given our view on whether the long-term vision and deliverables described in the Forward Plan meets our baseline expectations, whether the performance benchmarks have sufficient coverage and stretch to be deemed ambitious and whether there were any other specific stakeholder comments in these areas. **To note, the Forward Plan (including the deliverables and performance metrics) is one component of the new reporting and incentive arrangements. We will also consider stakeholder feedback and supporting evidence and justifications when assessing the ESO's performance at the end of the year.**

### Principle 1 – Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information

#### Long-term vision

The ESO's long-term vision focusses on information provision to increase transparency and help market participants make investment decisions and to facilitate the transition toward balancing across shorter timescales. We think this is a clear articulation of the outcomes we are driving toward under this Principle.

#### Deliverables

The ESO has chosen a number of deliverables in the areas of information provision, transparency and engagement in its Delivery Schedule. Whilst the deliverables cover the key areas specified in our guidance, we require more specific information to assess whether they meet or exceed our baseline expectations in these areas. For instance, the ESO mentions that it will be using "new, more accessible channels" to publish a high-level summary of system conditions, but we require further detail on how the ESO will be regularly and actively engaging with market participants to understand the content market participants need, and the preferred format and frequency in order to ensure that all the information it publishes is as user-friendly as possible.

#### Performance metrics

The performance metrics focus on publishing information on time and ensuring information is accurate. We expect a competent system operator to publish accurate information on time as part of its baseline performance. Therefore, we consider the ESO should be delivering beyond this to be eligible for an incentive reward for this Principle. We encourage the ESO to look at the quality and the usefulness of the information it publishes alongside publishing accurate data on time as this provides a better measure of performance. This would tell us more about the positive outcomes delivered for stakeholders and consumers. We also agree with stakeholders that the metrics could have been more ambitious in their coverage in order to better relate to the deliverables and the outcomes described under Principle 4 in the Roles and Principles guidance.

A few stakeholders suggested that some of the metrics ('Metric 1 – Commercial Assessment Transparency' and 'Metric 2 - Bustos Forecast Provision') should have a downside risk only. We notice that most of the targets for the performance metrics have not changed since the first draft of the ESO Forward Plan. Therefore, we consider that more could have been done in this area to take into account stakeholder feedback. We would like to see progress against this Principle throughout the year and we will be looking at stakeholder feedback and the ESO evidence at the end of the year to assess the ESO's performance.

We have provided more detail for each metric below:

Metric	Our assessment
'Metric 1 - Commercial assessment transparency'	We welcome the ESO's commitment to listening to stakeholder views to deliver greater transparency. Outperformance in this area will ultimately depend on stakeholder feedback, in particular how useful the data/webinars are, and on the outcomes and improvements the ESO delivers to stakeholders.
'Metric 2 - Bustos forecast provision'	We welcome this initiative, but we agree with stakeholders that accuracy, quality and usefulness will be more important in determining whether this goes above and beyond baseline expectations in order to deliver the outcomes expected under this Principle.
'Metric 3 - Trades data transparency'	We understand the ESO will be deploying a new system in order to publish this data. We agree with stakeholders that the performance benchmarks could be more challenging especially as one stakeholder suggested the ESO could go further in this

	area by publishing a narrative alongside trade data to explain why certain actions are taken (something stakeholders have repeatedly called for). We will be looking at stakeholder feedback and ESO evidence at the end of the year to assess the extent to which the ESO has met and/or gone above expectations in this area.
'Metric 4 - Forecasting accuracy'	Stakeholders requested further clarity on the Forecasting accuracy metric. We note that the ESO has provided more explanation for this metric but our current view is that the methodology is not as transparent, accessible or as challenging as previous incentives. At this stage, we do not think this metric is ambitious enough. As a key Principle, any improvements in forecasting previously rewarded through incentives should not be rewarded again. We will therefore be monitoring this closely and expecting to see tangible examples of actions the ESO had taken to deliver additional consumer value. We also note that we expect the ESO to be improving its forecasting capabilities in response to the changing system as part of its RIIO-T1 price control, so there is a high bar for any incentive rewards.

**Principle 2 – Drive overall efficiency and transparency in balancing, taking into account impacts of ESO actions across time horizons**

Long-term vision

The ESO’s vision describes how it will enhance and deliver IT systems in the near term to deliver smart system operation in the long term. We think the ESO could go further by including more detail in the long-term vision about its ambition to improve overall transparency in balancing.

Deliverables

The ESO proposes deliverables that include longer-term initiatives to drive overall efficiency and to improve transparency such as the Operability Report and improvements to the ESO Trades Data platform. We recognise that stakeholders were particularly supportive of the focus on IT system changes being taken forward. These initiatives sound positive and we look forward to receiving more information during the year on the specific details of each deliverable included in the Plan. For each deliverable, the ESO needs to develop a clear evidence base as to why the deliverables go beyond baseline expectations to deliver the outcomes described in the Roles and Principles guidance.

We also expect the ESO to make significant progress on improving the transparency of its procurement decisions, particularly as greater transparency around the ESO’s balancing approach is something stakeholders have long called for. We appreciate that the ESO has responded to stakeholder views in their stakeholder engagement report by stating they will be “conducting a complete review of their Procurement Guidelines and Report document” and we look forward to receiving more detail on what this involves and how this will be progressed over the next year.

A few stakeholders asked for updates on the progress of the Electricity Balancing System (EBS). The ESO should outline how the deliverables chosen under this Principle will deliver outcomes that surpass those that would have been delivered by EBS had it been implemented on time. Given commitments and reassurances in the RIIO-T1 Business Plan, our view is that the benefits of EBS should be considered as baseline expectations.

Performance metrics

The ESO has included one primary metric on balancing costs for this Principle, which measures cost against a baseline for balancing spend (excluding black start). We recognise that balancing cost management is an important metric to have in this area as the actions taken to balance the system have high consumer value. In the future, we would like the ESO to consider more metrics in this section to measure the ESO’s performance on transparency and thinking long-term to drive overall efficiency (wherever possible). Similarly, stakeholders also wanted more metrics/deliverables to measure transparency. This would improve the coverage of the metrics, which would help to ensure that the metrics are aligned with the ESO’s vision for this Principle.

We note that the ESO has improved the explanation behind this metric in the final Forward Plan (in particular providing an explanation for why costs are increasing in the key areas the ESO has identified), but stakeholders have not had the opportunity to comment on this detail. Furthermore, we would like to see further detail on the steps the ESO is taking to drive down balancing costs over the coming year and into the future. This information will be key for us to determine whether the ESO has met or exceeded baseline expectations, particularly given the inherent volatility around this metric. Given the ESO’s expertise in this area, we also believe that the ESO should show more ambition than delivering £10m of savings above an efficient baseline in order to exceed expectations.

We note that this places more onus on the supporting evidence the ESO provides throughout the year to demonstrate how it has increased coverage of its role in this area and delivered outcomes beyond the metrics in order to meet our expectations for this Principle. In particular, we expect the ESO to provide clear evidence of what it has done to improve efficiency of short and medium term balancing costs and to explain the impact other system changes have had on balancing costs.

**Principle 3 - Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent**

Long-term vision

The ESO’s long-term vision describes how it will use the rules and processes to facilitate new business models and technologies into the market to deliver a distributed, smart, flexible electricity system. We think this is a clear strategy that meets our expectations for this Principle.

Deliverables

We welcome the work the ESO has put into developing this Principle. We think the deliverables cover the key areas outlined in our Roles and Principles Guidance. Stakeholders were supportive of the Product Roadmap and encouraged the ESO to maintain momentum on their reform of balancing services and we echo this point. Stakeholders were also encouraged by the ESO’s proposed efforts to increase the transparency of procurement/trading decisions. We require more detail on the rest of the deliverables to explain why they either meet or go beyond baseline expectations and the level of consumer benefits associated. For instance, we would like to know how the ESO will update the Procurement Guidelines and why “publishing a report on procurement of Ancillary and Balancing Services” will meet our expectations around a transparent procurement approach.

Performance metrics

Stakeholders requested further detail on some of the metrics and benchmarks. We would also like to see further detail on the stakeholder feedback questions to enable us to comment on the ambition of the metrics. Overall, we think the ESO has shown promise against this Principle, but it is important that the way in which the metrics are measured and executed is in line with stakeholder expectations throughout the year.

We have provided more detail below for each metric:

Metric	Our assessment
Metric 6 – Reform of Balancing Services markets	We welcome this initiative and metric, but believe that it could have been more ambitious. For instance, it could have been better adapted to stakeholder feedback by aiming to deliver an auction trial as part of the ‘meeting baseline expectations’ benchmark. The ambition of this metric will depend on how the ESO develops the stakeholder feedback element of this metric.
Metric 7 – New Provider on-boarding	This sounds like a positive initiative and an appropriate way to measure performance, and we look forward to receiving further information on how the ESO will be collecting stakeholder feedback as part of this metric. The ambition of this metric will depend on how the ESO develops the stakeholder feedback element of this metric.
Metric 8 – Market diversity	<p>We think market diversity is a good thing to track, but there will need to be a strong emphasis on the supporting information provided as this metric could be influenced by factors that are outside of the ESO’s control. We question whether it is ambitious to set a target trend that is less than historic levels, particularly considering commitments made by the ESO in the RIIO-T1 business plan in relation to breaking down barriers for new and smaller market parties. We would expect market diversity to improve following these commitments and given the changing generation mix. We would like to see the underlying data to justify this benchmark. Ideally, stakeholders should have had an opportunity to comment on this detail.</p> <p>We think more could have been done to incorporate stakeholder feedback for this metric. Specifically, we note that one stakeholder suggested an alternative to this approach, which could be to measure liquidity and market diversity through the number of trades that are available to the ESO. We encourage the ESO to think about whether alternative approaches could be a useful measure of performance in this area for future years.</p>



## **Principle 4 - Promote competition in wholesale and capacity markets**

### Long-term vision

The plan for this Principle focusses on improving current commercial frameworks, expanding current cross-industry engagement and championing the transition to a code manager role. We think the current focus is on initiatives the ESO is already doing or should be doing to meet baseline expectations in this area. We challenge the ESO to go further for this Principle to think more strategically about new innovative initiatives it can undertake to deliver additional benefits to consumers in this space that would better meet our expectations to promote competition under this Principle.

### Deliverables

The ESO has included a number of deliverables relating to network charging and code arrangements. We think more detail is required in this area in order to demonstrate that the ESO is working toward the outcomes and baseline expectations described under this Principle. We look forward to receiving more detail over the coming year on the "code administrator strategic improvement action plan" and the "additional information" the ESO will provide to "support the Electricity Capacity report".

Overall, we expect the ESO's ambition in this area not to be limited to its CFF secretariat and code administrator roles. We expect the ESO to be thinking more holistically about the strategic role it has in developing and shaping the framework including through constructive participation across industry fora. The ESO is more than a code administrator and it is in a unique position to understand existing barriers to competition across different markets. We expect to see the ESO working with industry and ourselves to propose and/or support changes to codes where this can reduce barriers to competition and drive other benefits for consumers.

### Performance metrics

The ESO's metrics could have had wider coverage and greater stretch. At the moment, they capture a relatively narrow set of processes and we encourage the ESO to reconsider the outcomes described in Principle 4. We will be relying on supporting evidence throughout the year and expect the ESO to demonstrate how it has increased coverage of its role in this area and delivered outcomes beyond the metrics in order to meet our expectations for this Principle. We encourage the use of stakeholder satisfaction surveys, but how these surveys are designed will be very important. We look forward to receiving this information and expect the ESO to set appropriately ambitious performance benchmarks.

<b>Metric</b>	<b>Our assessment</b>
Metric 9 – Bustos billing	<p>This metric appears to be focused on running a required administrative process rather than the expectations described under the ESO Roles and Principles guidance. It is therefore not clear how this fits with the Principles in this area.</p> <p>The ESO has taken on board some stakeholder feedback for this metric, but we still think the ESO should go further in this area. Firstly, we expect the ESO to meet its legal obligations as part of our baseline expectations. Outperformance of metrics (especially the 'exceeding baseline expectations' benchmark) should not be set at meeting those baseline requirements. Secondly, we question whether this metric measures performance in line with outcomes expected in this Principle area. Stakeholders also suggested further improvements to this metric (changing it to have downside-only, looking at the quality of the Bustos bills, resolving 100% of queries etc.). We therefore would not expect there to be any reward associated with the ESO outperforming this metric, unless the ESO can demonstrate new and innovative ways of enhancing the customer experience in this area.</p>
Metric 10 – Code administrator stakeholder satisfaction	<p>We welcome a stakeholder satisfaction metric in this area. The ESO has taken on board feedback for this metric and has increased its ambition. However we question whether "top-half overall performance" across all three codes is sufficient for the 'exceeding baseline expectations' benchmark as the ESO should be achieving this now. We believe that the ESO should only be deemed to outperform this metric if it can show that it has gone beyond the current standards set by other code providers. We also expect that progress in this area should not come at the expense of working collaboratively with other code providers.</p>
Metric 11 – Charging futures	<p>The ESO has provided more information for this metric (including survey questions). Ideally, stakeholders should have had the opportunity to comment on this detail. Nonetheless, we think this is an appropriate metric to measure the ESO's</p>



performance as the lead secretariat of the charging futures forum and we currently think the stakeholder feedback questions are sufficient.

**Principle 5 - Coordinate across system boundaries to deliver efficient network planning and development**

Long-term vision

The ESO’s long-term vision mentions a few different activities such as pathfinding projects, managing issues across the networks, delivering coordinated network planning and improving customer experience of connecting to the network. We would challenge the ESO to go further with the long-term vision and provide detail of how these activities will come together to deliver a whole system strategy.

Deliverables

The ESO has included deliverables to collaborate with DNOs through the Regional Development Programmes (RDPs). We think this sounds like a positive initiative and we appreciate the additional information the ESO has provided on this. We would like to see further detail on some of the other deliverables to conclude that the ESO is meeting our expectations for this Principle. Currently the ESO refers to “developing new ways of working with DNOs and other solution providers”. We would like more evidence and examples of the work the ESO is undertaking to enhance collaboration, communication and coordination with other network operators in order to identify and support the delivery of the most efficient network planning and development solutions for the whole system. Stakeholders also believe more can be done to develop a whole system approach.

Performance metrics

The metrics are a small part of the wider whole system strategy and they do not appear to relate back to the deliverables outlined by the ESO or the outcomes described under Principle 5 in the Roles and Principles guidance. For instance, the ESO refers to the RDPs in its deliverables but did not propose a metric on this area. We recognise that this may be an area where ex-ante performance metrics may be difficult to define because the options available and consumer value created can depend on the actions of other parties. If metrics can be influenced by factors that are outside of the ESO’s control, then there will need to be a strong emphasis on the supporting information provided to assess how the ESO has added value to consumers. We will be relying on supporting evidence throughout the year and expect the ESO to demonstrate how it has increased coverage of its role in this area and delivered outcomes beyond the metrics in order to meet our expectations for this Principle.

We have provided more detail below for each metric:

Metric	Our assessment
Metric 12 – whole system optionality	The ESO has made this metric more challenging following feedback, however it could be refined further. One stakeholder suggested that the performance benchmarks should be based on the number of <u>credible</u> options identified instead of the number of non-traditional solutions. We require more information to conclude the ESO is being sufficiently ambitious in this area. Specifically, we require a justification for why this metric appears to be upside only and why three solutions have been chosen as a sufficient benchmark.
Metric 13 – unlocking cross-boundary solutions	This metric features an ex-post evaluation, therefore it is difficult to assess ambition at this stage (as no performance benchmarks have been proposed). In future, we encourage the ESO to form a view of an appropriate target in this area. We also note that the ESO has proposed a baseline of zero and we do not agree that this is appropriate. Further, it is not clear that there haven’t been any connections between June 2017 and the setting of this baseline. This metric requires more ambition in order to meet baseline expectations.

**Principle 6 - Coordinate effectively to ensure efficient whole system operation and optimal use of resources**

Long-term vision

The ESO’s long-term vision mentions a few activities, such as transforming how the ESO works with DNOs and collaborating across industry to find creative solutions. The ESO also highlights the benefits of whole system operation. We would challenge the ESO to go further and explain how these activities come together to deliver a holistic whole system strategy in order to meet the expectations set out in the Roles and Principles Guidance for this Principle.

### Deliverables

The ESO's deliverables cover cross industry collaboration, initiatives to implement learning from innovation projects and improvements to connection applications processes. The deliverables do not appear to be immediately relevant to achieving the outcomes for this Principle. In order to demonstrate this, we require evidence about the whole system impact of the deliverables, including the cross-cutting element of the whole system coordination work. We also require further information and justification on how these activities meet or go beyond baseline expectations.

### Performance metrics

Metrics in this area focus on narrow processes that are a part of the ESO's baseline performance and they are not directly relevant to the outcomes described under this Principle. The metrics could better focus on effective coordination and whole system operation. We would welcome further clarity on how the metrics demonstrate sufficient coverage and ambition for this Principle. In particular, we would like to understand how these metrics go beyond baseline expectations and, if possible, the potential consumer benefits in this area. We will be relying on supporting evidence throughout the year and expect the ESO to demonstrate how it has increased coverage of its role in this area and delivered outcomes beyond the metrics in order to meet our expectations for this Principle.

<b>Metric</b>	<b>Our assessment</b>
Metric 14 – Connections agreement management	Stakeholders welcomed the efficient and effective management of existing connection contracts. However, some stakeholders questioned whether this metric was challenging enough. We require further detail on why 60-70% is an appropriate benchmark to meet baseline expectations, particularly given the cost implications to consumers of failing to update agreements. At this point in time, it is not clear to us that updating >70% of agreements within 9 months is above baseline expectations. The ESO needs to provide a clear evidence base of why this is the case or improve the ambition of this metric.
Metric 15 – System access management	The ESO has provided some further explanation and reasoning for this metric, but we think the ESO could have been more ambitious with this metric. Reducing the number of planned outages that are cancelled by the ESO due to process failure appears to be a baseline activity. We question how this metric meets the whole system outcomes of this Principle. The ESO must ensure it is seeking to optimise <i>overall</i> system costs rather than focussing on minimising planned outages to meet a target. Generally, we would like further information on why this metric goes beyond baseline expectations and why it should be considered as part of an incentive reward for this Principle.
Metric 16 – Future GB electricity system security	The ESO has taken on board feedback for this metric. The ESO will need to demonstrate how a commitment to deliver a report will deliver positive outcomes for stakeholders and consumers in line with the expectations of this Principle. We will be closely monitoring progress in this area and expecting to see tangible outputs alongside positive stakeholder feedback. We cannot comment further on the ambition without further detail on the stakeholder feedback element of this metric.

## **Principle 7 - Facilitate timely, efficient and competitive network investments**

### Long-term vision

The ESO's long-term vision describes how it will use the Network Options Assessment (NOA) to identify long-term electricity system needs (including more local and regional challenges) and thoroughly assess the possible options. We think this meets our expectations for this Principle.

### Deliverables

The improvements identified in the Delivery Schedule sound broadly positive and relate to the areas described under the Roles and Principles guidance. In particular, we think the ESO has made good improvements to increase the scope of the NOA and to support competition. We believe there is sufficient coverage of the deliverables.

### Performance metrics

The metrics have sufficient coverage but we question whether the performance benchmarks should be more ambitious. Overall, stakeholders supported proposals to extend the NOA scope to introduce non-

build solutions as an alternative to traditional infrastructure investments but they thought the performance metrics could be more challenging. We appreciate the ESO taking on board feedback in this area but we still think the performance metrics could still be improved. This is an area where there will be greater onus on the evidence the ESO provides throughout the year to demonstrate sufficient outcomes are being delivered to meet our expectations in this area.

Metric	Our assessment
Metric 17 – NOA consumer benefit	The ESO has taken on board feedback for this metric and the focus is now reduced-build options initiated by the ESO. We are not convinced that the performance benchmarks for this metrics are sufficiently challenging and consequently we think the ESO could be more ambitious in this area. Specifically, we require a justification for why a target of one value add option (that is initiated by the ESO) will meet baseline expectations. Ideally, stakeholders should have had an opportunity to comment on these performance benchmarks. We reiterate the ESO should only be rewarded for going beyond expectations and delivering additional benefits for consumers. There will be a strong emphasis on the supporting information the ESO provides alongside this metric to explain what it has done in practice to unlock additional benefits.
Metric 18 – NOA engagement	The ESO responded to feedback on this metric and it looks like a positive initiative. We cannot comment further on the ambition without further detail on the stakeholder feedback element of this metric. We encourage the ESO to provide this detail and to propose and set appropriate performance benchmarks.