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## ESO Performance Panel's end of year evaluation of the ESO's performance during the 2018-19 regulatory year

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### Overview

We introduced a new regulatory and incentives framework for the Electricity System Operator (ESO) in April 2018<sup>1</sup> that encourages the ESO to proactively identify opportunities to deliver consumer value across the spectrum of its roles. Under the new arrangements, the ESO must engage with its stakeholders and publish a forward plan before the start of each regulatory year. This forward plan should outline the key actions the ESO intends to take to maximise benefits for consumers and to meet the expectations described under our seven principles. The ESO will then report on its performance and provide evidence throughout the year in relation to the assessment criteria. The ESO Performance Panel (made up of independent experts and industry representatives) plays a central role in this new framework. It challenges the ESO's plans before the start of the year, evaluates the ESO's performance after six months (the 'mid-year review') and then performs a final evaluation at the end of the year. The panel then provide a recommendation to the Authority on the ESO's performance over the year. The Authority uses this alongside other evidence collated throughout the year to determine a financial reward / penalty for the ESO worth up to ±£30m.

For the regulatory period 2018-2019 the panel was first convened at the mid-year review stage, therefore did not have the opportunity to scrutinise the ESO's forward plan. In November 2018 we held the first mid-year review session on the ESO's performance. Following this, as the secretariat for the panel, we published a mid-year review report<sup>2</sup> that gave an assessment of how the ESO was performing and gave recommendations on how to improve. The 2018-19 regulatory year ended in March 2019. In June, we held the first end of year review session on the ESO's performance over 2018-19. We held an end of year review open session with stakeholders, followed by a more detailed end of year performance evaluation by the panel.

**We are publishing this report as the secretariat for the panel, detailing the panel's end of year assessment of the ESO's performance for the 2018-19 regulatory period. This report reflects the views of the panel, not Ofgem.**

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<sup>1</sup> Ofgem Decision on the new regulatory and incentives framework: <https://www.ofgem.gov.uk/publications-and-updates/policy-decision-electricity-system-operator-regulatory-and-incentives-framework-april-2018>

<sup>2</sup> ESO Performance Panel's Mid-year report: <https://www.ofgem.gov.uk/publications-and-updates/mid-year-review-panel-report-2018-19>

## Introduction

### Overview of evaluation process

The ESO regulatory and incentives framework culminates in an end of year evaluation process. Under the ESO reporting and incentives arrangements<sup>3</sup>, the ESO had to publish an end of year report by 7 May 2019, covering its performance across the twelve month regulatory period for 2018-19. The aim of the report is to update stakeholders on the progress the ESO has made against its deliverables, detail its outturn performance against its performance metrics; and provide evidence of the consumer benefits its actions have delivered this year or are expected to deliver in the future.

Following the publication of the end of year report, the ESO presented this evidence to stakeholders and the Performance Panel at an open review session. Stakeholders and the panel had the opportunity to question the ESO and provide direct feedback. The panel then had a closed session with the ESO, in which they were able to ask for further clarifications on the end of year report.

Following this the panel convened to complete its end of year assessment of the ESO's performance for the 2018-19 regulatory period. Cathryn Scott, representing Ofgem, chaired the meeting but did not take part in the scoring and evaluation of the ESO. The panel assessed the evidence provided by stakeholders, the ESO and collected by Ofgem throughout the year and used the evaluation criteria below to determine performance scores for each of the principles. These scores, and this panel report, form a recommendation to the Authority on the ESO's performance and will support the Authority, along with other evidence, to determine a financial incentive reward or penalty. The panel's evaluation should also inform the ESO on the areas where it is performing well and the areas where improvements could be made.

### The Performance Panel Members

Ofgem convened a Performance Panel for the 2018-19 regulatory period consisting of 3 industry representatives, 3 independent experts, a consumer representative and an Ofgem chair.

Ofgem chair: Cathryn Scott, Director Wholesale Markets

Consumer representative:

- Richard Hall, representing Citizens Advice

Industry representatives:

- Chris Kimmet, representing The Association of Decentralised Energy
- Matthew Deitz, representing Energy UK
- Stephanie Anderson, SPEN, nominated representative of electricity networks

Independent experts who bring a wide range of knowledge, skills and experience to the Panel:

- Professor Jon Stern
- Ian Tait
- Robert Hull

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<sup>3</sup> The ESO reporting and incentive arrangements: guidance document:

[https://www.ofgem.gov.uk/system/files/docs/2018/03/esori\\_arrangements\\_guidance\\_document.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/03/esori_arrangements_guidance_document.pdf)

## The evaluation criteria

In determining a score for each principle, the Performance Panel used the following criteria to evaluate the ESO's performance:

- a) Evidence of delivered benefits
- b) Evidence of future benefits / progress against longer term initiatives
- c) Stakeholder views
- d) Plan delivery
- e) Outturn performance metrics and justifications

The panel considered the overall strength of the different pieces of evidence for each principle and made a judgement on the relative weight of the different criteria. When a particular weighting has been applied by a panel member to a criterion or a particular piece of evidence has influenced their score, this has been highlighted in the rationale for the score.

## Scoring

For each of the seven principles, the Performance Panel have provided scores for the ESO on a scale of 1 to 5, where:

- 1 = Weak
- 2 = Poor
- 3 = Average ('baseline expectations')
- 4 = Good
- 5 = Excellent

The scoring approach works around an understanding of 'baseline expectations'.<sup>4</sup> For the avoidance of doubt, baseline expectations means a level of performance expected from the ESO which would merit neither an incentive payment nor an incentive reward. The panel considered the ESO roles and principles guidance<sup>5</sup>, the Ofgem Formal Opinion<sup>6</sup> and the ESO's Forward Plan<sup>7</sup> when making this assessment.

## Summary of ESO Performance Panel's assessment

### Overarching messages

The panel members reflected that the incentive framework was introduced in April 2018 and they recognised the ESO's willingness to engage proactively with the new process and take on feedback in a number of areas. The panel recognised that this is the first year of the ESO being incentivised under this new evaluative framework and believed the ESO has demonstrated encouraging improvements this year and that there are opportunities going

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<sup>4</sup> More information on this can be found in Chapter 3 of our ESORI guidance document:

[https://www.ofgem.gov.uk/system/files/docs/2018/03/esori\\_arrangements\\_guidance\\_document.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/03/esori_arrangements_guidance_document.pdf)

<sup>5</sup> ESO roles and principles guidance 2018-19:

[https://www.ofgem.gov.uk/system/files/docs/2018/02/eso\\_roles\\_and\\_principles.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/02/eso_roles_and_principles.pdf)

<sup>6</sup> Ofgem Formal Opinion 2018-19: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-s-formal-opinion-electricity-system-operator-s-forward-plan-2018-19>

<sup>7</sup> ESO Forward Plan 2018-19:

forward. However the panel felt that the ESO has scope to increase its ambition and must strive for performance improvements in all areas.

The panel also recognised the improvements the ESO has made against a backdrop of organisational change driven by the ESO's legal separation from National Grid Electricity Transmission. The panel are pleased to see the ESO taking steps to develop an independent voice and deliver positive culture change in line with the new incentive arrangements. Specifically, the panel were pleased to see the ESO taking a positive step towards becoming a leader of the energy system transition, by setting a goal to be able to operate a zero-carbon system by 2025 and the panel support this ambition.

At the mid-year stage the panel reflected on the difficulty of assimilating the amount of information provided by the ESO and encouraged the ESO to provide a more focussed assessment of performance. In general, the panel were pleased to see that the ESO had taken this feedback on board and had delivered improvements in its reporting since the mid-year stage. In particular, the panel noted significant improvements in the structure and contents of the end of year report and the end of year review event on 6 June 2019. Panel members also noted an improvement in the evidence of consumer benefits, but considered that the ESO needs to improve the demonstration of these benefits against a reasonable counterfactual in order to demonstrate the delivery of additional consumer value. In particular, using a baseline of 'no ESO' was not considered to be an appropriate counterfactual. The ESO should demonstrate the difference between a 'an adequate ESO' and a 'strongly performing ESO' to earn incentives rewards.

The panel reflected that there were improvements to be made with the ESO's performance metrics. Panel members felt the performance measures were often not stretching enough and considered them to be too internally focused. It was noted that metrics should focus more on the strategic outcomes to be gained from the deliverables. The panel placed less weighting on the ESO's performance against the metrics due to these concerns. The panel also wish to see further improvements in the evidence provided to outline delivered and future benefits for consumers, with the panel expecting greater clarity going forward. The panel had difficulty assessing the ESO's performance against the criteria, due to the level of evidence provided by the ESO. In particular, the panel found it difficult to assess how well the ESO had delivered future benefits for a number of principles. The panel recommended that in future years the ESO should endeavour to evaluate the success of initiatives, especially pilot projects and experimental approaches. This would contribute to the effective evidencing of benefits as well as the ESO's own planning and learning. It was felt such evaluation would be most pertinent to principles 3, 5, 6 and 7.

The panel appreciated the time and effort put in by ESO staff in providing panel members with information, analysis and background in support of the panel's work, and saw an improvement in the year which the ESO can build on for coming years. Finally, the panel wished to stress their appreciation of the stakeholder feedback that has been received throughout the 2018-19 regulatory period. This feedback has been vital in informing the panel's evaluation of the ESO's performance.

### **Summary table of scores**

We have summarised the scores agreed by the panel, following its assessment of the ESO's performance. Where possible the panel aimed to provide a consensus score, however where this wasn't possible, the panel settled on a range of scores for some principles. In some instances, the panel wanted to reflect more detail in their scores. For example, a score of 3

denotes baseline expectations, but the ESO’s performance for a particular principle may be, on the whole, just above expectations but not sufficient to be scored a 4. This is reflected throughout the report as a ‘high 3’ (or vice versa a ‘low’ 3 to signal performance that was slightly below expectations but not considered to be a 2). This distinction provides further clarity to the Authority on how the panel evaluated the ESO and will be taken into account when determining the appropriate financial payment or penalty.

In all instances, the score range should be read alongside the detailed feedback. This report captures the breadth of views that were expressed and the reasoning provided by the panel members.

<b>Principle</b>	Principle 1	Principle 2	Principle 3	Principle 4	Principle 5	Principle 6	Principle 7
<b>End of year Score</b>	3-4	2-3	2-4	2-3	3	3	2-4

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

This principle requires the ESO to improve information provision and to increase transparency in order to help market participants make informed decisions.

<b>Mid-year score</b>	2-4
<b>Final end of year score</b>	3-4

There were a range of views for this principle with scores between 3-4. The panel members differed on whether the ESO had demonstrated performance that was in line with or exceeding baseline expectations for this principle.

- Five panel members gave the ESO a score of 3. With regards to information provision and improving overall transparency, these panel members agreed that improvements had been made over 2018-19 with a number of initiatives being delivered such as the FES and improvements to the BSUoS reports and the Ops Forum. These panel members considered that these initiatives delivered an improvement, but this was part of baseline expectations for the ESO. These panel members considered that the ESO could be doing far more under this principle and did not appear to be responding fully to the needs of stakeholders. For instance, some publications are not providing a full update on the topic covered and simple improvements to the website to meet stakeholder’s needs are still required (for example a central publication repository). Additionally, more progress was expected with regards to transparency and some panel members believed there was no evident improvement from the mid-year review, despite this being raised as a recommendation.
- Two panel members gave the ESO a score of 4. These panel members thought a score of 4 was warranted because the ESO had taken positive steps which could lead to significant future benefits (although the ESO had not fully articulated these future benefits in its evidence). The development and use of new forecasting models which

allowed further enhancement and improvements in the quantity and range of forecasting was an important element in this judgement. They also considered that the preceding opaqueness in information provision is a long standing issue that will be slow to resolve and recognised that the ESO had made positive, credible improvements this year in order to improve transparency.

- The key area of discussion under this principle was forecasting. It was noted by some panel members that the ESO had significantly improved its solar forecasting accuracy, however one panel member highlighted the ESO had already earned funding for this through RIIO-T1 innovation allowances. The panel also noted the stakeholder feedback received on demand forecasting accuracy, and so had differing views on the level of improvement and efficacy of this. One panel member, who scored the ESO a 4, noted that forecasting errors would always be present and this panel member placed greater weighting on the potential for future improvements. Other panel members placed a strong weighting on stakeholder feedback for this principle. Specifically, some panel members considered that the ESO could do more to provide user-friendly, comprehensive and accurate forecasts that meet stakeholders needs. One panel member reflected that the ESO has a licence obligation to provide accurate and unbiased forecasts and so it shouldn't be over-forecasting demand intentionally, as the ESO stated they did in the panel briefing session. They felt the ESO was performing below baseline in regards to this specific area. When taking into account other areas performed under this principle, a score of 3 was considered appropriate.
- Overall the evaluation of performance under this principle is that the ESO has made some positive improvements in the right direction, however to exceed expectations it must do more to identify and meet stakeholders needs. One panel member, who scored the ESO a 4, reflected that to achieve a score in excess of 4 the ESO may need to do fundamental investment in forecasting methods and software.

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

This principle focusses on the ESO's role in the Balancing Mechanism (BM) and in ancillary service markets. It requires the ESO to take the most economic action that solves the system's balancing and/or operability need in order to efficiently maintain system balance and deal with system operability issues, like network constraints. We expect the ESO to do this by striking an appropriate balance between short-term reductions in balancing costs and the longer-term development of balancing services markets.

<b>Mid-year score</b>	2
<b>End of year score</b>	2-3

There were a range of views expressed for this principle, with the majority of the panel reaching a consensus of a low 3 and one panel member scoring a 2. There was a consensus that performance under this principle was weaker than for principle 1.

- The panel were concerned with the significant increase in balancing costs over 2018-19 and the ESO tracking below expectations for its balancing cost metric. The panel members noted the ESO had tried to provide some justification for the increase in balancing costs but the majority of panel members felt that at least some of this justification was weak. The ESO's categorisation of some events and cost drivers, for

example classifying RoCoF costs as “unforeseen”, was not considered satisfactory. Some of the panel members reflected that RoCoF costs have been rising for several years and are a known problem to the ESO. The panel considered that the ESO should have been more aware of this risk and prepared to take alternative actions to reduce these costs. One member reflected on the increase of non-synchronous generation on the electricity system over the past decade that causes this issue. This is forecast to continue, therefore, the ESO must have more suitable contingencies in place to prevent this cost escalating further unnecessarily.

- Some panel members considered that the ESO could have better demonstrated what it had done over 2018-19 to minimise the increase in balancing costs. These panel members recognised that the unavailability of the Western HVDC link was beyond the ESO’s control and a significant driver of costs; however they were concerned by the lack of evidence to suggest the ESO had sufficient contingency measures in place to mitigate and manage the increase in costs, especially as it was the first year of operation of a new piece of infrastructure. In future the panel expect to see a robust analysis of options taken, and not taken, for such events and the rationale for this. This would enable the panel to evaluate if the ESO was performing its role effectively, beyond assessing the ESO’s balancing costs and would also increase transparency regarding balancing actions. The panel reflected on stakeholder feedback that there continues to be a lack of transparency around the ESO’s decision making in routine balancing actions. The panel considered that the ESO had made some improvement in this area but more needed to be done to improve transparency.
- Some of the delivered benefits outlined in the report were explained with a counterfactual of there being ‘no ESO’ and as such these benefits were considered to be business as usual by the panel. The ESO’s rationale for delivered benefits was not considered to be robust and well-justified. The panel considered that the ESO should refer to a more realistic counterfactual to demonstrate that it is delivering additional value for consumers.
- One panel member awarded a score of a 2, reflecting on stakeholder feedback on the delays to IT systems which were considered unsatisfactory. In particular, the failure to meet industry expectations of the Electricity Balancing System (EBS). They recognised that the delays were ongoing prior to the 2018-19 period, but that the failed delivery occurred in this regulatory period and therefore must be considered as part of this incentive scheme. This panel member also reflected on the poor communication with stakeholders around progress in this area.
- On the other hand, two panel members considered that the ESO had met baseline expectations as rising costs were in line with the increasing historical trend in balancing costs. They also felt the ESO had improved its performance since mid-year (when the panel scored the ESO a 2) therefore a score of 3 was warranted.
- Overall the panel agreed that the ESO had not performed strongly for principle 2. The panel considered that a score of 3 was appropriate but with a suggestion to the Authority that this should be considered a ‘low 3’ (ie, at the lower end of the potential financial range for a score of 3). The panel encouraged the ESO to continue improving the transparency of its balancing actions and to demonstrate evidence of a risk-management approach to mitigate against rising costs.

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

This principle requires the ESO to develop and procure additional ancillary or balancing services in a manner that maximises competition and is simple, fair and transparent.

<b>Mid-year score</b>	3
<b>End of year score</b>	2-4

There were a range of scores for this principle, with the panel split between a score of 2 and a score of 4.

- Panel members placed a greater weighting on the evidence of delivered benefits, plan delivery and stakeholder feedback.
- Four panel members scored the ESO a 2, with one noting this is a high 2. These panel members considered that the ESO's progress over 2018-19 had not been sufficient as some of the deliverables had been delayed and had not met stakeholders' expectations. Specifically, it was unclear to the panel whether all the deliverables had been sufficiently delivered to a high standard, as intended. It was discussed that the ESO needed to ensure major changes are delivered with effective consultation, coordination and engagement with industry. The delays of some deliverables and the subsequent communication of these delays to stakeholders was highlighted as an area of underperformance. For example, the panel noted the delays to the auction trial for response and the ambiguity regarding the delays to the Faster Acting Response (FAR) product. However the panel recognised that the ESO had reflected on this at the end of year event and had been trying to improve its communications with stakeholders.
- One panel member noted that the 'Review of Exclusivity Clauses within Balancing Services Contracts' in September 2018 has not received any response or decision from the ESO, and the brevity of the Transmission Thermal Constraints information fell below stakeholder expectations. Further, updates such as the 'Future of Frequency Response Industry update' released in February 2019 failed to give a full update to industry of the deliverables committed to in the previous roadmap and System Needs and Product Strategy (SNAPs). The panel members discussed the need for a 'master document' of all committed deliverables to be referred to in all industry updates so that performance and progress can be easily monitored.
- One panel member reflected that the ESO had not given enough consideration to medium-long term investment and how this would tie in with the ESO's SNAPs work. To improve performance under this principle, the ESO needs to ensure that due consideration is given to a mix of long and short term market mechanisms
- Two panel members gave the ESO a score of 4 and one a high 3. They considered that the ESO had exceeded baseline expectations for this principle, as there was good evidence of delivered benefits for this year and that the direction of travel is positive. They considered that the ESO had made sufficient progress against its Forward Plan, including against market diversity and the Power Responsive programme. The panel noted that there was mixed stakeholder feedback, but considered that the ESO had, on the whole, delivered reasonably well. For one of the panel members, the score of 4 was



warranted largely due to the inclusion of the Distributed Energy Resource desk, which they felt was a significant cultural step to widening balancing mechanism (BM) access. However, they stressed there were still many issues present with the DER desk and further progress was required. They also did note stakeholder feedback that progress in this area could move quicker. On the whole they reflected that the ESO had made positive improvements in this area.

- All panel members agreed that the ESO was moving in a positive direction of travel with its reform of balancing services markets. All panel members want to encourage the ESO to continue to be ambitious but recommend the ESO ensures appropriate timescales are developed and communicated with industry as these directly impact industry’s investment decisions and work programmes. Ex post evaluation of initiatives will be important in making effective progress in this area.

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

This principle requires the ESO to drive forward competitive solutions and approaches wherever competition would drive efficiency and lead to consumer benefits, across all of its additional roles outside of direct balancing.

<b>Mid-year score</b>	2-3
<b>End of year score</b>	2-3

There were a range of views for this principle with scores between 2 and 3. One panel member did not provide a score here.

- There was no particular weighting applied to the criteria for this principle.
- Three panel members gave the ESO a score of 2. The ESO’s code administration role was the key area of concern under this principle. Nearly all the panel members deemed this an area of underperformance. They noted that the ESO had improved its performance in the CACoP<sup>8</sup> survey in October 2018, but it is still performing below baseline expectations and is lagging behind other code administrators who are operating under the same challenges. One panel member noted that the accessibility and clarity of data was also considered to be poor, with TNUoS charging still deemed to be impenetrable and this was highlighted as an area where the ESO could do more.
- The panel all agreed that the ESO’s leadership role in Charging Futures was an area of positive performance and that this was reflected by stakeholders in their feedback. This positive performance was recognised by two of the panel members who gave the ESO a score of 3.
- One panel member scored the ESO a ‘high 3’, as they disagreed with the concerns of the rest of the panel with regards to code administration. They considered the ESO had performed above baseline expectations and had done well to recognise code problems and appeared to have made strong efforts to address them.

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<sup>8</sup> A cross-code study commissioned by Ofgem to monitor and assess the performance of code administrators in accordance with the principles of the Code Administration Code of Practice (CACoP)

- The panel noted a lack of evidence of delivered benefits and future benefits under this principle. One panel member raised that the relaunching of this principle during the regulatory period and the limited qualitative or quantitative evidence suggests there is a lack of clear vision for the key objectives for the principle, therefore they weighted the stakeholder feedback highly. The metrics for this principle were considered to be in line with baseline expectations.

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

This principle requires the ESO to collaborate, communicate and coordinate with other network operators to identify and support the delivery of the most efficient network planning and development solutions for the whole system.

<b>Mid-year score</b>	3
<b>Final end of year score</b>	3

The majority of the panel were able to reach a consensus score of 3, with one panel member scoring 4 due to the potential for significant future benefits.

- Overall the panel considered that the ESO had been pursuing a positive direction of travel and had laid the groundwork for benefits in the future. The panel noted that ESO had introduced promising initiatives, in particular the Regional Development Programmes (RDPs). However, it was noted that some of these initiatives may have already been underway prior to this regulatory period.
- The approach of using pilot programmes was commended as being a sensible approach to an experimental area and one panel member reflected that the schemes proposed were genuinely novel and should drive long term benefit.
- One panel member raised concerns regarding the need for the ESO to be more proactive in their engagement on network planning and RDP development. For example, they were concerned the ESO had not factored the major investment planning network companies undertake, as part of the price control process, into their plans. This seemed to be a lost opportunity to identify whole system opportunities and longer term commercial solution alternatives for transmission infrastructure proposals. Ultimately, they considered the ESO was not providing adequate support to TOs. They also highlighted stakeholder feedback that the ESO hadn't effectively engaged with DNOs regarding tertiary windings and this risked the efficacy of such projects.
- Another panel member had concerns under this principle that the ESO is not doing enough to actively target the potential savings of £8bn that the National Infrastructure Commission's (NIC) 'Smart Power' report<sup>9</sup> suggests could be unlocked by all industry players acting together to achieve a successful low-carbon energy transition. They believed the ESO could do more to target explicitly its actions towards these savings and that although progress under principle 5 is positive, it is not giving this area sufficient attention.

<sup>9</sup> <https://www.nic.org.uk/wp-content/uploads/Delivering-future-proof-energy-infrastructure-Goran-Strbac-et-al.pdf>

- Some of the panel noted that the metrics were poor under this principle, despite evidence of a behaviour change regarding the approach to this principle. The baseline expectation value of 0MW used in metric 13 was highlighted as a key example. For this reason, limited weighting was given to the metrics.
- Looking forward, the panel wished to suggest that ex post evaluation of the various initiatives will be very important to ensure genuine progress under principles 5, 6 and 7 given the nature of the objectives and projects.

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

This principle requires the ESO to take a whole system perspective in the operation of the network by coordinating with other network operators to develop processes that ensure optimal resource utilisation across the network.

<b>Mid-year score</b>	3
<b>Final end of year score</b>	3

The panel reached a consensus score of 3.

Some panel members thought that ESO's performance over 2018-19 was in line with baseline expectations whilst others thought it was slightly more positive and suggested a 'high 3'.

- The panel noted the ESO's evidence of delivered benefits. In particular, the improvements to 'Appendix G' and the associated savings from this, which the panel considered as compelling evidence. On the whole, the panel considered that the ESO's work on this had met baseline expectations in this area. In comparison, the panel considered the evidence of future benefits to be comparatively weaker.
- The panel reflected on the broadly positive stakeholder feedback the ESO received particularly on the ESO's lead role in the ENA Open Networks programme and Power Potential. However they also noted the concerns from some stakeholders on the efficiency and transparency of outage planning and constraint management.
- The panel noted that the ESO had delivered against some of its deliverables but noted that some deliverables were still ongoing. Some panel members reflected on the positive improvements made to the connections process whilst others gave more weight to the need to see more improvements in this area. Some panel members thought that the ESO had further to go as the connection process is still criticised for being prolonged and inflexible, especially for new types of energy providers. The panel considered that the ESO had performed well against its metrics but these could have been more ambitious to begin with.
- One panel member thought the ESO could be more proactive in making use of tools already at their disposal to reduce whole system costs. In particular, they raised the

potential to use STCP 11-4<sup>10</sup> to reduce constraint costs and support better engagement with connected customers in order to improve the planning of network outages.

- Overall there weren't many areas of activity to assess under this principle but the panel agreed that performance was in line with expectations and recognised the work done by the ESO.

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

This principle requires the ESO to identify long-term electricity system needs, develop and assess options to meet these needs and assess whether projects meet the criteria for competitive delivery.

<b>Mid-year score</b>	3
<b>End of year score</b>	2-4

Overall, the majority of the panel had a range of scores between 3-4. One panel member gave the ESO a score of 2.

- The majority of the panel considered that Principle 7 had a relatively more long-term focus compared to other principles and so placed a greater weighting on the 'evidence of future benefits' criterion.
- Four panel members awarded the ESO a score of 3. These panel members reflected that the ESO had taken positive steps in the right direction with its development of the Network Options Assessment (NOA) over 2018-19. They noted that the ESO had increased information provision and increased the level of engagement with providers of commercial solutions. They also noted that the ESO had received broadly positive stakeholder feedback on the NOA process (roadmap and methodology) but recognised that some stakeholders (such as non-network companies) would like further transparency and engagement with the ESO. Panel members noted that this is a key area for the ESO to engage and work with industry to drive forward solutions.
- Two panel members awarded the ESO a score of 4. These panel members reflected that the ESO had made a reasonable attempt at evidencing considerable future consumer benefits from the NOA process in its end of year report, which the panel deemed to be credible. They also noted that the ESO had performed well against its metrics, in particular by increasing the number of ESO-led solutions as per metric 17.
- The ESO was awarded one score of 2 from a panel member who considered that the ESO's performance over 2018-19 was below expectations. This panel member reflected that the NOA process is in its third year and should be driving more competitive, non-

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<sup>10</sup> STCP denotes System Operator - Transmission Owner Code Procedures. The STCPs 11-1 to 11-3 set out transmission equipment outage planning processes, including the data exchange mechanism and TO outage costing.  
[https://www.ofgem.gov.uk/sites/default/files/docs/2008/06/stcwg-mtg-1-nget-paper-stcp-to-stc-section-mapping\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2008/06/stcwg-mtg-1-nget-paper-stcp-to-stc-section-mapping_0.pdf)

network solutions at this stage and also considered that that the cost-benefit analysis/evaluation of different options should be more transparent and clear.

## Next steps

Following the publication of the Performance Panel's recommendations, stakeholders including the ESO, will have a short period to submit any further representations regarding the Performance Panel's report to us, for the Authority to consider before reaching a final decision on the incentive payment or penalty. Please submit any further representations by **12 July 2019** to [ESOperformance@ofgem.gov.uk](mailto:ESOperformance@ofgem.gov.uk).

The Authority will then consider the Performance Panel's recommendations, as well as any other evidence received or collected, and decide on an appropriate reward or penalty for the ESO. This will be calculated in accordance with the process described in Chapter 4 of the ESORI Guidance document<sup>3</sup>. For the avoidance of doubt, the final decision lies with the Authority who will form views based on the evidence available, including the Performance Panel's recommendation.

The final decision on the incentive payment or penalty will be made by August and published on Ofgem's website.

Our new framework relies on stakeholder input and engagement. We appreciate the engagement so far on the 2018-19 incentive year and encourage stakeholders to continue engaging with the process going forward for the 2019-20 incentive year.