Guidance

The Electricity System Operator Reporting and Incentives Arrangements: Guidance Document (draft for consultation)

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The ESO sits at the centre of our electricity system and undertakes a number of different roles. We regulate the ESO to help ensure its actions align with consumers' interests. The ESO Reporting and Incentive (ESORI) Arrangements aim to create transparency around the ESO's performance and make it clearly accountable to its stakeholders. The arrangements are designed to encourage the ESO to make improvements to the way it performs its roles in order to maximise benefits for current and future consumers.

This Guidance Document for the ESORI Arrangements outlines the process and criteria for assessing the performance of the ESO; the reporting requirements placed on the ESO; and the methodology the Authority will use to determine an incentive payment or penalty each Business Plan cycle.

This ESORI Guidance Document (version 4.0) will come into effect on 1 April 2021 as part of the ESO's RIIO-2 price control. It will apply to the regulatory years 2021-23.

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Version History

Version	Changes	Purpose	Publication date	Release date
0.1	n/a	Consultation on the 'ESO Reporting and Incentive Arrangements Guidance Document – Draft Version'	23 February 2018	n/a
1	Clarifications to wording and minor issues addressed following review of consultation responses	To issue the ESO Reporting and Incentive Arrangements Guidance Document	28 March 2018	1 April 2018
2	Clarifications and changes to the evaluation process for regulatory year 2019-20, following consultation with industry	To update and revise the ESO Reporting and Incentive Arrangements Guidance Document for 2019-20	25 March 2019	1 April 2019
3	Clarifications and changes to roles and evaluation criteria for regulatory year 2020-21, following consultation with industry.	To update and revise the ESO Reporting and Incentive Arrangements Guidance Document for 2020-21	6 March 2020	1 April 2020
4	Clarifications and changes to fit RIIO-2 framework and timeline	To update and revise the ESO Reporting and Incentive Arrangements Guidance Document for 2021-23	XX	1 April 2021

Contents

1. Introduction

1.1. This chapter sets out the background to the ESO Reporting and Incentive (ESORI) Arrangements, the purpose of this Guidance Document and its status from a compliance perspective.

1.2. The ESORI Arrangements have been revised to complement the regulatory arrangements for the ESO under the RIIO-2 price control. This Guidance Document provides guidance around the processes and requirements involved in the ESORI Arrangements. In particular, it explains the processes and criteria used to assess the ESO's performance; the reporting requirements placed on the ESO; and the methodology the Authority will use to determine an incentive payment or penalty for each business plan cycle[1].

1.3. The ESORI Arrangements Guidance Document is issued by the Authority under Part C of special condition [4.4] (Electricity System Operator Reporting and Incentive Arrangements) of the ESO's licence. As set out in special condition [4.4.15], the Authority may make appropriate provision about or impose requirements in the ESORI Arrangements Guidance Document, which may include, but will not be limited to:

(a) the criteria against which the performance of the licensee will be assessed;

(b) the process 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 Business Plan, Ofgem's Determinations, the Mid-Scheme Report and the End of Scheme Report will be used in that evaluation;

[1] The first business plan cycle (BP1) covers the incentive scheme starting on 1 April 2021 and ending on 31 March 2023. The following Business Plan cycle (BP2) will start on 1 April 2023 and end on 31 March 2025.

(e) how the assessment of the performance of the licensee will be used by the Authority to determine [ESORIt]; and

(f) any other matters relating to the regulation, governance, or administration of the ESORI Arrangements.

1.4. This document may be revised and reissued in accordance with Part C of Special Condition [4M].

1.5. Any subsequent material updates to this Guidance Document will be made following consultation with the impacted parties, including the ESO. As a key principle, any changes made within a scheme, which materially change the way the ESO's performance is assessed would not apply until the next scheme (unless there is agreement that a change is necessary, for example, to correct an error or to improve a process).

Compliance

1.6. Where provisions of this Guidance Document require the compliance of the licensee, the licensee must comply with those provisions as if the Guidance Document were part of Special Condition [4.4]. However, we have also attempted to make this document accessible and informative to a range of stakeholders.

1.7. For the avoidance of doubt, this document is subordinate to the licence. This document does not change any definition or obligations contained within the licence and in the event of any ambiguity over the Guidance Document, the licence will take precedence.

1.8. The contents of this Guidance Document does not alter or supplement the ESO's compliance with its wider obligations under legislation, its licence or industry codes. References to 'baseline expectations' within this document are for the purposes of the ESORI Arrangements only.

2. The ESORI Arrangements process

This chapter provides an overview of the ESORI Arrangements. It provides guidance on the steps, processes and timings involved in the regulatory cycle.

Overview of the ESORI Arrangements

2.1. Our regulatory approach requires up front clarity around the behaviours we expect of the ESO; but it places the onus on the ESO to engage with stakeholders to identify how to best meet and exceed these expectations in order to maximise benefits for consumers.

The ESO roles framework

2.2. Underpinning the ESO's regulatory framework is our ESO Roles Guidance (the 'Roles Guidance')[2]. The Roles Guidance is the key guide for understanding our performance expectations and forms a key point of reference for the ESORI Arrangements. The Roles Guidance sets out our expectations and how the ESO can exceed our expectations for each of its activities. It explains our expectations of how the ESO should best fulfil its licence obligations and is designed to align expectations between the ESO, the ESO's customers and stakeholders, Ofgem, and the Performance Panel[3].

2.3. The Roles Guidance also helps set the parameters for the ESO's Business Plan and the evaluation process. The three roles and associated activities are shown in Figure 1.

Figure 1: Summary of the ESO roles and activities

Role	Role Activity
Role 1: Control centre operations	a) System operation
	b) System restoration
	c) Information, data and forecasting
Role 2: Market development and transactions;	a) Market design
	b) EMR
	c) Industry codes and charging

[2] The ESO Roles Guidance is being published alongside this document.
[3] The Performance Panel is an independent panel of experts, who will assess the ESO's performance and provide recommendations to the Authority.

Role 3: System insight, planning and network development.	a) Connections and network access
	b) Strategy and Insight
	c) Long term network planning

2.4. The ESO roles are outlined in more detail in our Roles Guidance document published on our website. An updated version of the Roles Guidance document will be published alongside this Guidance document and will come into effect from 1 April 2021.

2.5. The ESO's performance will be evaluated per role using the evaluation process described in Chapter 3 of this Guidance Document.

The ESORI Arrangements

2.6. Under the ESORI Arrangements, the ESO must engage with its stakeholders and publish a Business Plan before the start of each Business Plan cycle. The Business Plan should outline the details of the ESO's costs, activities, and deliverables for delivering its strategy over two years of the RIIO-2 period. The ESO will then report on its performance throughout the Business Plan cycle and at the end of the Business Plan cycle.

2.7. The Performance Panel will have a role in reviewing the ESO's Business Plan, challenging its within scheme performance and performing an end of scheme evaluation. The Performance Panel's performance evaluation will form a recommendation to the Authority, who will review all evidence available in order to determine a financial penalty or reward for the ESO for the relevant Business Plan cycle. When the ESO clearly demonstrates that its performance against the evaluation criteria has gone beyond the 'baseline expectations', then this should be reflected in an incentive reward. Equally, where the ESO has clearly failed to demonstrate that it has taken the necessary actions against the evaluation criteria to meet baseline expectations, then this should result in an incentive penalty.

2.8. In summary, the ESORI Arrangements comprise:

- A requirement on the ESO to engage with stakeholders in order to produce a Business Plan before the start of each Business Plan cycle. This should set out the details of the ESO's costs, activities, and deliverables during the Business Plan cycle to deliver its 5-year strategy across the RIIO-2 period and long-term vision for the energy system;

- Requirements on the ESO to produce within year performance reports, including: monthly reports, quarterly reports, 6-monthly reports, a Mid-Scheme Report and an End of Scheme Report;

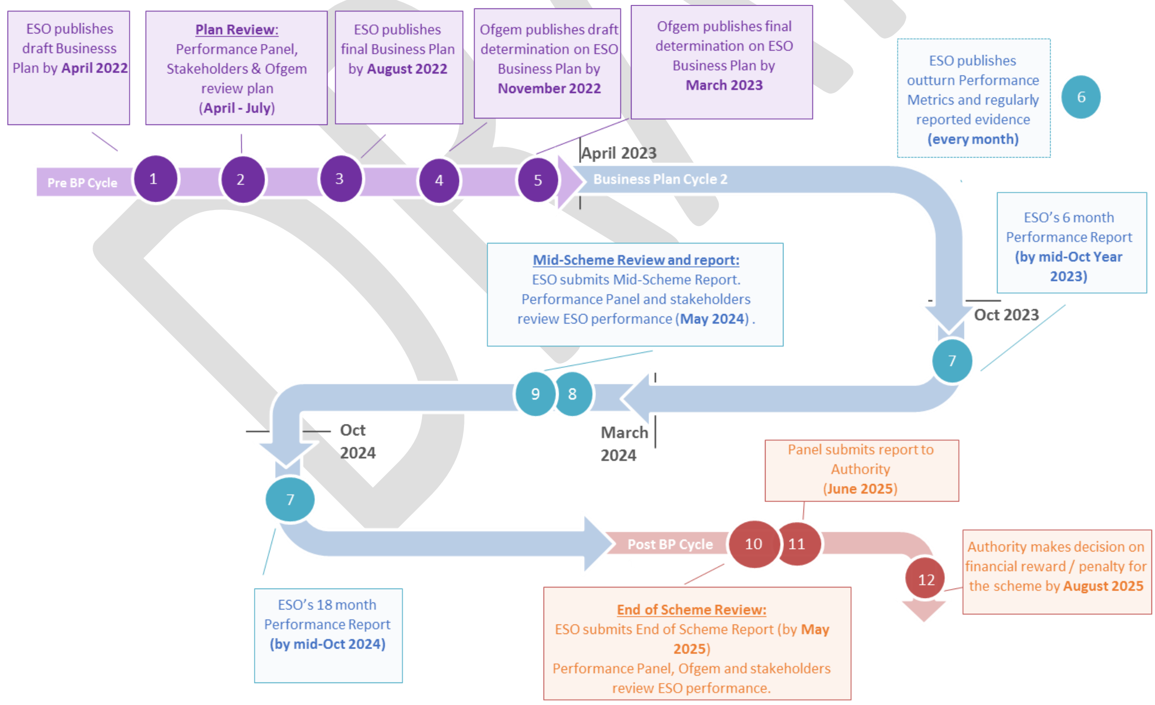
- The Performance Panel who will be responsible for reviewing the ESO's Business Plan and evaluating its performance based on clear ex-ante evaluation criteria;

- An 'evaluative' financial incentive, where the Authority will make a decision on a reward or penalty for the ESO at the end of the Business Plan cycle. This will be informed by the recommendation from the Performance Panel and be based on an ex-ante payment/penalty methodology.

Stages in the annual ESORI Arrangements cycle

2.9. Figure 2 provides an overview of the key stages in the reporting and incentives process for the BP2[4] Business Plan cycle. We provide guidance on each of these stages in the sections below.

Figure 2: Regulatory process for BP2 Business Plan cycle



[4] Business Plan cycle (BP2) covers the incentive scheme starting on 1 April 2023 and ending on 31 March 2025

Steps 1 to 5: The ESO Business Plan

2.10. The ESO is required (under Part B of Special Condition 4.4) to engage with its stakeholders to produce a Business Plan before the start of each Business Plan cycle. This Business Plan should set out, in relation to each of the roles:

- Details on the ESO's costs, activities, and deliverables for delivering its strategy over the Business Plan cycle;
- Details on how the Business Plan is aligned with the ESO's medium-term strategy across the RIIO-2 period and long-term vision for the energy system.

2.11. Further detailed guidance on the contents of the Business Plan is in Chapter 5.

Step 1) The draft Business Plan

2.12. The ESO must engage with stakeholders to produce a draft version of the Business Plan by [Early April] the year before the start of BP2. The draft Business Plan should contain all the details in paragraph 2.10 and in Chapter 5.

2.13. The [x] April deadline is a last date for publishing the draft Business Plan and starting a 'formal' consultation period on its contents. However, the ESO should ensure that it engages actively with stakeholders on the contents of its Business Plan well before this deadline. The draft version of the Business Plan should be based on the views and feedback provided to the ESO throughout the duration of BP1[5]. The draft Business Plan must clearly demonstrate how these views have been taken into account.

Step 2) The Plan Review

2.14. The formal Business Plan consultation period should be [at least six weeks long]. The ESO should ensure it engages with a wide spectrum of stakeholders, including: potential new electricity industry parties; the Authority; and any other interested parties, including consumer representatives and academics.

[5] Business Plan cycle (BP1) covers the incentive scheme starting on 1 April 2021 and ending on 31 March 2023.

2.15. The draft Business Plan will be reviewed by the ESO Performance Panel. Ofgem will arrange a meeting for the Performance Panel to review the draft Business Plan [by May] before the start of BP2. The Performance Panel will comment on the quality, ambition and value for money of the two-year business plan proposal. The Performance Panel will record its feedback on the Business Plan in a report, which will be published on Ofgem's website in time for the ESO to take on board the Performance Panel's feedback before producing it's final Business Plan.

Step 3) The final Business Plan

2.16. The ESO must publish a final version of its Business Plan by [X August] in the year prior to BP2. As required under special condition [4.4.9], the final Business Plan should demonstrate how the ESO has incorporated the views of stakeholders, Ofgem and the Performance Panel. This should include an explanation of the reasons why points raised by stakeholders may not have not been factored into the final Business Plan.

2.17. The Business Plan should also clearly demonstrate how the ESO has actively sought and considered stakeholder views throughout the previous Business Plan cycle.

Step 4) The Authority's Draft Determination

2.18. We will aim to provide a 'Draft Determination' on the final Business Plan by [X November] in the year prior to the start of BP2. This will follow our review of: the final Business Plan, the stakeholder responses received by the ESO and the Performance Panel's report on the draft Business Plan.

2.19. Before issuing the Draft Determination, we may seek further clarifications from the ESO around its Business Plan (for example, if any unclear or ambiguous points remain). The ESO should respond to these questions and requests promptly and in line with the general guidance in Chapter 5.

2.20. In our Draft Determination we will set out for consultation:

- Our grading of the ESO's two-year delivery schedule;
- Our value for money assessment and proposals for a two-year cost benchmark;
- Key performance measures.

Delivery Schedule Grading

2.21. We will assess the ESO's two-year delivery schedule for each role. This will consider whether the individual deliverables meet our minimum requirements. Namely, whether they are specified, time bound, relevant, beneficial for consumers and in line with industry priorities. To inform the latter three of these requirements we will consider:

i. How ambitious and well defined the ESO's long-term vision, five-year strategy and deliverables are;

ii. Whether the two-year deliverables clearly link to the long-term vision and five-year strategy and make sufficient progress against these;

iii. Stakeholder feedback.

2.22. The second stage of our grading of the ESO's two-year delivery schedule will include our assessment on the extent to which the deliverables and associated activities for each role fall 'below', 'meet' or 'exceed' our baseline expectations. This will be based on the 'meet' and 'exceed' expectations included in the Roles Guidance.

2.23. This will inform an overall rating of 1 to 5 for each role's delivery schedule, where:

- 1 = deliverables do not meet any or very few of our expectations
- 2 = deliverables mostly do not meet our expectations
- 3 = deliverables mostly meet our expectations
- 4 = deliverables mostly exceed our expectations
- 5 = deliverables exceed all or almost all of our expectations

2.24. This 1-5 grading is consistent with the overall evaluation scoring for each role. The grading provides the ESO with a firm ex ante expectation of our assessment of the ESO's 'plan delivery' performance if these deliverables are met. It also has links with the value for money and demonstration of plan benefits criteria given the relevance of the ESO's deliverables for these criteria.

2.25. Where the delivery schedule is not sufficiently ambitious, we will highlight how it could be improved.

2.26. The extent to which Ofgem would be able to provide the feedback on the assessment outlined in paragraphs 2.21 to 2.25 will depend on:

a) The clarity and level of detail provided by the ESO in its Business Plan regarding, for example, the ESO's planned activities/deliverables or the value of benefits its actions will create;

b) The ESO's reporting of its engagement with industry participants to validate the details and value of the planned deliverables.

Value for money assessment and cost-benchmark

2.27. We will explain our value for money assessment of the Business Plan and introduce the ex-ante cost benchmarks.

2.28. We will set a cost benchmark for each ESO role. This is to ensure consistency with the overall structure of the incentives scheme. The cost benchmarks will reflect our view of the efficient level of expenditure involved with the delivery of the ESO's proposals, drawing from our Business Plan assessment. The benchmark for each role will include: the ESO Opex allocated to that role, a proportion of total capex (designed to broadly reflect the proportion of Capex that contributes to that role) and a third of the remaining costs. The benchmark will not include Non-Activity Based costs (such as licence fees and business rates) or the ESO's NIA allowance.

2.29. Where there is too much uncertainty on the efficient costs associated with certain investments (for example, because they are a novel and/or early stage proposal) we will not include estimated costs for these investments in the starting cost benchmark. Instead, we propose to reassess the costs for beneficial but uncertain investments once these proposals reach a sufficient stage of maturity, and then to update the cost benchmark accordingly.

2.30. The cost benchmark will be a key reference for our cost monitoring and the value for money evaluation criterion.

Performance Measures

2.31. Within the Draft Determination we will outline our proposals for three types of performance measure:

a) Performance metrics – numeric measures of performance which are updated frequently and have clear ex-ante performance benchmarks for below/meets/exceed expectations. These metrics should create transparency around the ESO's performance and help stakeholders track the ESO's progress against its Business Plan;

b) Stakeholder satisfaction surveys – surveys on satisfaction with the ESO which are repeated at regular intervals to track performance;

c) Regularly reported evidence – numeric measures which are relevant evidence of the successful delivery of the ESO's Business Plan aims, but for which it is not possible to set reliable performance benchmarks and/or where the data is available to infrequently to be a useful performance metric.

Step 5) The Authority's Final Determination

2.32. After publishing the Draft Determination, Ofgem will meet with the Performance Panel to discuss the grading of the ESOs two-year delivery schedule, proposed performance measures and cost assessment. The Performance Panel will provide their views and note where they disagree with any of the proposed grading, and suggest areas that may not have been covered by the proposed performance metrics.

2.33. By [X of March] 2023 for BP2, Ofgem will publish a Final Determination which will build on and finalise the decisions made in the Draft Determination.

2.34. In our Final Determinations we will set out:

- Our final grading of the ESO's two-year delivery schedule;

- Our final value for money assessment and proposals for a two-year cost benchmark;

- Our final key performance measures for the business planning cycle.

2.35. The Final Determination will be considered by the Performance Panel as part of its evaluation of the ESO's performance (as described in Chapter 3). The Authority will also consider the Final Determination when making its decision on an incentive payment or penalty (as described in Chapter 4).

2.36. For the avoidance of doubt, the ESO's performance will be measured following the evaluation processes described in Chapters 3 and 4. The Final Determination does not restrict the ESO from achieving up to the maximum incentive cap or falling down to the maximum incentive floor.

Revisions to the Business Plan

2.37. The Business Plan document published by [X August] the year before BP2 will be final. However, we expect the ESO to remain flexible and adaptable throughout the Business Plan cycle and respond to changing situations. The ESO should deviate from the plan where it identifies opportunities for greater consumer benefits. Equally, if an action in the plan turn out not to be in consumers' best interests then the ESO should change its approach and explain why.

2.38. Whilst the Business Plan document will not be revised once published, we expect any changing context and changes from the plan to be explained through the reporting throughout the rest of the Business Plan cycle. Any material changes to the deliverables during the year should be added clearly via an addendum to the Business Plan or within Scheme reports.

Steps 6 to 9: Within year monitoring and reporting

Step 6) Ongoing monitoring and reporting

2.39. In order to create transparency around the ESO's performance throughout the Business Plan cycle, and to help stakeholders, the Performance Panel and Ofgem monitor the ESO's progress against its Business Plan, the ESO must publish on its website:

- Monthly updates of its performance (by the [X] working day of the following month)
- Quarterly updates (every 3-months) of its performance (by the [X] working day of the following month)

2.40. Further guidance is provided in Chapter 5 on the detailed reporting requirements during BP1.

Step 7) The 6 month and 18 month review

2.41. The ESO will be required to publish a report at 6 months (and 18 months) into the scheme.

2.42. The Performance Panel will provide targeted feedback on the ESO's performance, rather than a full evaluation and scoring. This review will focus on any deviations from the original business plan, the justifications provided for performance against metrics and the rationale for significant expected cost deviations. The Performance Panel will also consider what the ESO must do better to score highly at the mid-scheme (or end of scheme) evaluation.

2.43. The two 6 monthly reviews will be a streamlined and shorter version of the mid-scheme (and end of scheme) evaluation processes. We will [not issue a call for evidence] or hold a stakeholder event every 6-months, but will continue to engage widely with stakeholders throughout the scheme.

2.44. Further guidance is provided in Chapter 5 on the reporting requirements for the Business Plan cycle reports.

Step 8) The Mid-Scheme Review

2.45. The ESO is required to produce and publish a report covering its performance during the first year of the business plan period, known as the Mid-Scheme Report, by the [xxth] working day in [May] in the second year of the Business Plan cycle.

2.46. Following a review period of at [least two weeks] (depending on the views expressed and evidence presented), the ESO will then be required to attend a meeting to present the evidence contained in the Mid-Scheme Report to stakeholders and the Performance Panel. This meeting will be arranged in [June] in the second year of the Business Plan cycle, four weeks after the Mid-Scheme Report is published.

2.47. For the avoidance of doubt, the Mid-Scheme Report removes the need for a six-monthly report at the end of the second quarter of the Business Plan cycle.

Step 9) The Performance Panel's Mid-Scheme Report

2.48. Following this meeting, the Performance Panel will consider the evidence and record any conclusions made in a short summary report. The Performance Panel will perform a full evaluation and provide scores of the ESO's performance mid-way through the Business

Plan cycle. This should include views on what the ESO needs to do to improve scores. This report will be published on Ofgem's website.

Steps 10 to 12: Final Performance Evaluation

Step 10) The End of Scheme Review

2.49. By [x May] in the final year of the Business Plan cycle, the ESO will publish on its website, a report containing final evidence of its performance over the entire regulatory Scheme, know as the End of Scheme Report.

2.50. There will then be a review period of [four weeks] for stakeholders, the Performance Panel and Ofgem to review the final evidence. During this time, the Performance Panel and Ofgem may seek further clarifications from the ESO around its End of Scheme Report (for example, if there are any unclear or ambiguous points). The ESO should respond to these questions promptly and in line with the general guidance in Chapter 5.

2.51. Following this review period, the ESO will be required to attend a meeting to present the evidence contained in the End of Scheme Report to stakeholders and the Performance Panel. This meeting will be arranged by Ofgem for a date likely in the [first week of June] following the end of the scheme.

Step 11) The Performance Panel's End of Scheme Report

2.52. The Performance Panel will consider all evidence presented and score the ESO's performance against each role, in line with the evaluation criteria in Chapter 3. We expect this to be a single score for each role to represent the majority views given by the Performance Panel members. Any notable differences between the members' scoring will be reflected in the commentary of the Performance Panel's performance reports, and taken into account in our decisions. This report will be published on the Ofgem website.

2.53. Following the publication of the Performance Panel's recommendations, stakeholders including the ESO, will have two weeks 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.

Steps 12) Determination of a payment / penalty

2.54. The Authority will 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. For the avoidance of doubt, the final decision will lie with the Authority who will form views based on the evidence available, including the Performance Panel’s recommendation.

2.55. The Authority will produce its final decision on the incentive payment or penalty by [31 August] in the final year of the Business Plan cycle, or such later date that it considers appropriate. This decision will be published on the Ofgem website.

3. ESO performance evaluation criteria

The purpose of this chapter is to set out guidance for how the Performance Panel should evaluate the ESO's performance.

Setting performance expectations

3.1. The evaluation's scoring approach is based on an understanding of performance expectations for the ESO. For the purposes of the ESORI Arrangements, meeting our expectations equates to a level of performance expected from the ESO which would merit neither an incentive penalty nor an incentive reward.

3.2. The Roles Guidance is an overarching guide for understanding our performance expectations and forms a key point of reference for the ESORI Arrangements. The Roles Guidance sets out our expectations, and how the ESO can exceed our expectations, for each of its activities. It is designed to align expectations between the ESO, the ESO's customers and stakeholders, Ofgem, and the Performance Panel.

3.3. Ofgem's Determinations also provide clear, ex-ante performance expectations through:

- Plan grading – Ofgem will grade the delivery schedule for each role, with an explicit grading that aligns with the overall evaluation scoring for each role. This will provide the ESO with an ex-ante expectation of our assessment of plan delivery and value for money performance if these deliverables are met, in line with our cost benchmark. Where we consider the delivery schedule is not sufficiently ambitious we will highlight this to set a clear reference point and align expectations in the incentives process.

- Setting performance measures – Ofgem will set all performance measures (including performance metrics, stakeholder satisfaction surveys and other reported evidence). We will also set the performance benchmarks for performance metrics to give the ESO clarity on the level of performance that will meet or exceed our expectations.

- A value for money assessment and cost benchmark – Ofgem will assess the ESO’s internal costs and set (and if necessary update) a cost benchmark for each role. This will be a key point of reference for our cost monitoring and value for money evaluation.

3.4. In general, expectations should evolve and be tightened where there is outperformance (i.e. all else equal, the level of outperformance should become the baseline expectation for future performance). In compiling its Determinations, Ofgem will review previous Business Plan reports and performance to ensure continuity between the different Business Planning cycles.

Performance evaluation criteria

3.5. The Performance Panel will use five key inputs for Roles 1 and 2, and four for Role 3 (as role 3 will not have performance metrics) to evaluate the ESO’s performance.

3.6. In determining a score for each role (except for role 3 where performance metrics are not applicable), the key criteria the Performance Panel should take into account are:

a) Plan delivery;

b) Metric performance;

c) Stakeholder evidence;

d) Demonstration of plan benefits; and

e) Value for money.

3.7. These criteria are designed to be considered together to establish an overall picture of the ESO’s performance for each role. Below is the guidance the Performance Panel should consider to determine the ESO’s performance in relation to each of the criteria.

a) Plan delivery

3.8. The Performance Panel should consider whether the delivery schedule has been successfully delivered on time and/or the ESO has delivered additional outputs in line with the expectations in our Roles Guidance. The Performance Panel should refer to Ofgem's Determinations which will grade the ESO's two-year delivery schedule to more clearly indicate the link between on track plan delivery and performance assessment.

3.9. The Performance Panel should consider where the ESO can clearly explain why a plan deviation was in consumer's interest or outside of its control. In addition, where the ESO has not produced an 'exceeding' delivery schedule (i.e. a delivery schedule graded as a 4 or 5), the Performance Panel should consider whether the ESO has demonstrated additional activities that would exceed expectations.

3.10. The Performance Panel should consider that the ESO has *outperformed this criteria* if the ESO has successfully delivered the key components of a 4 or 5-graded delivery schedule or a set of activities and outcomes that demonstrate the exceeding expectations guidance in our Roles Guidance. This may include the ESO clearly explaining the reasons why any major changes to the original delivery schedule timelines were in consumers' interest or outside of its control.

3.11. The Performance Panel should consider that the ESO has *underperformed this criteria* if the ESO has failed to deliver the key components of a 3-graded delivery schedule (or delivered only the key components of a 1 or 2 graded delivery schedule) and failed to successfully deliver additional activities that demonstrate the meeting expectations guidance in our Roles Guidance. This may include the ESO not explaining clearly the reasons why any major changes to the original delivery schedule timelines were in consumers' interest or outside of its control.

b) Outturn performance metrics and justifications

3.12. The Performance Panel should consider the ESO's outturn performance against the Performance Metrics and the ESO's reasons for this outturn performance. The numerical quantifications related to the metrics should be considered with the supporting explanations provided by the ESO of the actions it has taken to achieve the outturn performance. The Performance Panel should also consider any wider factors outside of the ESO's control that could have impacted the performance metric (such as weather, market trends, etc).

3.13. The Performance Panel should consider the ESO has *outperformed this criteria* if the ESO has exceeded expectations for the majority of its performance metrics and there are clear reasons for why this is the case. Alternatively, the ESO may have significantly outperformed a particular metric that is particularly stretching or has high associated consumer value.

3.14. The Performance Panel should consider the ESO has *underperformed this criteria* if the ESO has performed below expectations for the majority of metrics, and there are no strong reasons or mitigating circumstances for this. Alternatively the ESO may have significantly underperformed a particular metric that has high associated consumer costs.

c) Stakeholder evidence

3.15. The Performance Panel should consider stakeholder's satisfaction on the quality of the ESO's plan delivery. This will include the results of its role satisfaction survey, views provided by stakeholders during the Mid-Scheme Review and End of Scheme Review process, or any of the ESO's consultations or surveys throughout the year. Ofgem may also provide the Performance Panel with any stakeholder views it has collected throughout the year. For example, through ongoing monitoring or consultations.

3.16. The Performance Panel should consider the ESO has *outperformed this criteria* if the ESO exceeds the benchmark for the role satisfaction survey and/or there is a broad consensus[6] amongst stakeholders that the ESO has exceeded expectations for that role. The panel should consider whether the ESO has provided sufficient justification and explanation of any negative stakeholder feedback. In addition, outperformance may be demonstrated if there is evidence that the ESO has actively sought and taken into account the feedback of stakeholders throughout the Business Plan cycle.

3.17. The Performance Panel should consider the ESO has *underperformed this criteria* if the ESO is below the benchmark for the role satisfaction survey and/or there is a broad consensus amongst stakeholders that the ESO has performed below expectations for that role and the ESO cannot provide satisfactory reasons for why this is the case. In addition, underperformance may be demonstrated if there is evidence that the ESO has not actively

[6] 'Broad consensus' does not mean there needs to be complete unanimity and agreement amongst stakeholders about the ESO's performance. The panel should consider carefully whether the stakeholder feedback could be influenced by the particular interests of the party providing the feedback.

sought and taken into account the feedback of stakeholders throughout the business planning cycle.

d) Demonstration of plan benefits

3.18. The Performance Panel should consider the actual benefits the ESO has realised from delivering its Business Plan (or any outputs additional to the Business Plan), considering the quality of the outcomes and outputs actually delivered. This should place particular focus on outputs where the quality of delivery is not measured through performance metrics (criteria b) or stakeholder satisfaction (criteria c). In particular, the Performance Panel should consider the ESO's regularly reported evidence and its six-monthly reporting against its original Business Plan cost benefit analysis.

3.19. The Performance Panel should consider both delivered outputs that produce benefits within the Business Plan cycle, and delivered outputs that are expected to produce benefits in future periods. The Performance Panel should consider whether the ESO has taken concrete steps to progress its longer term vision and five-year strategy (for example, whether a delivered interim deliverable is delivered to a high standard or whether it shows limited tangible progress). Given the evolving environment the ESO operates in, the Performance Panel should also consider whether the ESO has been flexible and adapted its actions when needed in order to maximise delivered or future benefits.

3.20. The Performance Panel should consider the ESO has *outperformed this criteria* if the ESO's reported evidence supports the realisation of the Business Plan's intended and identified benefits in most areas (for example, the regularly reported evidence shows a clear improvement in outcomes, in line with the ESO's five year strategy). This may include the ESO demonstrating that the actual outputs produced as part of an ambitious (i.e. 4 or 5 graded) delivery schedule are of sufficient quality to achieve their intended benefits. Alternatively, the ESO has produced additional outputs that clearly seek to maximise benefits for consumers. This may include the ESO quickly and proactively identifying changes to existing plans and course-correcting where needed.

3.21. The Performance Panel should consider the ESO has *underperformed this criteria* if the ESO's reported evidence does not support the realisation of the Business Plan's intended and identified benefits in most areas (for example, the regularly reported evidence does not show any improvement in outcomes). This may include the ESO failing to demonstrate that the actual outputs produced as part of a delivery schedule are of sufficient quality to achieve their intended benefits. Additionally, the ESO has not produced any additional outputs that seek to maximise benefits for consumers. This may include the ESO not identifying necessary changes to its original plan and course correcting when this is clearly needed.

e) Value for money

3.22. The Performance Panel should consider whether the ESO has delivered value for money and whether its delivery has been broadly in line with the internal cost benchmark, or if not, if there are valid reasons for this. This internal cost benchmark is derived from our assessment of the ESO's proposed expenditure.

3.23. We will not automatically deem any overspend or underspend against this benchmark as demonstration of poor or good value for money. Overall value for money will be assessed in conjunction with our assessment of the ESO's delivery of its Business Plan and outputs.

3.24. Where differences in outturn and projected spend are immaterial and there has been limited change in output delivery, we do not intend to scrutinise this evidence in detail. Where differences are more substantial, the reasons for this will likely be considered further by the Performance Panel.

3.25. The Performance Panel should consider that the ESO has *outperformed this criteria* if the costs are broadly in line with or below the internal cost benchmark whilst delivering activities and outcomes that exceed our expectations (ie, that are equivalent to a 4 or 5 rated plan). Any material cost increases above the benchmark must be well justified and/or supported by the delivery of additional beneficial outputs.

3.26. The Performance Panel should consider that the ESO has underperformed this criteria if the costs are materially above the benchmark and are not well justified and/or not supported by the delivery of additional beneficial outputs. Or alternatively, underperformance may be demonstrated by costs in line with or above the internal cost benchmark whilst delivering activities and outcomes that do not meet our expectations (ie, are equivalent to at least a 1 or 2 rated plan).

Overall scoring for each role

3.27. The Performance Panel should assess the ESO's overall performance for each role. The Performance Panel should consider: all the performance measures and relevant reporting associated with the criteria, the grading applied to the delivery schedule as part of Ofgem's Determination on the Business Plan, and the expectations in the Roles Guidance.

3.28. There is no explicit weighting associated with the evaluation criteria for each role. Instead, the criteria are the key aspects the Performance Panel should consider when forming an *overall* judgement on ESO performance for each role, recognising that there will be a degree of overlap between the criteria in practice.

3.29. For each of the roles, the Performance Panel should score the ESO's overall performance on a scale of 1 to 5, where:

> 1 = Overall performance clearly does not meet performance expectations, for example the ESO has strongly underperformed most criteria
>
> 2 = Mixed overall performance and on balance the ESO mostly did not meet expectations, for example the ESO has net underperformance across the criteria
>
> 3 = Mixed overall performance and on balance the ESO mostly met expectations, for example underperformance and overperformance across the criteria balance each other out
>
> 4 = Mixed overall performance and on balance the ESO mostly exceeded expectations, for example the ESO has net overperformance across the criteria
>
> 5 = Overall performance clearly exceeds performance expectations, for example the ESO has strongly overperformed most criteria

3.30. To achieve the highest score of 5 the ESO should strongly overperform most criteria. Examples of strong outperformance would include, but are not limited to: successfully delivering a 5-graded plan (or successfully delivering additional activities and outcomes that are equivalent to a 5-graded plan); performing in line with the exceeding expectations benchmarks for all or almost all of the performance metrics with clear reasons for why this is the case; and costs that are broadly in line with or below the internal cost benchmark whilst delivering activities and outcomes that are equivalent to a 5-graded plan.

3.31. There may be instances where the Performance Panel must consider evidence of competing positive and negative areas of performance within a role. In such cases the Performance Panel should use its expertise and informed judgement to evaluate where the overall balance of performance lies. For example, this may include considerations of the level of confidence in the reasons provided by the ESO for its outturn performance levels (e.g. how robust a certain mitigating factor is) or whether specific areas of out- or under-performance are more consequential for consumers than others.

In recommending a score, the Performance Panel should be mindful that these scores form the basis of a recommendation to the Authority on the level of incentive penalty or reward. The Performance Panel should record and explain its reasons for the scores it assigns for the ESO against each role and record its rationale in a report, as set out in Chapter 2. Although the Performance Panel is responsible for providing a recommended score of 1-5 for each role, it may wish to indicate within its report when a certain score was clear-cut or whether there was a close call between scores. This may be done through noting whether a specific score was 'low' or 'high'. For example, the Performance Panel may wish to signal a 'high 4' score when the ESO has, on balance, exceeded expectations but overperformance is not quite considered strong enough to merit a score of 5.

4. Methodology for determining an incentive payment / penalty

This chapter describes how the Authority will determine an incentive payment / penalty for the ESO for a particular Business Plan cycle.

Determination of an incentive payment or penalty

Total incentive value

4.1. The maximum reward the ESO can achieve for BP1 is £30m and the maximum penalty is -£12m. As a default, this will be split equally among each of the three roles (+£10m upside and -£4m downside per role).

Table 1: financial incentive parameters for 2021-23.

Role	Role 1 – Control centre operations	Role 2 – Market development and transactions	Role 3 – System insight, planning and network development
Role incentive range	+£10m to -£4m	+£10m to -£4m	+£10m to -£4m

4.2. We expect there to be a three-step process for determining the overall reward or penalty:

- Step 1: Authority review of scoring
- Step 2: Calculation of a default reward/penalty and incentive range
- Step 3: The adjustment process

Step 1) Authority review of scoring

4.3. The Authority will review the recommendation made by the Performance Panel, alongside any other evidence submitted.

4.4. This scoring review may also include a review of the grading of the ESO's delivery schedule as part of Ofgem's Determinations and the Roles Guidance.

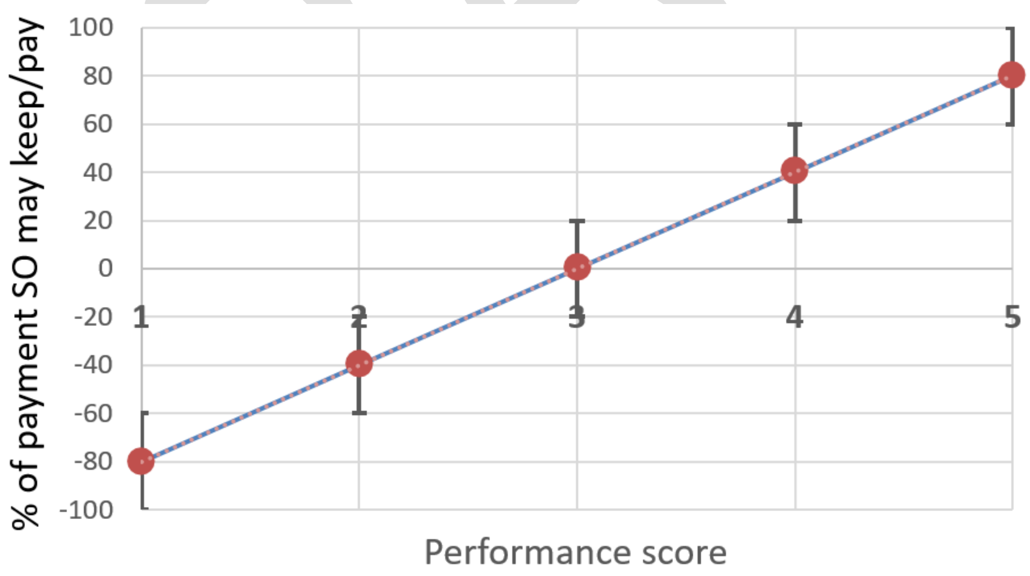
4.5. If there is a significant deviation between the Ofgem's delivery schedule grading and the Performance Panel's report, then the Authority may consider whether this is justified by the ESO's outturn performance, evidence collected throughout the Business Plan cycle and any changing situations or context.

4.6. The Authority will then determine a final score for each role using the criteria set out in Chapter 3.

Step 2) Determining a base reward or penalty

4.7. The final scores will determine a default position on the level of incentive payment or penalty, as well as an incentive range. Each score corresponds to a default incentive payment or penalty and has an associated financial range. These default positions will be calculated in accordance with the linear score:reward relationship shown in Figure 3.

Figure 3: score:reward relationship



4.8. For BP1, the default payment/penalty and incentive range for each score will be:

Score	1	2	3	4	5

Default % of payment ESO may keep/pay	-80%	-40%	0	40%	80%
Default incentive payment (£m)	-£3.2m	-£1.6m	0	£4m	£8
% of payment ESO may keep/pay (incentive range)	-60% to -100%	-20% to -60%	-20% to +20%	+20% to +60%	+60% to +100%
Incentive Range (£m)	-£2.4m to -£4m	-£0.8m to -£2.4m	-£0.8m to £2m	£2m to £6m	£6m to £10m

4.9. For example, the following scores would result in the following default incentive payment/penalty and overall range:

Principle	**Role 1**	**Role 2**	**Role 3**
Score	4	3	2
Default payment (£m)	£4m	0	-£1.6m
Range (£m)	£2m to £6m	-£0.8m to £2m	-£0.8 to -£2.4m
Total default payment (min to max range)	**£2.4m** (-£1.2m to £7.2m)		

Step 3) Adjustment process

4.10. The Authority may consider whether the incentive payment should be adjusted from this default within each score bracket. The Authority may consider adjusting the default incentive payment/penalty in the following circumstances:

- **Evaluation of consumer costs / benefits:** the Authority may consider whether the default incentive payment/penalty is justified by the evidence of benefits/costs created for consumers (including a consideration of potential future benefits and rewards for commitments in previous Business Plan cycles). As a principle, the ESO should only receive an incentive reward if this is clearly outweighed by the benefits created for consumers. Equally, an incentive penalty should be informed by the costs created for consumers. The Authority may consider the evidence presented and judge whether the additional benefits/costs are justified by the incentive payment/penalty. If the Authority does not feel that this is the case then it may adjust the payment up or down.

- **Close scoring decisions:** if there is a particularly close call between two scores (for example, performance is borderline between score 3 and score 4), then the Authority may decide to adjust the payment up or down to reflect this.

- **Comparison to Determinations:** the Authority may review the grading of the ESO's delivery schedule as part of Ofgem's Determinations and whether the deliverables were aligned with our expectations under the Roles Guidance.

4.11. Any adjustments made would remain within the incentive ranges determined for each Role in Step 2. Any adjustments to the reward / penalty from the default amount will be in 10% increments within the incentive range. For example, the ESO may get a score of 4 for Role 1. Therefore the default amount associated with a score of 4 is £4m (or 40% of the incentive reward pot for role 1). If upon assessing the evidence, we consider that the ESO has demonstrated sufficient performance to warrant a higher incentive reward, then the ESO's incentive value will be moved up by 10% increments, and could receive either 50% or 60% of the total incentive reward payment.

4.12. In practice, there may be crossover between roles (for example, the ESO may develop an innovative whole-system solution that increases balancing cost efficiency; or, for example, poor outage coordination could increase within year balancing costs). In these circumstances, the Authority may consider whether adjustments should be made to multiple relevant roles.

5. ESO reporting requirements

This chapter outlines the reporting requirements on the ESO as part of the ESORI Arrangements and provides guidance on what these reports should contain.

Within year reporting

5.1. As outlined in Chapter 2, there are a number of reporting requirements on the ESO as part of the ESORI Arrangements. The specific outputs the ESO should report on during BP1 is included in table 2 below.

Table 2: Incentive scheme reported outputs for BP1

Criteria	Monthly Report	Quarterly Report	6 Month/ 18 Month Report	Mid-Scheme Report	End of Scheme Report
Plan delivery		Progress against plan delivery Schedule Dashboard report on delivery of zero carbon operability ambition[7]	Progress against plan delivery Schedule Dashboard report on delivery of zero carbon operability ambition	Progress against plan delivery Schedule Dashboard report on delivery of zero carbon operability ambition	Progress against plan delivery Schedule Dashboard report on delivery of zero carbon operability ambition
Metric Performance	Outturn metric performance & supporting rationale	Outturn metric performance & supporting rationale	Outturn metric performance & supporting rationale	Outturn metric performance & supporting rationale	Outturn metric performance & supporting rationale
Stakeholder Satisfaction			Results of stakeholder satisfaction surveys	Results of stakeholder satisfaction surveys	Results of stakeholder satisfaction surveys

[7] Measures the progress and delivery of the milestones outlined by ESO in its Business Plan for BP1 to operate a zero-carbon electricity system by 2025.

Demonstration of plan benefits	Regularly reported evidence	Regularly reported evidence	Report against original business plan CBA Regularly reported evidence	Report against original business plan CBA Regularly reported evidence	Report against original business plan CBA Regularly reported evidence
Value for money			Outturn, forecast and planned costs for each role, with narrative to explain material deviations.	Outturn, forecast and planned costs for each role, with narrative to explain material deviations.	Outturn, forecast and planned costs for each role, with narrative to explain material deviations.

5.2. These reporting documents should be consistent in their structure in order for there to be comparison and read across from the Business Plan to the within scheme reports and End of Scheme Report. This is to ensure that stakeholders and the Performance Panel can clearly track, review and assess the ESO's performance throughout the Business Plan cycle. The ESO should engage with its customers and stakeholders and take into account any feedback on the content or structure of the reports. The ESO should structure these documents per role in order to align with the evaluation process. In order to demonstrate compliance with special licence condition [4.4.18], the ESO must ensure it considers the supporting guidance outlined in the Roles Guidance document when structuring its reports for each role.

5.3. Further reporting guidance on what is expected for each of these reports is provided below. The ESO is required to publish all of these reports on its website. Where there is any confidential or commercially sensitive information, this should be redacted.

5.4. As set out in special licence conditions [4.4.22 and 4.4.23], the ESO must ensure to the best of its knowledge that the information provided in respect of the reports in this section are accurate and correct. Where the ESO identifies that the information provided is not accurate or correct, the ESO must notify the Authority and publish or resubmit corrected information as soon practicably possible, unless otherwise agreed with the Authority.

Guidance around specific requirements

Performance Measures

Performance metrics

5.5. The ESO is required to regularly report on performance metrics to enable stakeholders to track its performance over the course of the regulatory period. When reporting on performance metrics, the ESO should provide outturn metric performance data and supporting rationale.

5.6. The full list of performance metrics for BP1 is included in annex 1.

Regularly reported evidence

5.7. The ESO should report on 'regularly reported evidence' to support the realisation of the Business Plan's intended and identified benefits.

5.8. We have outlined in annex 2 the regularly reported evidence for BP1. This includes the methodologies to be used and the frequency of reporting required.

Stakeholder surveys

5.9. The ESO is required to commission surveys from an independent, reputable market research company. Stakeholder satisfaction surveys will measure satisfaction (e.g. on a scale from 1-10) for each ESO role, focusing on the key activities within the role to track performance. Benchmarks, informed through discussions with the ESO's selected market research company, will be included so there is clarity on what scores would be below/meeting/exceeding expectations.

5.10. The surveys should be undertaken on a six-monthly basis, so that they can inform the ESO's six-monthly performance reviews. The key aspects of the survey, including questions, research methods, types of participants and the performance benchmarks will be approved by Ofgem.

5.11. We expect the surveys to be designed so that key drivers and themes of feedback are recorded and can be tracked over the course of the Business Plan.

Cost Benefit Analysis (CBA)

5.12. The ESO should provide six-monthly reporting against the original Business Plan CBA, focusing predominately on areas not picked up by performance metrics.

5.13. Reporting should include a clear quantification and/or articulation of the impacts associated with the actions the ESO has taken. Where there are material interventions or changes to arrangements, strong evidence should also include a clear demonstration that the ESO has, where appropriate, assessed multiple solutions to issues and chosen the ones that maximise consumer value. In addition, it should be clear that the ESO has not solely pursued an ESO-led solution without considering whether pursuing or supporting other industry initiatives could have resulted in greater consumer value.

ESO costs reporting[8]

5.14. The ESO should report on its outturn, forecast and planned costs for each role, with narrative to explain material deviations. Cost benchmarks will be set for each role by Ofgem in the Determination process to reflect our view of the efficient level of expenditure involved with the delivery of the ESO's proposals, drawing from our Business Plan assessment. The ESO should provide evidence-based reasons for any material deviations from the benchmark. We expect the reasons should be closely linked to its outputs delivered.

5.15. The ESO is required to submit the information in annex 3 below, for its 43 IT projects, on an ad-hoc basis, whenever there is a change to a project's investment stage or major change to expected costs. This will be to facilitate an update to the cost benchmark on a bi-annual basis, alongside the ESO's six-monthly performance reviews. New information submitted less than six weeks ahead of a performance review may not be considered until the subsequent review point six months later.

ESO Business Plan

5.16. For BP2, the Business Plan should set out in relation to each of the roles, the deliverables during the Business Plan cycle to deliver the ESO's 5-year strategy across the

[8] [The Regulatory Reporting Pack remains the formal cost report for the ESO.]

RIIO-2 period and long-term vision for the energy system. The delivery schedule for each role should be set out to show how the deliverables meet our expectations listed in the Roles Guidance.

The Deliverables

5.17. In general, we consider that the deliverables should be:

- Specified – it should be clear what is being delivered in practice in order for successful delivery to be measured.
- Time bound – it should contain clear dates and milestones.
- Relevant – they should be justified against the delivery of the long term vision.
- Beneficial for consumers – they should be intended to deliver consumer benefits and make clear what type of measurable outcome/benefit is associated with its successful delivery. The ESO should clearly articulate and/or quantify the expected consumer benefits associated with a deliverable.
- In line with industry priorities – it should be clear why deliverables have been prioritised and how industry feedback has been responded to

5.18. All deliverables should be easily identified and included in a single location within the Business Plan and each deliverable must have a unique ID/number.

5.19. Any new or updated deliverables should be clearly identified and outlined from BP1 to BP2. If any changes are made to the delivery schedule during the business planning cycle they should be clearly identified and outlined in the reporting documents (e.g. in a separate sub-section), so it is clear where additional amendments have been made in comparison to the original Business Plan.

Costs

5.20. We expect the ESO to provide an update on its costs for BP2. This should be in a consistent format to the information and supporting data tables in the business plan for BP1. Updated costs should be in a single location within the Business Plan. [To ensure the

ESO's costs are transparent and we are able to effectively assess the efficiency of these, we expect its plans to include an update on:

- Historical costs and associated deliverables for each activity and, where possible, each sub-activity;
- Clear links between activities, sub-activities and the performance criteria or a distinct measure of the output or deliverable to be achieved through the activities and sub-activities;
- Separate reporting of business support costs, with a clear description of how these have been allocated from wider National Grid group;
- Comparable external benchmarks for activities and deliverables, where relevant, to allow assessment of their relative efficiency and evidence of the ESO's steps to determine the efficiency of these, eg external benchmarking or market testing;
- Proportionate cost benefit analysis and justification for the proposed expenditure;
- Identification of uncertainties around deliverables, with cost ranges for potential outcomes, where applicable; and
- Clear demonstration of the ESO's consideration of its longer term vision for the energy system, for example in terms of whole system approaches, innovation, consumer value and long-run costs and benefits]

General standards of conduct on reporting

5.21. This Guidance Document also sets out general standards of conduct that should apply to all reporting performed by the ESO. These are that the ESO must ensure that:

- All reports are accessible and easy to understand, and give prominence to the most pertinent information;
- All reports provide a fair and complete picture of the ESO's performance, including both areas of over and underperformance;

- Due care and attention is taken to ensuring that information provided in any reports are, to the best of the ESO's knowledge at the time of submission, accurate and complete.

- Where the ESO identifies that inaccurate information is being reported, the Authority must be notified and corrections made to the report as soon as practically possible.

- Where material amendments are made to any information provided in a report, these amendments are clearly communicated to stakeholders and the Authority and are clearly identified in the reports

- It takes on board the Authority's and/or relevant stakeholders feedback on the reports and factors this in to the development of future versions (or provides a reasonable explanation for why feedback cannot be included).

6. [Annex 1: Performance metrics]

Metric		Methodology	Benchmarks [9]	
Role 1				
Balancing costs		Outturn costs versus historic average, with adjustment factors defined ex-ante and approved by Ofgem. Benchmarks adjusted each month based on outturn wind conditions. Black Start costs included.	[Set out prior to final determinations]	
Demand forecasting		Average absolute % error between forecast and outturn day-ahead demand for each half hour period. Targets drawn from half-hourly data for the period between April 2014 to March 2020, with 5% improvement in performance expected each year.	Exceeds	Y1: < 3.10% Y2: < 2.94%
			Meets	Y1: 3.10 - 3.50% Y2: 2.94 - 3.34%
			Below	Y1: > 3.50% Y2: > 3.34%
Wind generation forecasting		Apply the same methodology as demand forecasting.	Set out prior to final determinations	
Security of Supply		Number of instances per year in which the frequency is +/-0.3 Hz outside of 50Hz for 60 seconds or more	Exceeds	Y1: <3 Y2: <3
			Meets	Y1: 3 Y2: 3
			Below	Y1: >3 Y2: >3
Short notice changes to planned outages		Number of short notice outages cancellations per 1,000 outages, due to ESO process failure.	Exceeds	Y1: <1 Y2: <1
			Meets	Y1:1 to 2.5 Y2: 1 to 2.5
			Below	Y1:>2.5 Y2:>2.5
Role 2				
Competitive procurement		Overall % of services procured through competitive means (auctions and tenders) measured by £ expenditure.	Exceeds	Y1: > 54,5 Y2: >66.8%
			Meets	Y1:44,4 % to 54,5 Y2: 56,8% to 66,8%
			Below	Y1:< 44,4 Y2: <56.8%

[9] Whilst we set out annual benchmarks in this table for transparency, we are proposing that the scheme is two years' long. This means that performance benchmarks for the second year would be used for the final incentive decision.

7. [Annex 2: Regularly reported evidence]

Role	Regularly reported evidence	Details	Relevance	Frequency of reporting
1	Skip rates	Percentage of actions taken outside of merit order in the Balancing Mechanism and the ESO's supporting rationale.	Tracks progress against zero carbon operability ambition and rollout of more sophisticated dispatch systems	Monthly
1	Volume of renewables constrained	Monthly report on volume of renewables constrained.	Tracks progress against ESO ambition to have ability to operate the system carbon free.	Monthly
1	IT system outages	Number of unplanned outages to external facing IT systems.	Tracks quality of delivery of new and updated IT systems.	Monthly
1	Savings from short term outage optimisation	£m avoided balancing costs saved through short term outage optimisation decisions (through use of STCP 11.4).	Tracks benefits from deeper network access planning.	Quarterly
1	Voltage excursions	Reports any voltage excursions each month including rationale.	Tracks ability for ESO to manage the system securely with rollout of more sophisticated monitoring systems.	Monthly
2	Diversity of service providers	Monthly diversity index for technologies that provide services to the ESO in each of the markets covered by	Tracks ESO progress making all ESO markets accessible to all types of provider.	Monthly
2	EMR decision quality	Number of overturns in the Tier 2 disputes process per 1000 applications	Track the quality of ESO's decision making process to ensure a high level of participation in Capacity Market auctions.	Annually

2	Medium term demand forecasting	Accuracy of demand forecasts, for EMR T-1 and T-4 auctions and as well as year ahead Transmission Network Use of System (TNUoS) charges forecasts.	Tracks whether the ESO's demand model improvements have achieved their benefits.	Annually
3	Consumer value from the NOA	Level of forecast savings created by the ESO through actions to encourage alternative solutions in the NOA.	Tracks whether the ESO's NOA proposals are delivering the additional benefits put forward in the plan.	Annually
3	Diversity of technologies considered in NOA	Number of different types of solutions considered each year	Tracks whether the ESO is considering all solutions to network needs within the NOA methodology.	Annually
3	Future savings from operability solutions	Forecast £m savings from new operability measures in years post March 2023 in terms of balancing costs, infrastructure costs and monetised carbon reductions.	Track whether the ESO is responding to longer term network challenges through new solutions.	Annually

8. [Annex 3: Reporting requirement for uncertain IT]

Project	Original forecasts £m	Ofgem benchmark costs	Current investment stage	Refined estimate £m	Supporting information
Name and BP ID	Cost forecasts from December BP1, split by opex and capex	[As finalised at Final Determinations]	[As described in table 24**Error! Reference source not found.** of the ESO Annex in Draft Determinations[10]]	Latest cost estimate, split by opex and capex	Evidence to demonstrate this is an efficient cost, including relevant benchmarking.

[10] RIIO-2 Draft Determinations – Electricity System: Operatorhttps://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_eso.pdf