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

Dear ESO Regulation Team,

We welcome the opportunity to respond to the consultation on the Electricity System Operator Reporting and Incentives Arrangements: Guidance Document (ESORI document). For the ESO incentive scheme to have its desired effect, its workings must be clearly understood by all parties, and it is therefore important that the ESORI document clearly sets out the reporting requirements and scoring mechanism.

On 4 September, we submitted our response[1] to the ESO-specific Draft Determinations document, setting out our views on the ESO incentive scheme for RIIO-2. Before the ESORI guidance and licence can be finalised, it is important that the views expressed by the respondents to this consultation are taken into account, and any policy decisions are subsequently reflected in the drafting of licence and guidance documents. The points made in this consultation response relate to the draft ESORI document and should be considered alongside our response to the original Draft Determinations consultation.

We welcome the constructive discussions we have held with Ofgem on the incentive scheme to date, and agree with Ofgem on a number of key principles for RIIO-2 reporting and incentives:

- The reporting requirements on the ESO should be proportionate, and it is in the interest of consumers, Ofgem and ESO to reduce the burden of regulatory reporting
- It is important to set out upfront clear expectations for the ESO during the first Business Plan period (2021-23), and for the development of the second Business Plan (for the period 2023-25).
- It is essential to have a clear understanding of the workings of the incentive and reporting arrangements before the start of the RIIO-2 period in April 2021.
- It is important to understand how the ESO's performance is evaluated, so that the incentive scheme can have its desired effect.

We comment on the detailed drafting in the annex to this letter, but would like to make the following overarching points:

- We support the intention to provide more up-front clarity of performance expectations in the Roles document. It is important to clarify the interaction between the grading of the delivery schedule, the Roles document, and the scoring mechanism: we would welcome a diagram which clearly sets this out. Similarly, it would be helpful to understand up-front which of the evaluation criteria are most important to each role. We have responded separately to Ofgem's consultation on the Roles document.
- A decision on the ESO's incentive reward or penalty should be made each year. Today's incentive scheme already suffers from a weak and unpredictable relationship between performance and reward that undermines the objective of the scheme to drive ambitious, proactive behaviours from the ESO. It would exacerbate this weakness of the scheme to determine the financial reward or penalty less frequently than today.

[1] https://www.nationalgrideso.com/document/176041/download

- Compared to the current scheme, the proposals described in the ESORI document create an increased reporting burden for the ESO (for example with the addition of reporting on value for money), but the ESO would receive feedback and scoring less frequently from Ofgem and the Performance Panel. We support Ofgem's intention to streamline reporting, however the current proposals are not a significant reduction compared to today's requirements. We propose an alternative reporting framework in the annex to this document.
- We would like to see additional detail on the requirements for cost reporting, including the process for updating Ofgem's view of efficient costs. We are keen to ensure that this process does not create a disproportionate burden for the ESO, Ofgem and the Performance Panel. It is also important to differentiate between costs which are not deemed to be good value for money (which would be given a low score as part of the incentive scheme), and costs which are inefficient (and would be disallowed).
- The arrangements would be improved by the existence of an independent chair of the Performance Panel who should provide input to, and be engaged in, Ofgem's process to determine the financial outcome. A clear and transparent process, ideally involving industry consultation, would be helpful in providing a link between the Performance Panel recommendation and the incentive result: this would be helpful to the ESO in understanding the rationale leading to Ofgem's decision of an incentive reward. It would also be helpful to set out a dispute resolution process, whereby the financial outcome determined by Ofgem can be referred to an agreed independent arbitrator.
- We welcome the asymmetric nature of the scheme. It may be necessary to revise some of the wording and diagrams which describe this, to ensure that the mechanism is understood by all.
- Under the current proposals, the two-year business plan would need to be produced over a year ahead of the time period to which it refers. This not only risks the plan being out-of-date rather than providing stakeholders with realistic dates for deliverables, but it significantly reduces the opportunity to benefit from any lessons learned during the first business plan period. We would welcome further clarity on what content should be included in a two-year business plan, compared to the five-year business plan, noting that the production of the original five-year business plan was an extensive exercise. We would welcome a more streamlined process for the production of the two-year business plan: something more similar to the production of the Forward Plan under RIIO-1.
- We would welcome clarification on the interrelationship between obligations under the licence and under the ESORI and Roles guidance documents, particularly where there is overlap such that Ofgem has two enforcement options for what amounts to the same breach. For instance, underperforming on the security of supply metric may result in financial penalties under ESORI and enforcement action under the licence, for failure to uphold SQSS. We would be grateful for an acknowledgement from Ofgem that any penalty issued under ESORI guidance would be taken into account in the event that Ofgem pursues enforcement action for a purported breach of ESO's licence.
- We would welcome further discussion with Ofgem on the interrelationship between the licence and the ESORI and Roles guidance documents. Whilst we understand the use of guidance documents in order to provide further information in addition to the licence, we are concerned that some guidance documents impose additional obligations which should properly sit within the licence itself and we would welcome further discussion on this point.

We hope you find our comments helpful and look forward to developing a workable incentive reporting process for RIIO-2.

Yours sincerely

Craig Dyke

Head of Strategy and Regulation, Electricity System Operator

Annex 1: Detailed feedback on ESORI guidance document

Paragraph	Wording	ESO comment
1.2	determine an incentive payment or penalty for each business plan cycle	As we proposed in our response to the ESO Draft Determinations consultation, we believe it would be preferable to determine an incentive payment or penalty every year, with at least 40% of the overall pot being available in the first year to reflect the back-loaded nature of some of the ESO's deliverables
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;	The document refers to Special Condition 4.4 as being the condition relating to Electricity System Operator Reporting and Incentive Arrangements. We believe this is a mistake, and should be corrected to Special Condition 4.3 (being where the relevant provisions are positioned within the version of the licence currently being separately consulted upon). We are concerned that the ability to impose requirements within the ESORI guidance (and attendant penalties for non-compliance) alongside licence obligations creates a risk of double jeopardy for ESO.
2.7	When the ESO clearly demonstrates that its performance against the evaluation criteria has gone beyond the 'baseline expectations'	It would be good for the ESORI guidance to clearly set out that there are two ways for the ESO's performance to go beyond baseline expectations: outperforming a plan which was originally graded as baseline, or delivering a plan which was originally graded as ambitious. It would be helpful to include a diagram to show the relationship

		between grading the delivery schedule, and the available outturn scores: this would be helpful in understanding the extent to which the Final Determination affects the range of available incentive outcomes.
2.8	A requirement on the ESO to engage with stakeholders in order to produce a Business Plan before the start of each Business Plan period. 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;	It would be useful to clearly define the terms Business Plan Period and RIIO-2 period, so that it is clear which activities happen on a two-yearly cycle and which activities happen on a five-yearly cycle. The guidance should also clarify the distinction between Business Plans and Delivery Schedules, and the frequency at which each should be produced.
2.8	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	This should also include a reference to an independent chair, who will play a role in determining the ESO's eventual incentive reward. The previous version of the ESORI guidance described the panel as "A panel of independent experts and/or stakeholder representatives": it is not clear why this wording has been removed.
2.8	will make a decision on a reward or penalty for the ESO at the end of the Business Plan cycle.	As above: we believe that this decision should take place every year.
2.9	Figure 2: Regulatory process for BP2 Business Plan cycle	It would be useful to understand what is meant by "by April 2022"- is this before the start of April, or before the end of April? We are concerned that the proposed timings are not practical, giving the ESO limited experience of operating under the previous business plan, and giving rise to a risk that the incentive scheme becomes out of date. We propose an alternative set of timings in this diagram as highlighted under 2.12.
2.10	Business Plan Cycle, Medium-term strategy across the RIIO-2 period	The guidance should clearly define these terms. We assume that the "medium term strategy" is the 5-year business plan covering the period from 2021 to 2026? We understand that the medium-term strategy and long-term vision will not need to be refreshed as part of the two-year business plan or delivery schedule: this will lead to a reduced regulatory burden, and allow for timescales more comparable to those applicable to the Forward 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	As we stated in our response to Draft Determinations, we believe that this is too early, as it does not give the ESO the opportunity to learn from its experience during the first year of the BP1, and brings a greater risk that deliverables are out of date before BP2 begins, due to changes in circumstances. 2.13 states that the draft version of the business plan should be based on the views and feedback provided to the ESO throughout the duration of BP1: this will not be possible if the draft business plan must be produced only half way through BP1. We also note that the draft business plan must reflect extensive stakeholder engagement, indicating that its development would need to start within months of starting the BP1 period.

		We note that under the existing ESORI arrangements, a draft Forward Plan has to be published by 31 January in year t-1, and a final version published by 31 March in year t-1. Although we recognise that the grading of the delivery schedule and inclusion of cost information are new activities for RIIO-2, this does not justify a significant increase to these timescales. We propose an alternative set of timings as set out in the diagram below: 
2.16	The ESO must publish a final version of its Business Plan by [X August] in the year prior to BP2	As we state above, this does not give enough opportunity for the ESO to learn from its experience during BP1, and brings a greater risk that deliverables will be out of date. This comment also applies to paragraph 2.37.
2.21/2.22	Delivery schedule grading How ambitious and well defined the ESO's long-term vision, five-year strategy and deliverables are Roles guidance	The guidance should clarify the interaction between meeting minimum requirements, and whether deliverables meet, exceed, or fall below baseline expectations. When assessing the draft delivery schedule, it is important that Ofgem give guidance of how the ESO should improve its delivery schedule such that the final delivery schedule could receive an "exceeding" grading. A diagram showing the link between the grading of the delivery schedule and possible incentive reward would be useful. We understand that the long-term vision and five-year strategy would not need to be refreshed as part of each two-year delivery schedule/business plan: it should be sufficient to link deliverables to these strategies. This would mean that the two-year delivery schedule/business plan would be more similar to a Forward Plan than the five-year business plan. In order to inform the development of BP2 and provide prior understanding of delivery schedule grading we would ask that Ofgem's expectations of meeting and exceeding for BP2 are shared in advance of our business plan development through an updated roles document.
2.26	The ESO's reporting of its engagement with industry participants to validate the details and value of the planned deliverables.	As part of the five-year Business Plan, the ESO provided a comprehensive cost-benefit analysis report[2] to evidence the expected consumer benefit of each of its transformational activities. This involved extensive engagement with industry, and its output covered the full five-year period. It would be useful to understand how often this information would need to be updated, as it may not change significantly between successive 2-year business plans. It would be our preference to only update this as part of each 5-year business plan, with any

[2] https://www.nationalgrideso.com/document/158061/download

		variation from the expected consumer benefit being described as part of regular reporting.
2.28	We will set a cost benchmark for each ESO role.	We understand Ofgem's proposal to report on all costs incurred by the ESO and to report these by each of the roles. As noted in the ESO's response to the Draft Determinations consultation, around half of the ESO's cost base does not directly map to roles, and to report solely by role would involve smearing 'shared' costs across roles. We consider that any material variances in shared costs could hinder a meaningful assessment of value for money across all roles and would prefer to report on shared costs separately to those directly attributable to roles. We think this would be a more efficient and transparent way of assessing value for money. We understand and welcome the fact that Ofgem is revising its ex-ante view of efficient costs on the basis of further conversations since the Draft Determinations were published. As we highlighted in our response to the Draft Determinations consultation, in many cases, RIIO-1 levels of spending are not an appropriate starting point for considering these costs, given the rapidly changing energy landscape and the new investments we need to make to support the transition to net zero.
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.	We would welcome more transparency on the process, ideally in a diagrammatic form for clarity and consistency of application. A diagram such as that shown in our recent discussions with Ofgem would be helpful in setting out the process: it would be good to include this in the ESORI guidance. We think it would be beneficial if the update to the cost benchmark took place prior to the cost reporting to allow for the most up to date view to be presented. We need to have clarity on how this in-year cost assessment will be carried out and what criteria will be used to determine whether our proposed costs are efficient. We note that Ofgem's proposals may encourage us to delay committing to investments until we can be certain that Ofgem consider our proposed costs to be efficient. This will require the submission and re-submission of detailed project-level cost information on a six-monthly basis, potentially delaying the start of projects and subsequent realisation of consumer benefits. We would welcome further discussions with Ofgem on how the process can be improved to allow investments to be made in a timely manner, avoiding delays to consumer benefits.
2.30	The cost benchmark will be a key reference for our cost monitoring and the value for money evaluation criterion.	We are not sure what is meant by cost monitoring: is it a new process, in addition to the value for money evaluation? It would be useful to set out how the cost benchmark will be used as part of the evaluation of value for money. As set out in our response to the Draft Determinations consultation, we have concerns about how some of the benchmarks were derived. In some cases there were inconsistencies in the way they were calculated, and RIIO-1 levels of spending have been assumed to be an appropriate starting point despite the very different nature of the challenges we face today compared to 2013. We welcome the further dialogue we have had with Ofgem on

		this point and Ofgem's constructive response to the further information and justification we have submitted on our proposed costs. We would like to emphasise the importance of a credible and robust ex-ante view of efficient costs as a reference for the value for money evaluation criterion.
2.32	…to discuss the grading of the ESO's… proposed performance measures Performance panel view on proposed grading	It should be clear who proposes the performance measures. Should the ESO propose performance measures as part of each Business Plan? If the performance measures are eventually set by Ofgem, the ESO's original proposals should not be factored into the grading of the ESO's delivery schedule- as they will be superseded by Ofgem's metric proposals. Current guidance stipulates that Ofgem will seek Performance Panel views of proposed grading after the Draft Determinations. These are key inputs and we would ask that they be developed in a way which would allow the ESO to make amendments to the plan in good time. We are concerned that current timings of this input would not allow the ESO time to revise its plan especially if there is a difference in opinion between the Ofgem and the Performance Panel.
2.34	Our final value for money assessment and proposals for a two-year cost benchmark;	This describes the assessment of value for money when assessing the Business Plan. However, we believe this should just refer to proposals for a two-year cost benchmark, and clarify that this only refers to those costs which have been reviewed and assessed, noting that some costs will not have yet been assessed.
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.	We had previously understood that a plan receiving a grading of 5 would be unable to receive a score of 1 for Plan Delivery, and a plan receiving a grading of 1 would be unable to receive a score of 1 for Plan Delivery, however paragraph 2.36 suggests that this is not the case. A diagram would be useful in clarifying this.
2.39	Steps 6 to 9: Within year monitoring and reporting	For the sake of clarity (and notwithstanding ESO's objections to the proposed structural change), these steps should instead be titled "Within [Cycle / Scheme] monitoring and reporting", as ESO's reporting obligations no longer apply to a single regulatory year.
2.39	Monthly updates of its performance against the Performance Metrics and where appropriate updates on regularly reported evidence (by the [X] working day of the following month)	As we suggested in our Draft Determinations response, it would be helpful if monthly reports could be submitted later than the 15th Working Day (which is the case in RIIO-1), to give more time for certain sets of data (e.g. balancing costs) to be collated and analysed.
2.42	The 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 current proposal for the ESO's six-monthly reports does not represent a significant reduction in regulatory burden compared to the RIIO-1 scheme. If this report will not receive a score from the Performance Panel, we would hope to make this report as light-touch as possible: a

	the original business plan, the justifications provided for performance against metrics and the rationale for significant expected cost deviations. The panel will also consider what the ESO must do better to score highly at the mid-scheme evaluation.	suggested reporting schedule is shown in the annex to this response. "its performance." These comments also apply to the 18-month review described in 2.48.
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.	As stated in our response to Draft Determinations, we believe that this process should take place every year. The independent chair of the Performance Panel should also be involved in this process. It would be helpful to receive a decision earlier than this (under the RIIO-1 scheme this takes place by the end of July), so that the ESO can act on any feedback received before the next assessment of its performance takes place. In advance of Ofgem's decision being finalised, it would also be helpful for Ofgem to provide an explanation of where it plans to deviate from the panel's scores, giving the ESO an opportunity to provide additional evidence of its performance where needed.
3.3	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.	What is meant by explicit grading and overall evaluation scoring?
3.3	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.	We believe this should refer to the ESO's *proposed* internal costs. We assume that the two-year cost benchmark for each role will be updated as new activities are included: it would be helpful to see a diagram to show how this process will work. We understand that the cost benchmark, licence and roles document will only be updated for material changes, with less significant changes being described in the narrative accompanying the cost reporting. It would be useful to agree on a definition of "material".
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	This is inherently asymmetric: it suggests that outperformance will result in higher expectations, but underperformance will not result in lower expectations. It would be reasonable to adjust future expectations based on previous performance in both directions, noting that the original expectations may not have been realistic. This could be amended to say that performance to date will be considered when setting future expectations. As it stands, it is possible that the ESO could be repeatedly penalised for not meeting a historic set of expectations that were subsequently found to be unrealistic: this could deter the ESO from producing an ambitious plan. Conversely, under the current proposals, outperformance would only be rewarded on a single occasion.
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	It may be more logical to have a single "value for money" category as many costs do not fit neatly into roles, as noted in our response to paragraph 2.28.

	performance metrics) to evaluate the ESO's performance.	
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.	A diagram would be helpful to show the relationship between delivery schedule grading and performance assessment.
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 ESO Roles Guidance.	Alternatively, the ESO could exceed expectations by outperforming a 3-graded delivery schedule.
3.11	The Performance Panel should consider that the ESO has underperformed this criteria if the ESO has delivered the key components of a 2-graded or below Delivery Schedule or failed to successfully deliver a set of activities and outcomes that demonstrate the meeting expectations guidance in our ESO Roles Guidance.	It would be useful to clarify that "a set of activities and outcomes that demonstrate the meeting expectations guidance in our ESO Roles Guidance" refers to a 3-graded delivery schedule. Again, a diagram would be helpful to clarify the interaction between delivery schedule grading and scoring.
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.	The ESO should also be able to outperform this criteria if it has only exceeded expectations for some of its performance metrics, but there are strong reasons or mitigating circumstances for the other metrics.
3.15	The Performance Panel should consider stakeholders' satisfaction on the quality of the ESO's plan delivery. This	The ESO will also present evidence of working with stakeholders as part of its mid-scheme and end-of-scheme reports, to support the Panel's evaluation.

	may include 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.	
3.19	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.	It would be helpful to clarify how the panel will assess this. What evidence will be required to demonstrate that the ESO has adapted its actions to maximise benefits?
3.20	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.	It is not clear what information the ESO would need to provide to demonstrate that its outputs are of sufficient quality.
3.21	Additionally, the ESO has not produced any additional outputs that seek to maximise benefits for consumers.	We believe that the ESO should not be penalised for not delivering additional outputs: it may be in the consumer interest for the ESO to focus on the outputs it had included in its original business plan, which had been subject to stakeholder consultation.
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	It would be useful to include more detail about how the Value for Money criterion will be assessed, and what information the ESO would need to provide to demonstrate its performance against this criterion. It would also be helpful to agree on a format for this reporting, including for example a materiality threshold for projects which require

	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	separate reporting. In order to ensure we commence effective RIIO-2 reporting from the beginning of the scheme we would welcome further discussions to finalise the format well in advance of the start of the RIIO-2 period.
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	It would be helpful to define a threshold for where differences in actual vs projected spend are immaterial. It is important to clarify what information will need to be provided in order to demonstrate efficiency, in order to avoid creating a disproportionate reporting burden. We propose that costs are reported at a high level, and then significant deviations from the cost benchmark for each of these categories should be explained. This would strike a balance between holding us to account to deliver value for money, while not requiring a disproportionate focus on small sums of money or changes to costs or project milestones within standard tolerances. A 10 per cent materiality threshold would focus discussions on major areas of capex and IT opex investment where the majority of consumer value is held.
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).	This suggests that spending in line with the benchmark, when delivering a 1- or 2- rated plan, would constitute underperformance on Value for Money. This situation would have already been penalised under the Plan Delivery criterion: it should not be penalised under the Value for Money criterion too. A low score for Value for Money should only be given where spending is in line with or above the benchmark, but the plan is not delivered.
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	The importance of each criterion for each role should be set out up front, otherwise the incentive scheme will not have its desired effect of driving improved performance. If this is not set out in advance, there is a risk that areas where the ESO has not performed well are retrospectively judged to be more important, undermining confidence in the scheme.
3.31	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	If the Panel indicates that a specific score is “low” or “high”, this should be taken into account in Ofgem’s determination of an incentive reward. An independent chair of the Performance Panel, who participates in the process of determining the ESO’s incentive reward, should be able to provide additional rigour and credibility to this process.

	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.	
4.1	Table 1: financial incentive parameters for 2021-23	It would be helpful to state that the figures stated are totals across a two-year period. Will these parameters be the same for BP2?
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 framework guidance.	The scoring review should definitely include (rather than "may" include) a review of the grading of the ESO's delivery schedule. Otherwise, it is not clear that the ESO will be rewarded for the delivery of an ambitious plan, and there is no clear incentive for plans to be ambitious.
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 .	As the scheme is asymmetric, the concept of the linear score:reward relationship is not clear. A different diagram, showing the actual reward or penalty the ESO should receive, would be more helpful. The diagram should refer to ESO rather than SO.
4.8	Table	For a score of 5, the default incentive payment currently reads as £8. This is not correct, and for consistency with other entries should be corrected to £8m.
4.9	Table	The top left of the table should refer to "Role" rather than "principle"- we understand that the concept of a "principle" for an area of work will not exist in RIIO-2. The ranges could be quoted with the most negative number on the left, this will make it simpler for the reader to add up the numbers in the example to determine the minimum to maximum range.
4.10	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. Comparison to Determinations: the Authority may review the grading of the	This implies that the Authority is able to disregard the guidance documents and evidence presented, including its previous assessment of the Business Plan. There should be more precise criteria to determine whether the Authority can make an adjustment to the incentive payment or penalty. As the text stands, this implies a highly subjective scheme, which undermines the clarity provided by setting out expectations in the Roles document at the start of the scheme. We are concerned that the Authority may review the grading of the ESO's delivery schedule. This proposal undermines the up-front clarity provided by grading the

	ESO's delivery schedule as part of Ofgem's Determinations and whether the deliverables were aligned with our expectations under the Roles Guidance.	schedule at Final Determinations, and makes the scheme inherently subjective.
5.1	Within-year reporting table	Quarterly report: progress against plan delivery schedule should be reported less frequently, noting that Ofgem feedback under RIIO-2 will be provided less frequently than under RIIO-1. The Dashboard Report should not be needed, as this information can be contained in the plan delivery tables, and executive summary narratives for the more significant reports. Stakeholder satisfaction: the mid-scheme report and end-of-scheme report should also contain an ESO narrative describing its engagement with stakeholders. Value for money: We would appreciate further clarification on the definition of planned costs. We would anticipate reporting actual costs to reporting date, and forecast costs for the two year period, compared to latest agreed benchmark costs for the two year period.
5.2	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	It is not clear which special licence condition this is referring to: 4.4.18 does not exist. It is also not clear which aspects of the Roles Guidance should be taken into account when structuring reports. We assume that reports should be structured by role as per the RIIO-1 scheme, but it is not clear whether this condition requires the roles to be sub-divided into activities or outputs.
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.	We would expect a discussion of benchmarks, scales and scoring mechanisms to take place between Ofgem and the ESO, rather than with the survey company.
5.13	Reporting should include a clear quantification and/or articulation of the impacts associated with the actions the ESO has taken.	It is not clear what is required here. We had expected that it would be sufficient to demonstrate progress against the activities outlined in the original business plan CBA, outlining the rationale for any changes to the original plan: any additional reporting would be disproportionate and not add value.
5.14	The ESO should report on its outturn, forecast and planned costs for each role, with	The guidance should include a definition of "material" based on a 10% materiality threshold or dead band within which changes to cost need not be explained in detail.

	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	We would welcome clarity on what kind of evidence or what kind of explanations would be considered acceptable. As we state above, we have concerns with how Ofgem’s view of efficient costs was derived, and whether this provides a meaningful measure of the ESO’s performance. As per our response to para 5.1 we would appreciate additional clarity as to definition of planned costs.
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.	It would be helpful to include a diagram to show how this process works, including the timings of Ofgem’s decisions. We propose to work with Ofgem to define an effective process for all parties. This includes establishing a baseline (rather than benchmark) with agreed tolerances. This baseline can be updated on a six-monthly basis to reflect any material changes to the portfolio. Our technology investments contribute towards achieving the ambition described in our Business Plan. We need to retain a level of flexibility, managing the portfolio to deliver the desired outcomes in a timely and cost-effective way.
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 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.	It would be useful to understand whether Ofgem intends to undertake a review of the Roles guidance ahead of BP2, to reflect any changes to the ESO's activities or operating environment.
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;	It would be disproportionate to carry out a cost-benefit analysis for each deliverable. It would be more practical to do this at the activity or sub-activity level, presenting deliverables in groups. It is also worth noting that limited information about the milestones for each deliverable may be available at the point in time that the Business Plan/ Delivery Schedule is created.

	• 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.	
5.19	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.	It is not clear what is meant by "reporting documents" in this context, and how changes should be reflected between subsequent Business Plans/ Delivery Schedules.
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	It would be helpful to clarify what is meant by "update". We note that providing extensive detail of this type will be highly resource-intensive, and will result in a Business Plan document which contains a significant volume of information, which stakeholders may find difficult to engage with. It is not clear what would be required to demonstrate clear links between activities, sub-activities and the performance criteria. Further, it is not clear what is meant by a "distinct measure of the output or deliverable". We also have concerns about providing further external benchmarking information in addition to that already provided as part of our Business Plan submission. It is very challenging to find any appropriate comparators nationally or internationally as many of our activities are unique to our context or are first of a kind. We also believe it will be challenging to provide a meaningful update on the cost benefit analysis as many of the activities deliver value over a longer than two year time period. Again, this is a very challenging and resource intensive activity given the nature of the work we do.

	through the activities and subactivities; • 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]	
6/Annex 1	Annex 1: Performance metrics 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.	We understand that these will be set as part of Final Determinations. We have provided our feedback on these proposals in our response to Draft Determinations, and are happy to discuss this further with Ofgem as needed. For the Competitive Procurement metric, we understand that the changes to benchmarks between Draft Determinations and this consultation document were not intentional. We are not clear on the meaning of the bottom statement: it would be more logical to perform a separate evaluation each year, allowing for the calculation of an incentive reward or penalty each year. Now that some performance measures have been removed, it may be helpful to re-number the metrics. A similar naming convention to that used under the 2020-21 Forward Plan (e.g. metric 1A is part of role 1) could be used- where possible, performance measures could have the same number as under the current scheme, to avoid confusion and allow for performance to be tracked across successive years.
7/Annex 2	Annex 2: Regularly reported evidence	We understand that these will be set as part of Final Determinations. We have provided our feedback on these proposals in our response to Draft Determinations, and are happy to discuss this further with Ofgem as needed.

8/ Annex 3	Annex 3: Reporting requirement for uncertain IT	We agree that the proposed data points would be required to show movement in financial assumptions. As highlighted in 5.15 it would be good to test this process with a worked example. Where supporting information is required, a template will set expectations and show how the information will be assessed. Being able to collate these data points during our delivery processes will facilitate reporting and simplify decision making. A subtle but important note relates to terminology. Defining terms such as ‘efficient’ and ‘benchmark’ will avoid confusion with efficiency for cost recovery purposes and independent cost benchmarking. We propose to work with Ofgem to develop a process and template that is efficient and effective for all parties.

Annex 2: Frequency of different aspects of incentive reporting

Ofgem's proposal for incentive scheme outputs is set out below: we have combined metrics and regularly reported evidence as a single category. We understand from subsequent discussions with Ofgem that the dashboard report on delivery of the zero-carbon operability ambition will not be required, as this information will be contained within the Plan Delivery reporting and the Executive Summary sections of the Mid-Scheme and End-of-Scheme reports.

Ofgem's proposed reporting requirements

Criteria	Monthly report	Quarterly report	6 month /18 month report	Mid scheme (yearly) report	End of scheme (two-yearly) report
Plan delivery	-	Progress against plan delivery Schedule	Progress against plan delivery Schedule	Progress against plan delivery Schedule	Progress against plan delivery Schedule
Metrics/ regularly reported evidence	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)
Stakeholder evidence	-	-	Results of stakeholder satisfaction surveys, stakeholder narrative	Results of stakeholder satisfaction surveys, stakeholder narrative	Results of stakeholder satisfaction surveys, stakeholder narrative
Plan benefits	-	-	Report against original business plan CBA	Report against original business plan CBA	Report against original business plan CBA
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.
Feedback and scoring	-	-	Feedback session	Scoring from panel	Scoring from panel, decision on penalty/reward

However, we are concerned that this represents a significant reporting burden, which is not notably reduced from the RIIO-1 arrangements- although the ESO would receive less feedback and scoring.

We propose below some reduced requirements, which would be more proportionate if less feedback and scoring is to be received.

ESO’s proposed streamlined reporting requirements

Criteria	Monthly report	Quarterly report	6 month /18 month report	Mid scheme (yearly) report	End of scheme (two-yearly) report
Plan delivery	-	-	Progress against plan delivery Schedule	Progress against plan delivery Schedule	Progress against plan delivery Schedule
Metrics/ regularly reported evidence	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)	Outturn performance & supporting rationale (note that some items have different frequency)
Stakeholder evidence	-	-	-	Results of stakeholder satisfaction surveys, stakeholder narrative	Results of stakeholder satisfaction surveys, stakeholder narrative
Plan benefits	-	-	-	Report against original business plan CBA	Report against original business plan CBA
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.
Feedback and scoring	-	-	Feedback session	Scoring from panel, partial decision on penalty/reward	Scoring from panel, decision on penalty/reward