Overarching Working Group 22/10/20

OFG1161

Purpose of today

Focus of session will be to:

- Recap of SSMC proposals and share high level stakeholder views
- Set out principles for an approach to ex post assessment and options under consideration
- Provide view of level of detail we will include in our SSMD on the framework for DSO, vulnerability and major connections customers

Developing a framework to enable robust ex post assessment

What we proposed in the SSMC re the **framework for DSO, connections and vulnerable customers:**

- While we expect DNOs to innovate and develop different tools and initiatives to meet the needs of their customers, we consider that principles and baseline standards would drive common adoption of good practice to ensure all consumers receive a high quality of service.

- The use of common performance metrics and targets to track performance would ensure more consistency and comparability over time, and across the sector.

- Where it is appropriate to do so, financial rewards/penalties would be applied to DNOs who exceed/underperform against targets.

- Performance would be assessed at mid-period and end of period.

High level summary of **stakeholder views**:

- Majority of stakeholders support direction of travel which would achieve a balance of a quantitative and qualitative incentive in complex areas, although some stakeholders sought clarity upfront on how assessment would be undertaken to ensure transparency.

- Majority of stakeholders think proposed approach to the timing of assessments is proportionate. Some stakeholders noted assessment should be annual; while others cautioned a mid-period assessment could clash with a RIIO-3 price review.

- The framework ensures DNOs' performance and the outcomes resulting from this are comparable and drive consistency through the baseline expectations, whilst recognising DNOs can retain the ability to choose different paths of delivery.

- There is sufficient predictability of assessment to hold DNOs to account in delivering an acceptable minimum level of service whilst driving them to seek opportunities to deliver value for consumers.

- The incentive should ensure there is a tangible link between a company's strategy, its delivery of it and performance.

- In developing the incentive, there are various tools we can deploy to ensure the mechanism enables a robust assessment of performance.
- Today's focus is on the ex ante parameters that can be defined to embed sufficient predictability within the incentive, however on this slide we have included some detail on potential ex post parameters.

Ex ante parameters

View of baseline/ambition:
- Plan scoring?
- 'Formal opinion' within DD/FD
- Delivery schedule

Metrics:
- Common metrics – Ofgem or company defined target?
- Bespoke metrics
- Regularly Reported Evidence – pre-defined KPIs without a performance target

Stakeholder views:
- Stakeholder survey CSAT/SSAT score for defined areas, option for with associated target

Ex post parameters

Use of Evaluation Criteria:
- Defining appropriate criteria
- Use of weighting

Use of a performance panel:
- Does the framework use a panel? If so, who is this comprised of?
- What's the panel role? Recommendation or independent assessor

Ex post stakeholder views:
- Call for evidence
- Bilaterals

Scoring:
- Scoring range eg 1-5
- Is there a pre-defined monetary value with a score

The following slides presents some initial thinking on what can be defined ex ante as a KPI.

Internal Only

What makes good metrics

- Reflect consumer outcomes as set out in baseline expectations
- Comparability across DNOs
- Incentivise good behaviour (within DNO's control)
- Performance benchmarks that are stretching but achievable
- Predictability of reward & penalties

Approach for setting metrics

Commonality

1. Should we use the same metrics (eg forecasting accuracy) for all DNOs?
2. Should we hold all DNOs to the same performance benchmark (eg 80% accuracy)?

   Trade-off between comparability (and customers getting consistent service) and recognising inherent regional differences or starting points

   Could be mix of both

How and when we set metrics

1. We (Ofgem) only use metrics and performance benchmarks included in business plans
2. We consult on additional/amended metrics and benchmarks at DDs

We want confidence that targets are genuinely stretching and aid comparison. But DNOs have better view of what is realistic.

Questions

- Do you agree with what makes good metrics? Are some more important than others? Have we missed anything? How can DNOs evidence the above?
- View on commonality of metrics and performance benchmarks? When and why might we make exceptions?

- In addition to metrics, it may be possible to define ex ante relevant evidence that should be reported on as KPIs.

- This is defined as Regularly Reported Evidence within the ESO framework.

- These are numeric measures which are relevant evidence of the successful delivery of the 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.

- In the Business Plan guidance we outlined that strategies must include deliverables which are specific, time bound and relevant. The delivery of these commitments to time and as specified can be considered a key performance indicator.

- In the ESO framework, the individual deliverables together form a 'Delivery Schedule'. To enable assessment of plan delivery, the ESO must produce quarterly reports on the progress against the Delivery Schedule.

- If a deliverable has not been delivered to time or as planned, the ESO can justify why and this is taken into account within the ex post evaluation. The ESO can also justify where it considers it has exceeded expectations in delivery.

- Clear ex ante reporting expectations for delivery could be incorporated into the Strategy Delivery ODI framework. This could be in the form of a Delivery Schedule or a RAG rating for commitments set out.

Deliverable	Original delivery date	Target delivery date	Description	Further context
Upgrade of information systems				
Widen access to API (Application Programming Interface) system	Q1 2020-21 (produce plan) Q2 2020-21 (widen access)		We have reviewed our approach and we are going to widen access to the API⁹. This is going to be done in two ways: • We are reviewing the applicable communication standard and will relax the size threshold (currently 100MW) for use of the API.	The benefit of this deliverable is to allow providers to choose their preferred communication system, and improve the provider experience. We are currently doing a cost-benefit analysis of this requirement, as part of the review of Wide Access expansion. The scaling requirement is an ongoing process to allow a wider range of

Example of how deliverables are presented from ESO Forward Plan 2020-21

Deliverable	Status	Additional Info
Example 1		
Example 2		Delayed due to stakeholder feedback to reprioritise

- The ODI framework is to drive behaviours that are less well served by mechanistic financial incentives. In particular, it aims to drive companies to respond to customer and stakeholder needs as they evolve during RIIO-ED2.

- An ex post evaluation of performance should take into account stakeholder views. To increase upfront certainty, the manner in which stakeholder views will be gathered can be set ex ante.

- In the ESO framework for RIIO2, they have introduced a stakeholder satisfaction survey for the ESO's three roles that will be undertaken by an independent market research agency.

- We could define up front for which areas stakeholder views will be collected for and the method. Defining ex ante stakeholder measures up front does not preclude stakeholder views being gathered in an additional manner for the ex post evaluation (eg a call for evidence).

We proposed an ex post review of performance and delivery of the company's strategy in the SSMC. A key ex post parameter to define will be the evaluation/assessment criteria.

By drawing a link between ex ante KPIs and ex post criteria we could reduce uncertainty within the framework.

As an example, we could adopt the four criteria applicable within the ESO's framework:

• Plan Delivery

• Metric Performance

• Demonstration of Plan Benefits

• Stakeholder Satisfaction

For each criteria, it could be indicated what evidence the DNOs should use to demonstrate performance against it. Using the ESO evaluation criteria, this could map to the ex ante KPIs as below. This could operate within a discrete or holistic assessment.

Rewards apply where the assessment score exceeds the baseline.

Ex post evaluation of ex ante expectations/criteria

Ex ante baseline: Ofgem baseline standards, company strategy and KPIs

Penalties apply where the assessment score falls below baseline.

Ex post evaluation of ex ante expectations/criteria

Ex post criteria	Ex ante defined KPI
Plan Delivery	Strategy delivery schedule/commitments
Metric Performance	Metrics outturn
Demonstration of Plan Benefits	Regularly Reported Evidence
Stakeholder Satisfaction	CSAT or SSAT

Discussion:
• Do the group have any initial reflections on the material presented?
• Are there additional ex ante KPIs/tools we can use?
• Could the ESO evaluation criteria be applicable? What alternative criteria should be included?
• Should it be a holistic ex post evaluation or discrete per criterion?

This table, from the ESO Draft Determination, provides an example of how ex ante defined KPIs can be integrated into the ex post framework. The red text highlights the types of KPIs.

Ex post evaluation criteria	Ex ante defined KPIs and Evidence Requirements Role 1	Ex ante defined KPIs and Evidence Requirements Role 2	Ex ante defined KPIs and Evidence Requirements Role 3
a) Plan Delivery	ESO Delivery Schedule Quarterly reports on progress against Delivery Schedule Dashboard report on delivery of zero carbon operability ambition		
b) Metric Performance	Metrics on: 1. Balancing costs 2. Security of supply 3. Demand Forecasting accuracy 4. Wind generation forecasting accuracy 5. Short notice changes to planned outages	Metrics on: 6. Competitive procurement of balancing services	n/a
	Monthly reports on outturn metric performance and supporting rationale		
c) Stakeholder Satisfaction	Satisfaction survey results for Role 1	Satisfaction survey results for Role 2	Satisfaction survey results for Role 3
	Feedback provided on the quality of Business Plan deliverables, through performance panel sessions, regular monitoring and calls for evidence.		
d) Demonstration of plan benefits	Six-monthly reporting against original Business Plan CBA focusing on areas not picked up by performance metrics		
	Regularly reported evidence on: • Skip rates • Volume of renewables constrained • IT system outages • Savings from short term outage optimisation • Voltage excursions	Regularly reported evidence on: • Diversity of providers in balancing markets • EMR decisions overturned • Accuracy of longer term demand forecasts	Regularly reported evidence on: • Consumer value from the NOA • Diversity of technologies considered in NOA • Future savings from operability solutions
e) Value for Money	Cost regulation tool		

In our SSMD, we aim to confirm elements of the proposed framework for regulating DNO performance re DSO, connections and vulnerability:

- The principles and associated baseline standards to be applied
- The role of the BPI in these areas and our approach to assessment
- The role of an ex post assessment of performance

What else do you need clarity on in the SSMD for the purpose of the business plans and why?