

Guidance

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

Publication date: 17 December 2020

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The Electricity System Operator (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 Incentives (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 Incentives 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 Incentives 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 Incentives 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 Incentives Arrangements Guidance Document for 2020-21	6 March 2020	1 April 2020
4	Clarifications and changes to align with the regulatory framework for the RIIO-2 price control	To update and revise the ESO Reporting and Incentives Arrangements Guidance Document for 2021-23	XX	1 April 2021

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1. Introduction

1.1. This chapter sets out the background to the ESO Reporting and Incentives (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 cycle¹.

1.3. The ESORI Arrangements Guidance Document is issued by the Authority under Part C of Special Condition 4.3 (Electricity System Operator Reporting and Incentives Arrangements) of the ESO's licence. As set out in Special Condition 4.3.16, 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 business plan cycle is the period for which the business plan is applicable. The first business plan cycle (BP1) covers the incentive scheme starting on 1 April 2021 and ending on 31 March 2023.

- (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 4.3.

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 an incentive 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 4.3. 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 do 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 upfront clarity around the behaviours we expect of the ESO and 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 ESO Performance Panel (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 Table 1.

Table 1: Summary of the ESO's roles and activities

Role	Role activity
Role 1: Control centre operations	a) System operation
	b) System restoration
	c) Information, data, and forecasting
	a) Market design

² The ESO Roles Guidance is being published alongside this document.

³ The Performance Panel is an independent panel of experts and/or stakeholder representatives, who will assess the ESO's performance and provide recommendations to the Authority.

Role 2: Market development and transactions	b) EMR
	c) Industry codes and charging
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 '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 (further details can be found in Chapter 3).

2.8. In summary, the ESORI Arrangements comprise of:

- 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 medium-term strategy across the RIIO-2 period⁴ and long-term vision for the energy system;

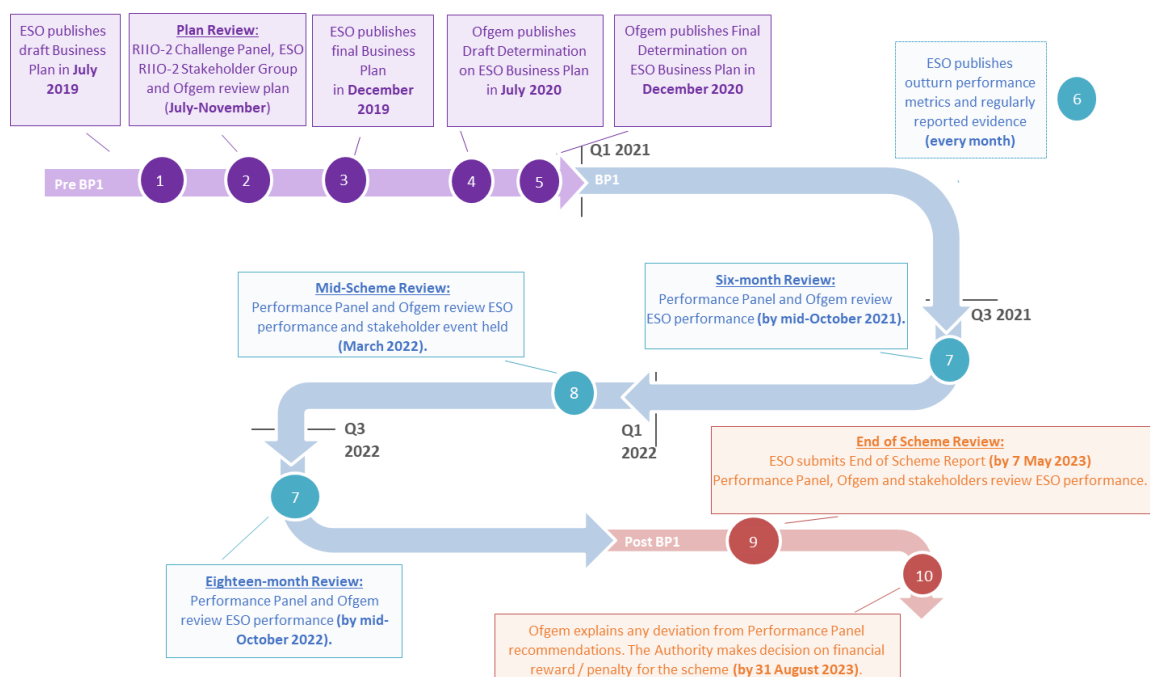
- Requirements on the ESO to produce within-scheme performance reports, including: monthly reports, quarterly reports, six-monthly reports, a Mid-Scheme Report and an End of Scheme Report;
- The Performance Panel, formed of independent experts and/or stakeholder representatives with an independent chair, 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 1 provides an overview of the key stages and timings in the reporting and incentives process for the ESO's first business plan cycle (BP1)⁵. The timings of the key stages for the second business plan (BP2) will be confirmed in a separate Business Plan Guidance Document in 2021. We provide guidance on each of these stages in the sections below.

⁴ RIIO-2 covers the period starting 1 April 2021 and ending on 31 March 2026.

⁵ The first business plan cycle (BP1) covers the incentive scheme starting on 1 April 2021 and ending on 31 March 2023.

Figure 1: Regulatory process for BP1 business plan cycle

Steps 1 to 5: The ESO Business Plan

2.10. The ESO must engage with its stakeholders to produce a Business Plan before the start of each business plan cycle. We will provide further guidance on the process for developing the Business Plan and the content required for BP2 in a separate Business Plan Guidance Document in 2021. We expect this to include the following steps:

Step 1) The draft Business Plan: the ESO must engage with stakeholders to produce a draft version of its Business Plan and undertake a consultation on its contents.

Step 2) The Plan Review: as part of the consultation, the ESO Performance Panel will review the draft Business Plan and share feedback.

Step 3) The final Business Plan: the ESO shall consider all stakeholders' responses to its consultation and then publish a final version of its Business Plan.

Step 4) The Authority's Draft Determination: we will consult on our Draft Determination on the final Business Plan, which shall include our grading of the ESO's delivery schedule; our value for money assessment and our proposals for a cost benchmark; and key performance measures.

Step 5) The Authority’s Final Determination: following the consultation we will publish our Final Determination, which shall include our final grading of the ESO’s delivery schedule; our cost benchmark; and key performance measures.

Revisions to the Business Plan

2.11. We expect the ESO to remain flexible and adaptable throughout the business plan cycle and respond to changing situations. The ESO may deviate from the final published plan where it identifies opportunities for greater consumer benefits. Equally, if an action in the plan turns out not to be in consumers’ best interests, then the ESO should change its approach and explain why.

2.12. Whilst the Business Plan document will not be revised once published (with the exception of the updates to the delivery schedule and/or cost benchmark described in Chapter 5), 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.⁶

Steps 6 to 8: Within-scheme monitoring and reporting

Step 6) Ongoing monitoring and reporting

2.13. 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 17th working day of the following month)

⁶ Further details can be found in Chapter 7 of our RIIO-2 Final Determinations – Electricity System Operator Annex: https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_eso_annex.pdf

- Quarterly updates (every 3 months) of its performance (by the 17th working day of the following month)

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

Step 7) The six-month and eighteen-month review

2.15. The ESO will be required to publish a report at six months and eighteen months into the scheme.

2.16. The Performance Panel will perform a full evaluation of the ESO's performance and provide scores, both at the six- and eighteen-month review stages. This will include views on what the ESO must do to improve their scores by the end of the business plan cycle. Ofgem will also communicate its view on the ESO's performance and expectations for the ESO's two-year financial incentive outcome every six months. The Panel and Ofgem's views will be published on Ofgem's website.

2.17. We will not hold a formal stakeholder event every six-months but will issue a call for evidence and continue to engage widely with stakeholders throughout the incentive scheme.

2.18. Further guidance is provided in Chapter 5 on the reporting requirements for the business plan cycle reports.

Step 8) The Mid-Scheme Review

2.19. The ESO is required to produce and publish a report covering its performance during the first year of the business plan cycle, known as the Mid-Scheme Report, by the 17th working day in May in the second year of the business plan cycle.

2.20. 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.

2.21. 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.

2.22. Following this meeting, the Performance Panel will consider the evidence and perform a full evaluation, providing scores of the ESO's performance mid-way through the business plan cycle. The Performance Panel will record its conclusions in a short summary report. This should include views on what the ESO needs to do to improve scores. Ofgem will also communicate its view on the ESO's performance and expectations for the ESO's two-year financial incentive outcome every six months. The Panel and Ofgem's views will be published on Ofgem's website.

Steps 9 to 10: Final performance evaluation

Step 9) The End of Scheme Review

2.23. By 7 May in the year after the business plan cycle, the ESO will publish on its website, a report containing final evidence of its performance over the entire regulatory incentive scheme, known as the End of Scheme Report.

2.24. 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.

2.25. 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 incentive scheme.

2.26. 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.

2.27. 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. The Authority will consider the evidence available before reaching a final decision on the incentive payment or penalty.

Steps 10) Determination of a payment / penalty

2.28. 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. The chair of the Performance Panel will provide input to, and be engaged in, the Authority’s decision, though will not be party to the decision itself. The financial outcome 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.

2.29. In advance of the Authority’s decision being finalised, Ofgem will provide the ESO with an explanation of where it plans to deviate from the Performance Panel’s scores, giving the ESO an opportunity to provide additional evidence of its performance where needed.

2.30. The Authority will produce its final decision on the incentive payment or penalty by 31 August in the year after 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 Determination also provides clear, ex-ante performance expectations through:

- Plan grading – Ofgem graded the delivery schedule for each role, with an explicit grading that aligns with the evaluation scoring for each role. This provides the ESO with an ex-ante expectation of our assessment of plan delivery if these deliverables are met. Where we considered the delivery schedule not sufficiently ambitious, we highlighted this to set a clear reference point and align expectations in the incentive process.
- Setting performance measures – Ofgem set all performance measures (including performance metrics, stakeholder satisfaction surveys and other reported evidence). We 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 assessed the ESO's proposed internal costs and set (and if necessary, will update) a cost benchmark for each role. This will be a key point of reference for our within-scheme monitoring and value for money evaluation.

3.4. In general, performance to date will be considered when setting baseline expectations for future performance. In compiling our Determinations, Ofgem reviewed previous Business Plan reports and performance to ensure continuity between the different business planning cycles.

3.5. For the avoidance of doubt, we expect innovation to be a core part of the ESO's business-as-usual activities and for this to be demonstrated through the ESO's planned deliverables. Undertaking innovation projects, whether funded through the ESO's main price control totex or through dedicated innovation funding, does not automatically qualify as exceeding expectations. The ESO's delivery of outputs and outcomes as part of innovation-funded projects will be considered as part of the performance evaluation. However, we have excluded innovation-funded projects from the cost benchmarks because these costs are funded through a separate Use it or Lose It (UIOLI) funding mechanism, reflecting the lower technological readiness of these projects.

Performance evaluation criteria

3.6. 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.

3.7. 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.

3.8. 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

3.9. The Performance Panel should consider whether the delivery schedule has been successfully delivered on time and/or whether 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 grade the ESO's two-year delivery schedule to indicate the link more clearly between on track plan delivery and performance assessment.

3.10. The Performance Panel should consider where the ESO can clearly explain why a plan deviation was in consumers' 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.

3.11. The Performance Panel should consider that the ESO has outperformed this criterion if the ESO has successfully delivered the key components of a 4- or 5-graded delivery schedule. Alternatively, the ESO could outperform this criterion if the ESO has outperformed a delivery schedule graded as a 3 or lower through delivering additional 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.

3.12. The Performance Panel should consider that the ESO has underperformed this criterion 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 clearly explaining the reasons why any major changes to the original delivery schedule timelines were in consumers' interest or outside of its control.

b) Metric performance

3.13. 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.).

3.14. The Performance Panel should consider the ESO has outperformed this criterion if the ESO has exceeded expectations for the majority of its performance metrics and the ESO has demonstrated that its actions taken have driven positive outturn metric performance. Alternatively, the ESO may have significantly outperformed a certain metric that is particularly stretching or has high associated consumer value or the ESO may have provided strong, convincing justifications for any metrics where performance has not exceeded expectations.

3.15. The Performance Panel should consider the ESO has underperformed this criterion 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; or the panel may be unconvinced that the supporting explanations provided by the ESO demonstrate that its actions have driven positive outturn metric performance.

c) Stakeholder evidence

3.16. The Performance Panel should consider stakeholders' satisfaction on the quality of the ESO's plan delivery. This will include the results of the stakeholder satisfaction survey, views provided by stakeholders during the Mid-Scheme Review and End of Scheme Review processes, 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. The Performance Panel should consider the ESO's explanations for feedback received.

3.17. The Performance Panel should consider the ESO has outperformed this criterion if the ESO exceeds the benchmark for the stakeholder satisfaction survey and/or there is a

broad consensus⁷ 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.

3.18. The Performance Panel should consider the ESO has underperformed this criterion if the ESO is below the benchmark for the stakeholder 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 sought and taken into account the feedback of stakeholders throughout the business planning cycle.

d) Demonstration of plan benefits

3.19. 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 (criterion b)) or stakeholder satisfaction (criterion 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.

3.20. 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 medium-term strategy. For example, this may include considering whether the ESO's interim deliverables have taken account of the energy system's evolving characteristics and/or whether the ESO has adapted its activities flexibly to ensure deliverables have been delivered in a way that maximises

⁷ 'Broad consensus' does not mean there needs to be complete unanimity and agreement amongst stakeholders about the ESO's performance. The Performance Panel should consider carefully whether the stakeholder feedback could be influenced by the particular interests of the party providing the feedback.

benefits. The ESO could demonstrate this through explaining the rationale for adaptations and providing evidence of greater benefits that result from adaptations.

3.21. The Performance Panel should consider the ESO has outperformed this criterion 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 medium-term 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 deliver the ESO's outlined success measures and achieve directly the intended benefits as outlined in the original Business Plan cost benefit analysis. Alternatively, the ESO may outperform this criterion if 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.

3.22. The Performance Panel should consider the ESO has underperformed this criterion 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 as outlined in the original Business Plan cost benefit analysis. The ESO may also have underperformed this criterion if it has not delivered necessary 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

3.23. The Performance Panel should consider whether the ESO has delivered value for money through considering the ESO's outturn spend against an ex-ante cost benchmark, the ESO's explanations for any changes in costs or material deviations from the cost benchmark, and the outputs it has delivered.

3.24. The cost benchmark will represent Ofgem's view on the fair, value for money cost of delivering the ESO's planned outputs. 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 outturn delivery of its outputs.

3.25. The Performance Panel should consider that the ESO has outperformed this criterion if the costs are broadly in line with or below the internal cost benchmark and the ESO has delivered its planned activities and outcomes. For the avoidance of doubt, the ESO does not need to spend below the benchmark to exceed expectations. Any material cost increases above the benchmark must be justified and/or supported by the delivery of additional beneficial outputs.

3.26. The Performance Panel should consider that the ESO has underperformed this criterion if the costs are materially above the benchmark, not well justified and the ESO has delivered only its planned activities and outcomes but no additional beneficial outputs that could explain costs being materially above the benchmark. Or alternatively, underperformance may be demonstrated by costs in line with (or above) the internal cost benchmark that are not well justified and the ESO has not delivered its planned activities and outcomes.

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. The criteria should be considered holistically to assess the ESO's performance. Ofgem and the Performance Panel will have discretion to consider areas of significant out- or underperformance when forming an overall view.

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 outperformance 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 outperformance across the criteria

5 = Overall performance clearly exceeds performance expectations, for example the ESO has strongly outperformed most criteria

3.30. 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 underperformance are more consequential for consumers than others.

3.31. 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 outperformance is not quite considered strong enough to merit a score of 5. If the Performance Panel indicates that a specific score is 'low' or 'high', this will be considered by the Authority in its determination of an incentive reward/penalty.

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. These figures are the totals across BP1. As a default, this will be split equally among each of the three roles (+£10m upside and -£4m downside per role), as shown in Table 2.

Table 2: 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. The chair of the Performance Panel will also

provide input to, and be engaged in, the Authority's decision, though will not be party to the decision itself.

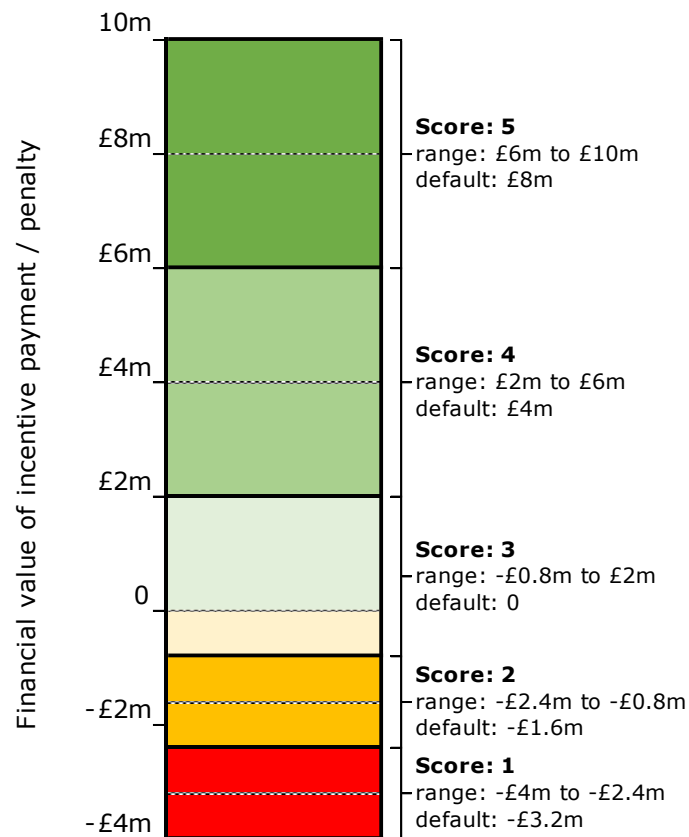
4.4. This scoring review will also include a review of the grading of the ESO's delivery schedule as part of Ofgem's Determinations and the Roles Guidance.

4.5. If there is a significant deviation between 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) Calculation of a default reward/penalty and incentive range

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 values and ranges are shown in Figure 2.

Figure 2: Incentive scores and financial defaults/ranges

4.8. For example, Table 3 demonstrates that the following scores would result in the following default incentive payment/penalty and overall range:

Table 3: Worked example explaining default incentive payment/penalty and overall range

Role	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	-£2.4 to -£0.8m
Total default payment (min to max range)	£2.4m (-£1.2m to £7.2m)		

Step 3) The adjustment process

4.9. 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 based on the presented evidence, 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 consider the grading of the ESO's delivery schedule as part of Ofgem's Determinations and whether the outturn deliverables were aligned with our expectations under the Roles Guidance.

4.10. 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.

4.11. 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-scheme 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 4 below.

Table 4: Incentive scheme reported outputs for BP1

Criterion	Monthly Report	Quarterly Report	Six-month report, Mid-Scheme Report, eighteen-month report, and End of Scheme Report
Plan delivery		Progress against plan delivery schedule	Progress against plan delivery schedule
Metric performance	Outturn metric performance & supporting rationale	Outturn metric performance & supporting rationale	Outturn metric performance & supporting rationale
Stakeholder satisfaction			Results of stakeholder satisfaction surveys Optional narrative on stakeholder satisfaction
Demonstration of plan benefits	Regularly reported evidence ⁸	Regularly reported evidence	Report against original Business Plan CBA Regularly reported evidence
Value for money			Outturn and forecast costs for each role, with narrative to explain material deviations.

⁸ Monthly reporting is not applicable to all regularly reported evidence. See Annex 2 for further details.

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 and subsequent activities in order to align with the evaluation process. 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 these reports on its website. Where there is any confidential or commercially sensitive information, this should be redacted.

5.4. 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

Plan delivery

5.5. The ESO is required to update on its progress with its deliverables every quarter. This should include publishing updates against a deliverables tracker. All the deliverables included in the tracker should be clearly numbered and in a consistent format with the original Business Plan.

5.6. 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. This can ensure Ofgem, stakeholders and the Performance Panel understand the reasons for any changes to plans in advance of its evaluation of the ESO's performance.

Performance measures

Performance metrics

5.7. 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.

5.8. The full list of performance metrics for BP1 is included in Annex 1.

Regularly reported evidence

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

5.10. 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

5.11. The ESO is required to commission surveys from an independent, reputable market research company. Stakeholder satisfaction surveys will measure satisfaction for each ESO role, focusing on the key activities within the role to track performance. We will discuss and agree the most appropriate methodology with the ESO and its independent market research company. Benchmarks, informed through discussions between Ofgem, the ESO and the ESO's selected market research company, will be included so there is clarity on what scores would be below/meeting/exceeding expectations.

5.12. 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.

5.13. 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)

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

5.15. Reporting should include a clear quantification and/or articulation of the ESO's achievement of the benefits outlined in its original Business Plan (BP1). The ESO's calculation of benefits should follow the requirements outlined in the section on general standards of conduct on reporting section below.

5.16. Where there are new 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 value for money reporting⁹

5.17. The ESO should report on its outturn and forecast costs for each role against cost benchmarks. These cost benchmarks will be set for each role by Ofgem in the Determination process to reflect our view of the fair, value for money cost involved with the delivery of the ESO's planned activities. The ESO should explain the key reasons for differences from the cost benchmark in its report, which should be closely linked to its outputs delivered.

5.18. The ESO should adopt the following method, featured in Table 5, to allocate costs to the cost benchmark for each role. This should use the overall values in Ofgem's Final Determination (or any subsequent updates to the cost benchmarks).

⁹ The Regulatory Reporting Pack remains the formal cost report for the ESO.

Table 5: Method to allocate cost to each Role

Cost type		Final Determination
Opex	Role specific opex	As specified in Ofgem’s Final Determination or any subsequent updates the cost benchmark.
	Supporting Operational Costs	1/3 split per role.
Capex		Targeted allocation methodology that will reflect the approximate proportion of costs that contribute to each Role. <i>[We are considering this area as part of our consultation. Please see our cover letter for more details.]</i>
Business Support Costs		
Other price control costs		

5.19. Where differences in outturn and projected spend are less than $\pm 10\%$ of the cost benchmark, and there have been no major changes to output delivery, minimal reporting will be required. For example, we would not expect cost information to be provided for each individual deliverable. Where differences are greater than $\pm 10\%$ of the cost benchmark, the ESO should provide evidence-based detail on the specific drivers of the deviations, linked clearly to specific deliverables. The reasons for these deviations will likely be considered further by the Performance Panel.

5.20. The ESO is also required to submit, for four high value IT projects¹⁰ with at least two 'amber RAG ratings'¹¹, information on delivery and the latest total cost forecast, every six months.

Updates to delivery schedule or cost benchmark within BP1

As outlined in Chapter 7 of the RIIO-2 Final Determinations – Electricity System Operator Annex¹², Ofgem may update the delivery schedule grading, performance measures and value for money benchmark within BP1 in response to material changes to the ESO's roles,

¹⁰ 110 Network controls, 180 Enhanced balancing capability, 220 Data and analytics platform, and 500 Zero carbon operability.

¹¹ Further details on our RAG assessment can be found in Chapter 4 of our RIIO-2 Final Determinations – Electricity System Operator Annex:
https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_eso_annex_.pdf

¹² Chapter 7 of our RIIO-2 Final Determinations – Electricity System Operator Annex:
https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_eso_annex_.pdf

responsibilities or structure within a Business Plan period. This could include material changes that, for example, satisfy one or more of the following conditions:

- substantial new or removed responsibilities that are underpinned by additional licence conditions,
- substantial new or removed responsibilities that change expected annual costs by more than around 5% of the ESO's annual cost benchmark per role,
- changes to roles or governance structures that require the ESO to set up new functions and/or materially change its approach to investment.

5.21. The ESO should discuss with Ofgem the change to its roles, responsibilities and structure. Where Ofgem agree an update to the delivery schedule and/or cost benchmark is likely to be merited, the ESO should provide a detailed submission on its proposed deliverables and/or costs. The information should be in line with the requirements for BP1¹³. The delivery schedule should be consistent with the ESO's final delivery schedule for BP1 submitted on 9 October 2020¹⁴.

5.22. Ofgem may also update the cost benchmark to include costs for the two capex projects that received a red RAG rating¹⁵ in the Final Determination for BP1. The ESO should submit updated information with reference to each of the capex assessment criteria. Ofgem will review this information and may update 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.

¹³ See paragraph 6.12 of the RIIO-2 Sector Specific Methodology Decision and further consultation - Electricity System Operator: https://www.ofgem.gov.uk/system/files/docs/2019/05/riio-2_sector_specific_methodology_decision_-_eso.pdf

¹⁴ See ESO RIIO-2 Delivery Schedule Annex, in Final Determinations: technical annex part one: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

¹⁵ The capex of projects Project TERRE Central Project and Wokingham ENCC have a red RAG rating against our IT assessment criteria.

Second ESO Business Plan

5.23. We will provide further guidance on the contents required for BP2 in a separate Business Plan Guidance Document in 2021.

General standards of conduct on reporting

5.24. 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 out- and underperformance;
- Due care and attention are 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; and
- It takes on board the Authority's and/or relevant stakeholders' feedback on the reports and factors this into the development of future versions (or provides a reasonable explanation for why feedback cannot be included).

5.25. Where the ESO provides estimates of delivered or forecast benefits in its report, it must in all cases:

- Include a transparent methodology showing how these benefits are calculated, including the inputs used and assumptions made;

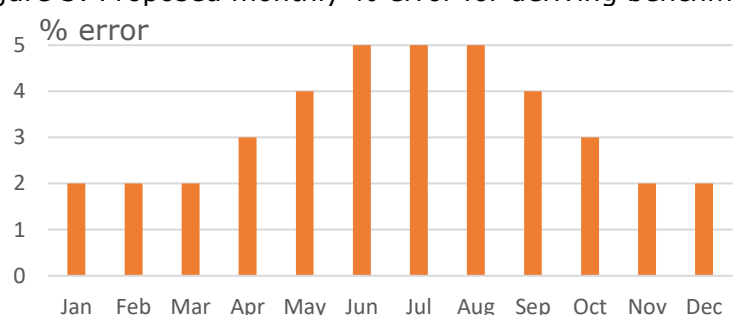
- Clearly set out the period over which the benefits have accrued or will accrue; and
- Where the ESO has delivered balancing cost savings within BP1, this should be clearly cross-referenced with the reporting for the balancing cost metric (metric 1A. Balancing costs).

Annex 1: Performance metrics

1.1. Table 6 sets out the details of the performance metrics for 2021-23. Within this we have included annual performance benchmarks to further support transparency of the ESO's within-scheme performance. For the avoidance of doubt, the ESO's outturn performance against the performance metrics (and the ESO's reasons for this outturn performance) over the complete two-year period will be considered for the final incentive decision.

Table 6: Performance metrics set for RIIO-2

Role 1		
1A. Balancing costs		
Method	<p>Measures the ESO's outturn balancing cost expenditure versus a cost benchmark (including Black Start costs). Methodology includes the following elements:</p> <ol style="list-style-type: none">1. Starting benchmark: average of total cost for up to five years preceding the performance year, with weighting applied to each year (which could be zero).2. Ex-ante benchmark adjustments: set by Ofgem to reflect any material network or market developments.3. Ex-post benchmark adjustment: Monthly ex-post adjustment of benchmarks depending on wind outturn. <p><i>[We are considering the details of this area as part of our consultation. Please see our cover letter for more details.]</i></p>	
Performance benchmarks	Exceeds	10% lower than meets benchmark.
	Meets	<i>[We are considering this area as part of our consultation. Please see our cover letter for more details.]</i>
	Below	10% higher than meets benchmark.
Reporting frequency	Monthly	
Associated reporting	<p>Explicit reporting on key monthly drivers of costs, including major outages and demand. ESO should compare demand to 2020/21 levels to provide transparency on the impact of covid-19.</p> <p><i>[We are considering this area as part of our consultation. Please see our cover letter for more details.]</i></p>	
1B. Demand forecasting		
Method	<p>Measures the average absolute % error between forecast and outturn day-ahead demand for each half hour period. The current benchmarks are drawn from analysis of historical errors for the period between April 2014 and March 2020, looking at average Winter (November to March) and Summer (April to October) errors, and applying a smoothing over the two-month ramp period either side of Summer (as shown in Figure 3). 5% improvement in performance expected each year, with range of +/-0.2% used to set benchmark for meeting expectations.</p>	

Performance benchmarks	We have outlined indicative benchmarks below but intend to review the suitability of these based on outturn data post March 2020. [We are considering this area as part of our consultation. Please see our cover letter for more details.]	
	Exceeds	Year 1: < 3.10% Year 2: < 2.94%
	Meets	Year 1: 3.10-3.50% Year 2: 2.94-3.34%
	Below	Year 1: > 3.50% Year 2: > 3.34%
Reporting frequency	Monthly	
Associated reporting	The narrative on performance against the benchmark should consider the proposed monthly % errors displayed in Figure 3. Figure 3: Proposed monthly % error for deriving benchmarks 	
1C. Wind generation forecasting		
Method	Measures the average absolute % error between forecast and outturn day-ahead wind generation for each half hour period. [We are considering the details of this area as part of our consultation. Please see our cover letter for more details.]	
Performance benchmarks	[We are considering this area as part of our consultation. Please see our cover letter for more details.]	
Reporting frequency	Monthly	
Associated reporting	Narrative on performance against benchmark.	
1D. Short notice changes to planned outages		
Method	Number of short notice outages cancellations per 1,000 outages, due to ESO process failure.	
Performance benchmarks	Exceeds	Year 1: <1 Year 2: <1
	Meets	Year 1: 1 to 2.5 Year 2: 1 to 2.5
	Below	Year 1: >2.5 Year 2: >2.5
Reporting frequency	Monthly	
Associated reporting	Narrative on performance against benchmark.	
Role 2		

2A. Competitive procurement		
Method	Measures the overall % of services procured through competitive means (auctions and tenders) calculated by £ expenditure.	
Performance benchmarks	Exceeds	Y1: >60% Y2: >75%
	Meets	Y1: 50-60% Y2: 65-75%
	Below	Y1: <50% Y2: <65%
Reporting frequency	Quarterly	
Associated reporting	Whilst the metric will assess the overall percentage of competitive spend, the ESO should also provide a breakdown of the percentage of competitive spend for each of the following services: frequency response, reserve, reactive, restoration and constraints.	
	The ESO should provide rationale for performance against benchmarks, with a linking clearly to associated deliverables in the Business Plan.	
Role 3		
N/A		

Annex 2: Regularly reported evidence

Table 7: Regularly reported evidence set for RIIIO-2

Role 1:	
1E. Transparency of operational decision making	
Method	% balancing actions taken outside of merit order in the Balancing Mechanism each month.
Quantitative expectations	n/a
Reporting frequency	Monthly
Associated reporting	The ESO's supporting rationale for % of actions taken outside of merit order including trends seen over the course of BP1. This should include an explanation of any steps being taken that may change the future trends.
1F. System Zero Carbon Penetration (SZCP) indicator	
Method	<p>Measures maximum penetration of zero carbon generation achievable on the system without compromising system stability. The SZCP indicator is defined as:</p> $SZCP(\%) = \frac{(\text{Zero carbon generation} + \text{Net interconnector imports})}{(\text{System demand} + \text{Net interconnector exports})} \times 100$ <p>Our current expectation is that this regularly reported evidence would be structured as follows:</p> <p><u>Part 1: defining the maximum SZCP limit</u> The ESO will define the approximate maximum (to the nearest 5%) SZCP the system can accommodate at the start and end of BP1, explaining which deliverables are critical to increasing the limit.</p> <p><u>Part 2: regular reporting on actual SZCP</u> Every month/quarter the ESO will publish the data on the SZCP provided by the market versus the SZCP following ESO actions.</p> <p><u>Part 3: updates on progress towards increasing the SZCP limits</u> Every year the ESO will provide more detailed case studies on the periods where the market delivered the highest SZCP and the actions the ESO had to take in response. It will provide updates any actions that are expected to have a material impact on the SZCP limit or are expected to in the future.</p> <p><i>[We are considering the details of this area as part of our consultation. Please see our cover letter for more details.]</i></p>
Quantitative expectations	n/a
Reporting frequency	<i>[We are considering this area as part of our consultation. Please see our cover letter for more details.]</i>
1G. Carbon intensity of ESO actions	

Method	Calculates the approximate gCO ₂ e/kWh of actions taken by the ESO, taking the CO ₂ of the network, and calculating the proportion driven by ESO actions. <i>[We are considering the details of this area as part of our consultation. Please see our cover letter for more details.]</i>
Quantitative expectations	n/a
Reporting frequency	<i>[We are considering this area as part of our consultation. Please see our cover letter for more details.]</i>
1H. Constraints cost savings from collaboration with TOs	
Method	Measures the estimated £m avoided constraints costs through solutions brought forward in STCP 11.4. Where applicable, these savings should be calculated in line with the methodology that will be developed as part of the new financial incentive on TOs (the SO:TO Optimisation ODI-F). In other cases, the ESO should state the assumptions used for its estimated savings.
Quantitative expectations	n/a
Reporting frequency	Quarterly
1I. Security of Supply reporting	
Method	<u>Part 1: Excursions</u> Monthly report on instances of any: i. frequency excursions outside 0.3Hz for more than 60 seconds. ii. voltage excursions outside statutory limits <u>Part 2: Annual backward and forward-looking report</u> Annual summary of the ESO's compliance with its frequency control methodology and plans for any future changes to the methodology.
Quantitative expectations	n/a
Reporting frequency	Part 1: Monthly / Part 2: Annual
1J. CNI outages	
Method	Number and length of planned and unplanned outages to critical national infrastructure (CNI) IT systems.
Quantitative expectations	n/a
Reporting frequency	Monthly
Role 2:	
2B. Diversity of service providers	
Method	Measures the diversity of technologies that provide services to the ESO in each of the markets covered by performance metric 2A. (Competitive procurement).

	We are considering the details of this area as part of our consultation. Please see our cover letter for more details.	
Quantitative expectations	n/a	
Reporting frequency	Quarterly	
2C. EMR decision quality		
Method	Measures the number of themes of Capacity Market prequalification decisions overturned by Ofgem in the Tier 2 disputes process.	
Quantitative expectations	Exceeds	Year 1: <1.5 Year 2: <1.3
	Meets	Year 1: 1.5 to 2 Year 2: 1.3 to 1.5
	Below	Year 1: <2 Year 2: <1.5
Approach to measurement	Overall performance in BP1 will consider performance against expectations in each year individually.	
Reporting frequency	Annually	
2D. EMR demand forecast accuracy		
Method	Peak national demand.	
Performance benchmarks / Quantitative expectations	See Table 8 below	
Reporting frequency	Following the end of the forecasted delivery year.	
Scope	All forecasts that outturn post 1 April 2021 will be assessed against this measure.	
2E. Accuracy of forecasts for charge setting		
Method	[We are considering this area as part of our consultation. Please see our cover letter for more details.]	
Quantitative expectations	n/a	
Reporting frequency	[We are considering this area as part of our consultation. Please see our cover letter for more details.]	
Role 3:		
3A. Future savings from operability solutions		
Method	Forecast medium to long term benefits from new operability measures including: i. Saved balancing costs ii. Saved infrastructure costs iii. Monetised carbon reductions iv. Indicative impact on the SZCP limit Underpinned by transparent published benefit calculation methodology.	
Quantitative expectations	n/a	
Reporting frequency	Six-monthly	

3B. Consumer value from the NOA	
Method	Measures the level of forecast savings created by the ESO through actions to encourage alternative solutions in the NOA (not including NOA pathfinders). Underpinned by transparent published benefit calculation methodology.
Quantitative expectations	n/a
Reporting frequency	Six-monthly
3C. Diversity of technologies considered in NOA processes	
Method	Number and type of different solutions considered each year through the NOA and any NOA pathfinder tenders, as well as the ESO's explanations of action taken to increase pool of solutions. Should include number of parties that: <ul style="list-style-type: none"> i. Express interest ii. Are participants within NOA / NOA pathfinder tenders iii. Are successful / receive contracts Numbers for NOA and NOA pathfinders should be reported separately for transparency.
Quantitative expectations	n/a
Reporting frequency	Six-monthly

Table 8: Quantitative performance expectations for regularly reported evidence 2D. (EMR demand forecasting)

	Exceeding expectations	In line with expectations	Below expectations
2021/22 T-1	<2% peak demand accuracy	2% peak demand accuracy	>2% peak demand accuracy
2021/22 T-4	<4% peak demand accuracy	4% peak demand accuracy	>4% peak demand accuracy
2022/23 T-1	<2% peak demand accuracy	2% peak demand accuracy	>2% peak demand accuracy
2022/23 T-4	<4% peak demand accuracy	4% peak demand accuracy	>4% peak demand accuracy

Annex 3: Glossary of ESORI Guidance terms

Table 9: Glossary of key terms used in ESORI Guidance

Element	Description
Activity	A subset of responsibilities within a role with specific expectations and deliverables attached to it.
Business Plan	Details the ESO's costs, activities, deliverables, and performance metrics for delivering its strategy over the first two years of the RIIO-2 period.
Business plan cycle	The business plan cycle is the period for which the business plan is applicable. The first business plan cycle (BP1) covers the incentive scheme starting on 1 April 2021 and ending on 31 March 2023.
Deliverable	A specific delivered output within an activity which has associated delivery dates and success measures.
Delivery schedule	A grouping of deliverables for either a role or the Business Plan.
ESO Performance Panel	A mix of independent experts and industry representatives that are responsible for reviewing the ESO's plans and performance, as well as performing an End of Scheme evaluation of the ESO's performance.
Evaluation criteria	The criteria used by the Performance Panel to measure the ESO's performance for each role.
Incentive scheme	The process over a business plan cycle to assess the ESO's performance against five key criteria, resulting in the award of a £m payment or penalty.
Long-term vision	The long-term vision covers the period from the start of RIIO-2 to 2030.
Medium-term strategy	The medium-term strategy is the five-year strategy covering the RIIO-2 period.
Performance benchmarks	Describes ex-ante what level of outturn performance is below, meets and exceeds expectations for each performance metric.
Performance measure	A measure of the ESO's performance, including performance metrics, stakeholder satisfaction and other regularly reported evidence.
Performance metric	A numerical measure of ESO performance which can be produced regularly, has a pre-defined methodology and has clear performance benchmarks.

Plan grading	Ofgem’s grading of the delivery schedule for each role, designed to set a clear reference point and align expectations in the incentives process.
Regularly reported evidence	Evidence that should be regularly reported by the ESO to inform the evidence of benefits criterion in the evaluation criteria.
RIIO-2 period	RIIO-2 covers the period starting 1 April 2021 and ending on 31 March 2026.
Role	One of the three roles in the roles framework.
Roles framework	Sets out our expectations for how the ESO should comply with its obligations, and for RIIO-2, meet and exceed our incentives expectations under three roles: control centre operations; market development and procurement; and system insight, planning and network development.