

Governance

~~The Electricity System Operator Reporting and Incentives Arrangements: Guidance Document~~

[The Independent System Operator and Planner Reporting and Incentives Arrangements Governance Document](#)

Publication date:	28 March 2023 24 May 2024
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The Electricity System Operator (ESO) sits at the centre of our electricity system and undertakes a number of different roles. We¹ 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 reward or penalty each business plan cycle.

¹ The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day to day work. In this Decision letter, 'we', 'Ofgem', and 'Authority' are often used interchangeably.

This ESORI Guidance Document (version 6.0) will come into effect on 1 April 2023 as part of the ESO's RIIO-2 price control. It will apply to the regulatory years 2023-25.

This is a draft version for consultation. It would only apply to the ISOP following its designation and would not apply to the existing ESO. We intend to make a decision on the final version of this draft Governance Document in the summer.

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² For the previous reporting and incentives guidance document, see: <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

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Version History

Version	Changes	Purpose	Publication date	Release date
Versions applicable to the ESO				
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	17 March 2021	1 April 2021
5	Clarifications and changes to the	To correct the methodology of metric 1D	1 July 2021	1 April 2021

	methodology of metric 1D			
6	Correction to metric 2C EMR decision quality	To align metric 2C EMR decision quality with our Final Determination position	11 March 2022	1 April 2021
7	Clarifications and changes to align with the ESO's second business plan period in the RIIO-2 price control	To update and revise the ESO Reporting and Incentives arrangements Guidance Document for 2023-2025	28 March 2023	1 April 2023

<u>Versions applicable to the ISOP</u>				
8	Changes to reflect the designation of the ISOP, including its roles and organisational design.	Consultation on the 'ISOP Reporting and Incentives Arrangements Governance Document – Draft Version'	24 May 2024	n/a

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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.~~

This chapter sets out the background to the Independent System Operator and Planner Reporting and Incentives (ISOPRI) arrangements, the purpose of this Governance Document, and its status from a compliance perspective.

~~1.1. The ESORI Arrangements have been revised to complement~~Independent System Operator and Planner (ISOP) is an expert, impartial body with responsibilities across both the regulatory arrangements~~electricity and gas systems, driving progress towards net zero while maintaining energy security and minimising costs for consumers. The ISOP is an independent, non-profit, Government-owned public corporation, licenced and regulated by Ofgem. Upon its designation in 2024, the ESO under the RIIO-2 price control.~~ISOP took on all the existing roles and responsibilities of the previous Electricity System Operator (ESO) and longer-term planning, forecasting and market strategy activities in respect of gas. It also took on new and enhanced responsibilities, including providing expert advice to government, whole energy system resilience, and driving the coordinated development of the whole energy system.

~~1.2. We³ regulate the ISOP to help ensure its actions align with consumers' interests. This Guidance Document provides guidance around~~Governance document explains ~~the processes and requirements involved in the ESORI Arrangements. It explains the processes and criteria used to assess the ESO's~~ISOP's performance; ~~the incentives, including the methodology used to assess the ISOP's performance, and the performance~~ reporting requirements placed on the ESO; ~~and the methodology the Authority~~ISOP.

~~1.3. Until 31 March 2025⁴, the ISOP's performance will use to determine an~~broadly continue to be regulated through the arrangements which were put in place for ESO for the

³ The Office of Gas and Electricity Markets (Ofgem) supports the Gas and Electricity Markets Authority ('the Authority') in its day-to-day work. In this Decision letter, 'we', 'Ofgem', and 'Authority' are often used interchangeably.

⁴ The assessment period is the period for which the Business Plan is applicable. The first assessment period (BP1) covered the incentive scheme starting on 1 April 2021 and ending on 31 March 2023. The second assessment period (BP2) covers the incentive scheme starting on 1 April 2023 and ending on 31 March 2025.

[RIIO-2 Business Plan 2 \(BP2\) assessment period⁵](#), with amendments to reflect the ISOP's new organisational design. These amendments include:

- a) [the removal of the financial elements of the incentive reward or penalty for each business plan cycle⁶ arrangements, to reflect the ISOP's not-for-profit organisational model;](#)
- b) [The ESORI Arrangements Guidance the integration of new ISOP responsibilities and activities, including an additional qualitative assessment; and](#)
- c) [streamlining of existing arrangements to promote proportionate reporting requirements and provide increased flexibility around the process for assessment by the ISOP Performance Panel.](#)

[1.2.1.4. This ISOPRI arrangements Governance](#) Document is issued by the Authority under Part ~~CB~~ of ~~Special Condition 4.3 (G2 (Performance reports and assessment) of the ISOP's Electricity System Operator Reporting and Incentives Arrangements) of the ESO's licence and Gas System Planner licences~~. As set out in ~~Special Condition 4.3.16, paragraph G2.9 of those licences~~ the Authority may make appropriate provision about or impose requirements in the ~~ESORI~~[ISOPRI Arrangements Governance](#) Document, which may include, but will not be limited to:

- (a) [reports the criteria against which the ISOP must publish on its website to demonstrate its performance of the licensee will be assessed;](#)
- (b) the process [and procedures](#) that will be in place for [assessing any assessment of the performance of the licensee, including ISOP by the role of the ESO Performance Panel in this process](#)[Authority](#);
- (c) the requirements the licensee [ISOP](#) must fulfil as part of [the any](#) assessment process, [including the information the licensee must provide and its attendance at ESO Performance Panel meetings;](#)

⁵ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

⁶ 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. The second business plan cycle (BP2) covers the incentive scheme starting on 1 April 2023 and ending on 31 March 2025.

- ~~(d) the information used for the performance assessment, including how [any assessment of the Business Plan and reporting during performance of the business plan cycle](#) [ISOP](#) will be used in that evaluation;~~
- ~~(e)(d) how the assessment of the performance of the licensee will be used [published](#) by the Authority to determine [ESORIt](#); and;~~
- ~~(e) [requirements in relation to the ISOP gathering feedback from its stakeholders; and](#)~~
- (f) any other matters relating to the regulation, governance, or administration of the ~~ESORI Arrangements~~ [ISOP's regulatory performance incentives](#).

~~1.3.1.5.~~ [1.3.1.5.](#) This document may be revised and reissued in accordance with Part ~~CB~~ of ~~Special-Condition 4.3~~ [G2 of the ISOP's licences](#).

~~1.4.~~ 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

~~1.5.1.6.~~ [1.5.1.6.](#) Where provisions of this ~~Guidance~~ [Governance](#) Document require the compliance of the licensee, the licensee must comply with those provisions as if the ~~Guidance~~ [Governance](#) Document were part of ~~Special-Condition 4.3~~ [G2 of the ISOP's Electricity System Operator and Gas System Planner Licences](#). However, we have also attempted to make this document accessible and informative to a range of stakeholders.

~~1.6.1.7.~~ [1.6.1.7.](#) 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~~ [Governance](#) Document, the licence will take precedence.

~~1.7.1.8.~~ [1.7.1.8.](#) The contents of this ~~Guidance~~ [Governance](#) Document do not alter or supplement the ~~ESO's~~ [ISOP'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~~ [ISOPRI arrangements](#) only.

2. The ~~ESORI Arrangements~~ ISOPRI arrangements process

This chapter provides an overview of the ~~ESORI Arrangements~~ ISOPRI arrangements. It provides guidance on the ~~steps~~, processes, procedures and timings involved in the ~~regulatory cycle~~ this assessment period.

Overview of the ISOPRI arrangements

2.1. The ISOPRI arrangements supersede the Electricity System Operator Reporting and Incentives (ESORI Arrangements) arrangements that were put in place for the ESO for the RIIO-2 Business Plan 2 (BP2) period.⁷ The BP2 period spans from 1 April 2023 to 31 March 2025. At the point of this document taking effect, several aspects of the BP2 process have already been completed. This chapter therefore focuses predominantly on the arrangements that remain relevant until the end of BP2.

The ISOP Roles Guidance

2.2. Our regulatory approach for RIIO-2 requires upfront clarity around the behaviours we expect of the ~~ESOI~~ ISOP and places the onus on the ~~ESOI~~ ISOP 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~~

2.3. Underpinning the ~~ESO's~~ ISOP's BP2 regulatory framework is our ~~ESOI~~ ISOP Roles Guidance (the 'Roles Guidance')⁸. The Roles Guidance is the key guide for understanding our performance expectations and forms a key point of reference for the ~~ESORI Arrangements~~ ISOPRI arrangements. The Roles Guidance sets out our expectations and how the ESO can meet and exceed our expectations for each of its activities. It explains our expectations of how the ~~ESOI~~ ISOP should best fulfil its licence obligations and is designed to

⁷ <https://www.ofgem.gov.uk/decision/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

⁸ ~~The ESO Roles Guidance 2023-25 is published alongside this document.~~

align expectations between the ~~ESO~~ISOP, the ~~ESO's~~ISOP's customers and stakeholders, the Authority, and the ~~ESO~~ISOP Performance Panel (the 'Performance Panel')⁹.

2.4. The Roles Guidance also ~~helps~~helped set the ~~parameters~~structure for the ~~ESO's Business Plan~~ISOP's business plan submission for the BP2 period and the BP2 evaluation process. The three roles and associated activities ~~included in the Roles Guidance~~ are shown in Table 1.

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

Role	Role activity
Role 1: Control centre operations	<ul style="list-style-type: none"> a) SystemElectricity system operation b) SystemElectricity system restoration c) InformationTransparency, data, and forecasting
Role 2: Market development and transactions	<ul style="list-style-type: none"> a) Market designa) Markets for electricity system services b) EMRb) Electricity Market Reform c) IndustryWholesale markets, industry codes and charging
Role 3: System insight, strategic planning and network development	<ul style="list-style-type: none"> a) ConnectionsElectricity connections and network access b) OperationalEnergy system strategy and insight c) Optimal network investment

2.5. The ~~ESO~~roles ~~in Table 1~~ are outlined in more detail in our Roles Guidance published on our website. An updated version of the Roles Guidance ~~will be~~has been published alongside this ~~Guidance~~Governance Document. ~~Where appropriate we have amended expectations in each of Roles to reflect new and will come into effect from 1 April 2023.~~enhanced ISOP responsibilities that are already well aligned with existing roles.

2.6. ~~We have also introduced new general expectations around the establishment of the ISOP within the Roles Guidance which will be used to inform a supplementary performance assessment.~~ The ~~ESO's~~ISOP's performance will be evaluated ~~per role~~using the evaluation process described in Chapter 3 ~~of this Guidance Document.~~

The ~~ESOR~~ISOPRI arrangements

The ISOPRI Arrangements

⁹ The ISOP Performance Panel is an independent panel of experts and/or stakeholder representatives, who will assess the ~~ESO's~~ISOP's performance and provide recommendations to the Authority.

~~2.7.—Under the ESORI Arrangements are a set of processes and requirements designed to create reputational incentives on the ISOP in order to drive its performance. As part of the original ESORI arrangements, the ESO must engage engaged with its stakeholders and publish published a Business Plan before the start of each business plan cycle. The Business Plan should outline the BP2 assessment period. This outlined the details of the ESO’s costs, activities, and deliverables for delivering its RIIO-2 strategy over two years of the RIIO-2 period¹⁰: from April 2023 to March 2025. The ESO will then report on its performance throughout the business plan cycle and at the end of the business plan cycle.~~

~~2.8.2.7. _____ The Performance Panel will have a role in reviewing the ESO’s Business Plan, challenging its within scheme performance ISOPRI arrangements involve an ongoing 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 to determine a financial penalty or reward for the ESO for the relevant business plan cycle. When the ESO clearly demonstrates that final assessment of the ISOP’s progress delivering its BP2 outputs and its performance against the evaluation criteria has gone beyond ‘baseline expectations’, then this should be reflected demonstration of the expectations 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). the Roles Guidance.~~

~~2.9.2.8. _____ In summary, the ESORI Arrangements ISOPRI arrangements for BP2 comprise of:~~

- ~~• A requirement on the ESO to engage with stakeholders 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~~

¹⁰ RIIO-2 covers the period starting 1 April 2021 and ending on 31 March 2026.

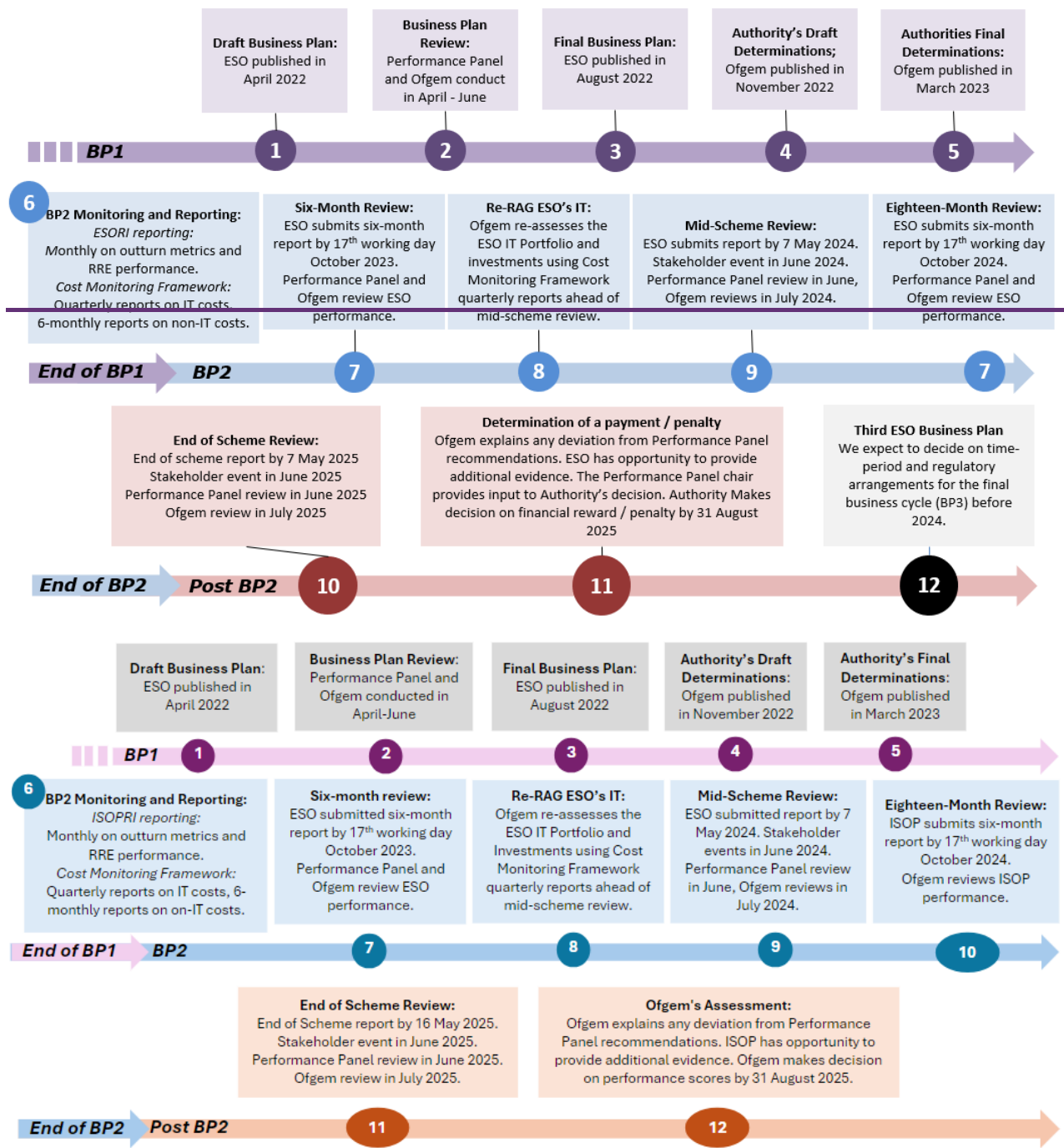
deliver its medium-term strategy across the RIIO-2 period and long-term vision for the energy system; **(completed by ESO)**;

- Requirements on the **ESOSOP** to produce within-scheme performance reports, including monthly reports, quarterly reports, six-monthly reports, a Mid-Scheme Report and an End of Scheme Report; **(partially completed by ESO)**;
- The Performance Panel, formed of independent experts and/or stakeholder representatives, with an independent chair, who ~~will be responsible for reviewing~~ **provide recommendations to Ofgem on** the ~~ESO's Business Plan and evaluating its~~ **ISOP's** performance ~~based on clear ex-ante evaluation criteria~~; **and**
- An 'evaluative' ~~financial~~ **reputational** incentive, where the Authority will ~~decide on~~ **perform** a reward or penalty for the ~~ESO~~ **final public assessment of the ISOP's performance** at the end of ~~the business plan cycle~~. This will be ~~BP2~~ **(informed by the** recommendation from the Performance Panel ~~and be)~~. **This is** based on an ex-ante ~~reward/penalty~~ **evaluation** methodology; **(described in Chapter 3)**.

Stages in the annual ~~ESORI Arrangements~~ **ISOPRI** **arrangements** cycle

~~2.10.2.9.~~ **2.10.2.9.** Figure 1 provides an overview of the key stages and timings in the reporting and incentives process for ~~the ESO's second business plan cycle (BP2)~~ **BP2**. We provide guidance on each of these stages in the sections below.

Figure 1: Regulatory process for BP2



Steps 1 to 5: The ESO-Business Plan

2.11.—The ESO must engage with its stakeholders to produce a Business Plan before the start of each business plan cycle. We provided further guidance on the process for developing the Business Plan, including the updated delivery schedule, IT reporting and the content required

for BP2 in our Business Plan Guidance Document¹¹ and ESO Business Plan: IT Investment Plan Guidance Document¹². The Business Plan Guidance set out the following steps:

Step 1) The draft Business Plan: the ESO must engage with stakeholders [Steps 1\) to 5\) Business plan submission and assessment](#)

[Complete - for Steps 1 to 5, please refer to the previous version of its Business Plan](#), which includes the delivery schedule, 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 [this document](#)¹³. **The ESO published the final version of its Business Plan:**

Step 4) The Authority's Draft Determinations: we will consult on our Draft Determinations on the final Business Plan, which shall include our grading of the ESO's delivery schedule; our proposals for a value for money assessment¹⁴; and key performance measures.

Step 5) The Authority's [in August 2022](#)¹⁵. [The Authority published its Final Determinations](#): following the consultation we will publish our Final Determinations, which shall include our final grading of the ESO's delivery schedule; our value for money assessment; and key performance measures. [in response to the Business Plan in March 2023](#)¹⁶.

¹¹ ESO Business Plan: Guidance document: <https://www.ofgem.gov.uk/sites/default/files/2021-11/Business%20Plan%20Guidance%20document%20final%20v3.pdf>

¹² ESO Business Plan: IT Investment Plan Guidance Document: <https://www.ofgem.gov.uk/publications/decision-it-guidance-eso-business-plan-guidance>

¹³ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

¹⁴ For BP1 Ofgem set a cost benchmark. For BP2, Ofgem will undertake an ex ante value for money assessment.

¹⁵ <https://www.nationalgrideso.com/what-we-do/our-strategy/our-rriio-2-business-plan>

¹⁶ <https://www.ofgem.gov.uk/publications/business-plan-2-final-determinations-electricity-system-operator>

Revisions to the Business Plan

~~2.12:~~2.10. We expect the ~~ESOSOP~~ to remain flexible and adaptable throughout the ~~business plan cycle~~remainder of the assessment period and respond to changing situations. The ~~ESOSOP~~ may deviate from the ~~final published plan~~ESO's original BP2 where it identifies opportunities for greater consumer benefits ~~and/or changes to enable it to better carry out its expanded set of new responsibilities~~. Equally, if an action in the plan turns out not to be in consumers' best interests, then the ~~ESOSOP~~ should change its approach and explain why.

~~2.13:~~2.11. Whilst the Business Plan document will not be revised once published (with the exception of the updates to the delivery schedule and/or costs described in Chapter 54), we expect any changing context and changes from the plan to be explained through the reporting throughout the rest of the ~~business plan cycle~~assessment period. Any material changes to the deliverables during the year should be added clearly via an addendum to the Business Plan or within-scheme reports.¹⁷

2.12. We do not require a full new Business Plan submission within BP2 for the ISOP to reflect its expanded responsibilities, given the relatively short period until a new business plan is due in April 2025. However, we will assess the ISOP's performance establishing and performing its new responsibilities using the methodology in Chapter 3.

Steps 6 to **810**: Within-scheme monitoring and reporting

Step 6) Ongoing monitoring and reporting

~~ESO Incentive~~ISOP incentive reporting

~~2.14:~~2.13. In order to create transparency around the ~~ESO's~~ISOP's performance throughout the ~~business plan cycle~~assessment period, and to help stakeholders, the Performance Panel and Ofgem monitor the ~~ESO's~~ISOP's progress against its Business Plan, the ~~ESOSOP~~ must publish on its website¹⁸:

¹⁷ Further details can be found in Chapter 7 of our RIIO-2 Final Determinations – Electricity System Operator Annex: <https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

¹⁸ ISOP's monthly and quarterly reports publications for BP2 are published here: <https://www.nationalgrideso.com/what-we-do/our-strategy/our-riio-2-business-plan/how-were-performing-under-riio-2>

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

~~2.15.~~2.14. The ~~ESO~~ESOSOP will meet with Ofgem on a monthly basis to discuss the contents of these performance reports. Further guidance is provided in Chapter ~~53~~54 on the detailed reporting requirements during BP2.

Cost Monitoring Framework reporting

~~2.16.~~2.15. We ~~have~~ introduced a Cost Monitoring Framework to monitor the delivery of the ~~ESO's~~ESOSOP's IT investments. This framework will also be used to facilitate the provision of additional information regarding non-IT costs where necessary. For IT costs, the ~~ESOSOP~~ESOSOP will provide Ofgem with quarterly updates on its IT portfolio and individual IT investments, as described in the ~~ESOSOP's~~ESOSOP's Business Plan.

~~2.17.~~2.16. The ~~ESOSOP's~~ESOSOP's quarterly IT updates will focus on the progress, governance and cost of the ~~ESOSOP's~~ESOSOP's IT portfolio and individual IT investments. In addition, the quarterly IT updates will provide an opportunity for the ~~ESOSOP~~ESOSOP to offer additional evidence to address any concerns Ofgem has raised as part of our ex-ante value for money assessment. Ofgem will provide the ~~ESOSOP~~ESOSOP with feedback on these submissions where appropriate.

~~2.18.~~2.17. The ~~ESOSOP~~ESOSOP is not required to publish the Cost Monitoring Framework quarterly reports submitted to Ofgem. However, the ~~ESOSOP~~ESOSOP should publish updates on its IT investments and IT portfolio, including any significant deviations from planned costs. The ~~ESOSOP~~ESOSOP should also engage with stakeholders regularly to ensure industry members are kept aware of the ~~ESOSOP's~~ESOSOP's progress and any notable developments.

Step 7) The six-month review

[2.18. Complete - please refer to the previous version of this document¹⁹.](#)

¹⁹ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

Step 8) Re-assessment of the ESO's IT RAG rating

2.19. Complete - please refer to the previous version of this document²⁰.

Step 9) The Mid-Scheme Review

2.20. The ESO was required to produce and ~~eighteen~~ publish a report covering its performance during the first year of the BP2 assessment period, known as the Mid-Scheme Report. This was published in May 2024²¹. Following the process described in the previous version of this document²², the Performance Panel and Ofgem's views will be published on Ofgem's website in summer 2024.

Step 10) Eighteen-month ~~review~~feedback

~~2.19.~~2.21. The ESO/ISOP will be required to publish a report at ~~six months and~~ eighteen-months into the scheme, by the 17th working day of October ~~in each year of the scheme~~2024. Further guidance is provided in Chapter 4 on the reporting requirements for this report.

~~2.20.~~2.22. The Performance Panel will give targeted feedback of the ESO's performance 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/ISOP's performance and provide a broad trajectory of performance ~~every six months~~ at the eighteen-month stage. The review undertaken by Ofgem ~~and The Panel at these stages~~ this stage is intended to be an indication of progress. The depth and certainty of Ofgem's feedback will depend on the level of information received through the 18-month report.

~~2.21.~~2.23. We will not hold a formal stakeholder event ~~every six months~~ or issue a call for evidence at this stage but will continue to engage widely with stakeholders throughout the incentive scheme.

²⁰ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

²¹ <https://www.nationalgrideso.com/document/318501/download>

²² <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

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

Step 8) Re-assessment of the ESO's IT RAG rating

2.23.—Prior to the start of the Mid-Scheme Review, Ofgem will use the quarterly IT updates on the ESO's IT portfolio and individual IT investments as part of the Cost Monitoring Framework to reassess the ESO's IT RAG rating.

2.24.—Ofgem will use the information gathered to produce an updated RAG rating of each IT investment as well as an overview of the ESO's IT portfolio. This assessment will be based upon a snapshot of the ESO's IT at the time of assessment and will not be an indication of performance by the End of Scheme.

2.25.—The updated RAG ratings will be considered as part of the Mid-Scheme Review scoring for the value for money evaluation. Ofgem will review IT costs and governance updates, including risks and delivery progress, to assess what actions the ESO has taken to address any concerns Ofgem has previously raised. These concerns may relate, but are not limited to; whether an investment is required for an effective ESO, the effectiveness of an IT solution in achieving specific business outcomes and the planned delivery of an investment at an efficient cost.

2.26.—Further detail on the Cost Monitoring Framework and how the re-assessment of the ESO's IT RAG rating will be conducted, will be set out in a separate working paper between Ofgem and the ESO.

Step 9) The Mid-Scheme Review

2.27.—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 7 May in the second year of the business plan cycle. Ofgem will also issue a call for evidence for stakeholder input on the ESO's performance.

2.28.—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.

~~2.29. 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.~~

~~2.30. 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. The Panel and Ofgem's views will be published on Ofgem's website.~~

Steps ~~10 to 11~~ to 12: Final performance evaluation

Step ~~10~~11) The End of Scheme Review

~~2.31:~~2.24. By ~~7~~16 May ~~in following~~ the ~~year after~~end of the ~~business plan cycle~~assessment period, the ~~ESO~~ISOP 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. Ofgem will also issue a call for evidence for stakeholder input on the ~~ESO's~~ISOP's performance.

~~2.32:~~2.25. 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~~ISOP around its End of Scheme Report (for example, if there are any unclear or ambiguous points). The ~~ESO~~ISOP should respond to these questions promptly and in line with the general guidance in Chapter ~~54~~.

~~2.33:~~2.26. Following this review period, the ~~ESO~~ISOP 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~~mid-June following the end of the ~~incentive scheme~~assessment period.

~~2.34:~~2.27. The Performance Panel will consider all evidence presented and ~~score~~conduct an assessment of the ~~ESO's~~ISOP's performance against each ~~role~~of the original BP2 roles and the ISOP's new responsibilities, in line with the ~~evaluation criteria~~methodology 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~~views

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.

~~2.35:2.28.~~ Following the publication of the Performance Panel’s recommendations, stakeholders including the [ESOISOP](#) 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 reward or penalty.~~ [performance.](#)

~~Steps 11) Determination of a reward / penalty~~ [12\) Authority’s assessment](#)

~~2.36:2.29.~~ The Authority will consider the Performance Panel’s recommendations, as well as any other evidence received or collected, and ~~decide~~ [make a determination](#) on ~~an appropriate reward or penalty for the~~ [ESOISOP’s performance.](#) 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.

~~2.37:2.30.~~ In advance of the Authority’s decision being finalised, Ofgem will provide the [ESOISOP](#) with an explanation of where it plans to [materially](#) deviate from the Performance Panel’s ~~scores~~ [views](#), giving the [ESOISOP](#) an opportunity to provide additional evidence of its performance where needed.

~~2.38:2.31.~~ The Authority will produce its final ~~decision on the incentive reward or penalty~~ [performance assessment](#) by 31 August ~~in~~ [following the end of](#) the ~~year after the business plan cycle~~ [assessment period](#), or such later date that it considers appropriate. This decision will be published on the Ofgem website.

~~Step 12: Third ESO Business Plan~~

~~2.39.~~ ~~We expect to make a decision about the time period and regulatory arrangements for the third and final business plan cycle (BP3) under RIIO-2 before the end of 2023.~~

2.40. To note, the ESO will need to adhere to the Technology Business Management (TBM) taxonomy²³ when describing its IT. The information submitted must include a TBM data model that includes the necessary data to relate the elements in each of the four layers of the TBM taxonomy to each other.

²³The TBM Council publish the TBM taxonomy. At the time of writing, version 4.0 is the latest version of the TBM taxonomy: <https://www.tbmcouncil.org/learn-tbm/tbm-taxonomy/>

3. ~~ESO~~ ISOP performance ~~evaluation criteria~~ assessment

The purpose of this chapter is to set out guidance for how the ~~Performance Panel should evaluate the ESO's~~ ISOP's performance will be evaluated by Ofgem for the BP2 period.

Summary of performance assessment approach

3.1. There will be two parts to the ISOP's performance assessment for the BP2 period:

- Part 1: the BP2 Roles Assessment
- Part 2: the ISOP Implementation Assessment

3.2. The BP2 Roles Assessment is a continuation of the assessment in place for the ESO for BP2. The ISOP's performance delivering three Roles is assessed and scored against a set of criteria and a 1-5 scoring methodology. Where appropriate, this assessment will consider enhanced ISOP responsibilities which are already closely related to activities that were carried out by ESO and which are well aligned with a specific Role activity.

3.3. The ISOP Implementation Assessment looks at the work carried out by the ESO/ISOP to establish the ISOP and its new roles more generally. This includes work carried out prior to the designation of the ISOP on FSO Transition Activities, as well as continued work by the ISOP until the end of BP2 to establish itself as a separate/independent entity. We will also consider the ISOP's performance carrying out its new roles and responsibilities.

3.4. A summary of the activities included in each assessment is included in Table 2.

Table 2: Summary of activities by assessment

Assessment	Scope	Method
<p>Part 1: BP2 Roles Assessment</p>	<p>Role 1</p> <ul style="list-style-type: none"> • ESO BP2 Role 1 activities; • Enhanced Data and Digitalisation responsibilities, including with respect to gas. <p>Role 2</p> <ul style="list-style-type: none"> • ESO BP2 Role 2 activities; • Activities in relation to gas codes and future gas market strategy. <p>Role 3</p> <ul style="list-style-type: none"> • ESO BP2 Role 3 activities; • Enhanced Future Energy Pathways (FEP) work, including medium to long term gas demand and supply forecasting activities; • Enhanced strategic network planning work, including further development and implementation of the Centralised Strategic Network Plan (CSNP); • Further progress on electricity network competition. 	<p>1-5 scoring of each role against five criteria and pre-defined performance expectations</p> <p><i>(See Chapters 2-4 of the Roles Guidance for the relevant expectations)</i></p>
<p>Part 2: ISOP Implementation Assessment</p>	<ul style="list-style-type: none"> • FSO Transition Activities; • Whole system security and resilience roles, including the Office of Energy Resilience and Emergency Management; • Advisory role; 	<p>Additional qualitative assessment against pre-defined performance expectations</p> <p><i>(See Chapter 5 of the Roles Guidance for</i></p>

Assessment	Scope	Method
	<ul style="list-style-type: none"> • All other gas-related work, including strategic network planning and the development of the Gas Options Assessment; • Strategic Spatial Energy Plan (SSEP); • Work related to Regional Energy System Planners (RESPs); • All other work to develop new and prospective future ISOP activities. 	<p><i>the relevant expectations)</i></p>

[3.5.](#) [The following sections describe the approach Ofgem will follow when carrying out the two parts of the assessment. It also set out the approach the Performance Panel should follow when making its performance recommendations to Ofgem and how Ofgem will take these recommendations into account.](#)

[Part 1: BP2 Roles Assessment](#)

Setting performance expectations

[3.1.3.6.](#) [Under the BP2 Roles Assessment we score the ISOP’s performance in each of its three Roles from 1-5.](#) The evaluation’s scoring approach is based on an understanding of performance expectations for the [ESOISOP](#). For the purposes of the [ESORI ArrangementsISOPRI arrangements](#), meeting our expectations equates to a level of performance expected from the [ESOISOP](#) which would merit ~~neither an incentive penalty nor an incentive reward~~ [a score of 3](#).

[3.2.3.7.](#) [The Roles Guidance is an overarching guide for understanding our performance expectations and forms a key point of reference for the \[ESORI ArrangementsISOPRI arrangements\]\(#\). The Roles Guidance sets out our expectations, and how the \[ESOISOP\]\(#\) can exceed our expectations, for each of its activities. It is designed to align expectations between the \[ESOISOP\]\(#\), the \[ESO’sISOP’s\]\(#\) customers and stakeholders, Ofgem, and the Performance Panel.](#)

~~3.3.3.8.~~ Ofgem’s Final Determinations also provide clear, ex-ante performance expectations²⁴ 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~~ISOP 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~~ISOP clarity on the level of performance that will meet or exceed our expectations.
- A value for money assessment – Ofgem assessed the ~~ESO’s~~ISOP’s proposed internal costs against our cost expectations and set up-front grading for each role based on the requested funding. This grading provides the ~~ESO~~ISOP with an ex-ante expectation of our assessment of value for money based on the current information available. Where we considered costs to not meet our expectations, we highlighted this and the details of our concerns to set a clear reference point and align expectations in the incentive process.

~~3.4.3.9.~~ In general, performance to date will be considered when setting baseline expectations for future performance. In compiling our Final Determinations, Ofgem reviewed previous Business Plan reports and performance to ensure continuity between the different ~~business planning cycles~~assessment periods.

~~3.5.3.10.~~ For the avoidance of doubt, we expect innovation to be a core part of the ~~ESO’s~~ISOP’s business-as-usual activities and for this to be demonstrated through the ~~ESO’s~~ISOP’s planned deliverables. Undertaking innovation projects, whether funded through the ~~ESO’s~~ISOP’s main price control totex or through dedicated innovation funding, does not automatically qualify as exceeding expectations. The ~~ESO’s~~ISOP’s delivery of outputs and outcomes as part of innovation-funded projects will be considered as part of the performance

²⁴ Further details can be found in Chapter 3, Appendix 1 and Appendix 2 of our Business Plan 2 Final Determinations – Electricity System Operator, ~~published alongside this document.:~~
<https://www.ofgem.gov.uk/publications/business-plan-2-final-determinations-electricity-system-operator>

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 all roles~~key criteria used to evaluate the ESO's performance.

~~3.7.3.11. ___ In determining~~determine a score for each role,~~the key criteria the Performance Panel should take into account~~ are:

- a) Plan delivery;
- b) Metric performance;
- c) Stakeholder evidence;
- d) Quality of outputs; and
- e) Value for money.

~~3.8.3.12. ___ These criteria are designed to be considered together to establish an overall picture of the ESO's~~ISOP's performance for each role. Below is the guidance ~~the Performance Panel should consider~~ to determine the ~~ESO's~~ISOP's performance in relation to each of the criteria.

a) Plan delivery

~~3.9.3.13. ___ The Performance Panel~~assessment should consider whether the delivery schedule has been successfully delivered on time and/or whether the ~~ESO~~ISOP has delivered additional outputs in line with the expectations in our Roles Guidance. The ~~Performance Panel~~assessment should refer to Ofgem's Final Determinations, which grade the ~~ESO's~~ISOP's two-year delivery schedule to indicate the link more clearly between on track plan delivery and performance assessment.

~~3.10.3.14. ___ The Performance Panel~~assessment should consider where the ~~ESO~~ISOP can clearly explain why a plan deviation was in consumers' interest or outside of its control. In

addition, where the [ESØISOP](#) has not produced an 'exceeding' delivery schedule (i.e. a delivery schedule graded as a 4 or 5), the [Performance Panelassessment](#) should consider whether the [ESØISOP](#) has demonstrated additional activities that would exceed expectations.

~~3.11.3.15.~~ The [Performance PanelISOP](#) should ~~consider that the ESO has~~ [be considered to have outperformed this criterion](#) if the [ESØISOP](#) has successfully delivered the key components of a 4- or 5-graded delivery schedule. Alternatively, the [ESØISOP](#) could outperform this criterion if the [ESØISOP](#) 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 [ESØISOP](#) clearly explaining the reasons why any major changes to the original delivery schedule timelines were in consumers' interest or outside of its control.

~~3.12.3.16.~~ The [Performance PanelISOP](#) should ~~consider that the ESO has~~ [be considered to have underperformed this criterion](#) if the [ESØISOP](#) 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 [ESØISOP](#) 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

~~3.13.3.17.~~ The [Performance Panelassessment](#) should consider the [ESØ'sISOP's](#) outturn performance against the performance metrics and the [ESØ'sISOP's](#) reasons for this outturn performance. The numerical quantifications related to the metrics should be considered with the supporting explanations provided by the [ESØISOP](#) of the actions it has taken to achieve the outturn performance. The [Performance Panelassessment](#) should also consider any wider factors outside of the [ESØ'sISOP's](#) control that could have impacted the performance metric (such as weather, market trends, policy etc).

~~3.14.3.18.~~ The [Performance PanelISOP](#) should ~~consider the ESO has~~ [be considered to have outperformed this criterion](#) if the [ESØISOP](#) has exceeded expectations for the majority of its performance metrics and the [ESØISOP](#) has demonstrated that its actions have driven positive outturn metric performance. Alternatively, the [ESØISOP](#) may have significantly outperformed a certain metric that is particularly stretching or has high associated consumer value or the

[ES0ISOP](#) may have provided strong, convincing justifications for any metrics where performance has not exceeded expectations.

~~3.15:3.19.~~ The ~~Performance Panel~~[ISOP](#) should ~~consider the ESO has~~[be considered to have underperformed this criterion](#) if the [ES0ISOP](#) has performed below expectations for the majority of metrics, and there are no strong reasons or mitigating circumstances for this. Alternatively, the [ES0ISOP](#) 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 [ES0ISOP](#) demonstrate that its actions have driven positive outturn metric performance.

c) Stakeholder evidence

~~3.16:3.20.~~ The ~~Performance Panel~~[assessment](#) should consider stakeholders' satisfaction on the quality of the [ES0'sISOP'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 [ES0'sISOP's](#) consultations or ad hoc surveys throughout the year. Ofgem may also [consider \(and provide the Performance Panel with\)](#) any stakeholder views it has collected throughout the year. For example, through ongoing monitoring or consultations. The ~~Performance Panel~~[assessment](#) should consider the [ES0'sISOP's](#) explanations for feedback received.

~~3.17:3.21.~~ The ~~Performance Panel~~[ISOP](#) should ~~consider the ESO has~~[be considered to have outperformed this criterion](#) if the 'exceeds expectations' category is the most common response category in the stakeholder satisfaction survey and/or there is a broad consensus²⁵ amongst stakeholders that the [ES0ISOP](#) has exceeded expectations for that role.

~~3.18:3.22.~~ The ~~Performance Panel~~[ISOP](#) should also ~~consider the ESO has~~[be considered to have outperformed this criterion](#) if the 'meets expectations' category is the most common response category in the stakeholder satisfaction survey, however, the 'exceeds expectations' category significantly outweighs the 'below expectations' category amongst stakeholders. Significantly outweighs refers to both the quantity of stakeholders scoring the [ES0ISOP](#) as 'exceeds expectations' and/or the overall quality and strength of their feedback. The ~~panel~~[assessment](#) should consider whether the [ES0ISOP](#) has provided sufficient justification

²⁵ 'Broad consensus' does not mean there needs to be complete unanimity and agreement amongst stakeholders about the [ES0'sISOP's](#) performance. The Performance Panel ~~should~~[and Ofgem may](#) consider carefully whether the stakeholder feedback could be influenced by the particular interests of the party providing the feedback.

and explanation of any negative stakeholder feedback. In addition, outperformance may be demonstrated if there is evidence that the [ESOISOP](#) has actively sought and taken into account the feedback of stakeholders throughout the [business-plan-cycleassessment period](#).

~~3.19.3.23.~~ The ~~Performance Panel~~[ISOP](#) should ~~consider the ESO has~~[be considered to have underperformed this criterion](#) if the 'below expectations' category is the most common response category in the stakeholder satisfaction survey and/or there is a broad consensus amongst stakeholders that the [ESOISOP](#) has performed below expectations for that role and the [ESOISOP](#) cannot provide satisfactory reasons for why this is the case. The ~~Performance Panel~~[ISOP](#) should ~~also consider the ESO has~~[be considered to have](#) underperformed this criterion if the 'meets expectations' category is the most common response category in the stakeholder satisfaction survey, however, the 'below expectations' category significantly outweighs the 'exceeds expectations' category amongst stakeholders. –In addition, underperformance may be demonstrated if there is evidence that the [ESOISOP](#) has not actively sought and taken into account the feedback of stakeholders throughout the business planning cycle.

d) Quality of outputs

~~3.20.3.24.~~ The ~~Performance Panel~~[assessment](#) should consider the actual benefits the [ESOISOP](#) 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~~[assessment](#) should consider the [ESO'sISOP's](#) regularly reported evidence and ~~its six monthly~~ reporting against the delivery schedule for each of its activities outlined in the original Business Plan ~~cost benefit analysis (CBA)~~. Where [the quantitative](#) benefits ~~from CBAs~~ cannot be clearly evidenced during the incentive scheme, the Performance Panel should explicitly consider 'how' the [ESOISOP](#) has delivered its Business Plan in line with the expectations in our Roles Guidance.

~~3.21.3.25.~~ The ~~Performance Panel~~[assessment](#) should consider both delivered outputs that produce benefits within the [business-plan-cycleassessment period](#) and delivered outputs that are expected to produce benefits in future periods. The ~~Performance Panel~~[assessment](#) should consider whether the [ESOISOP](#) has taken concrete steps to progress its longer-term vision and medium-term strategy. For example, this may include considering whether the [ESO'sISOP's](#) interim deliverables have taken account of the energy system's evolving characteristics and/or whether the [ESOISOP](#) has adapted its activities flexibly to ensure

deliverables have been delivered in a way that maximises benefits. The [ES&ISOP](#) could demonstrate this through explaining the rationale for adaptations and providing evidence of greater benefits that result from adaptations.

~~3.22:~~[3.26.](#) The ~~Performance Panel~~[ISOP](#) should ~~consider the ESO has~~[be considered to have outperformed this criterion](#) if the ~~ES&ISOP's~~[ES&ISOP'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 ~~ES&ISOP's~~[ES&ISOP's](#) medium-term strategy). This may include the ~~ES&ISOP~~[ES&ISOP](#) demonstrating that the actual outputs produced as part of an ambitious (i.e. 4- or 5-graded) delivery schedule deliver the ~~ES&ISOP's~~[ES&ISOP's](#) outlined success measures and directly achieve the intended benefits as outlined in the original Business Plan-~~CBA~~. The Performance Panel should also consider the ~~ES&ISOP~~[ES&ISOP](#) has outperformed this criterion if it produces outputs that demonstrate most or all the 'exceeds expectations' guidance in our Roles Guidance. Alternatively, the ~~ES&ISOP~~[ES&ISOP](#) may outperform this criterion if the ~~ES&ISOP~~[ES&ISOP](#) has produced additional outputs that clearly seek to maximise benefits for consumers. This may include the ~~ES&ISOP~~[ES&ISOP](#) quickly and proactively identifying changes to existing plans and course-correcting where needed.

~~3.23:~~[3.27.](#) The ~~Performance Panel~~[ISOP](#) should ~~consider the ESO has~~[be considered to have underperformed this criterion](#) if the ~~ES&ISOP's~~[ES&ISOP'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 ~~ES&ISOP~~[ES&ISOP](#) 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-~~CBA~~. The ~~Performance Panel~~[assessment](#) should also consider the ~~ES&ISOP~~[ES&ISOP](#) has underperformed this criterion if it does not produce outputs that demonstrate the meets expectations guidance in our Roles Guidance. The ~~ES&ISOP~~[ES&ISOP](#) 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 ~~ES&ISOP~~[ES&ISOP](#) not identifying necessary changes to its original plan and course-correcting when this is clearly needed.

e) Value for money

~~3.24:~~[3.28.](#) The ~~Performance Panel~~[assessment](#) should consider whether the ~~ES&ISOP~~[ES&ISOP](#) has delivered value for money, striking the optimal balance between maximising benefit delivered from outputs whilst minimising costs. Value for money should be considered in the round, taking the other criteria into account and weighing them against the costs incurred by the ~~ES&ISOP~~[ES&ISOP](#).

~~3.25:~~3.29. For all investments and business activities within a role, the ~~Performance Panel~~assessment should consider value for money to include demonstration of good industry practice in planning and delivery, as well as the context of the costs.

~~3.26:~~3.30. Good industry practice will differ across activities or types of activity. For example, where best practice is referenced for IT investment delivery, the ~~ESO~~ISOP is expected to be able to provide evidence of the referenced best practice and performance in line with that. For ~~ESO~~ISOP non-IT activities, best practice is likely to be more general and include, but not be limited to, demonstration of:

- consideration and assessment of a wide range of options for delivering a desired outcome, with clear rationale for the choices made;
- consideration of monetised and non-monetised consumer benefit; and
- consideration of the distribution of the benefits/costs across different groups/stakeholders/participants.

~~3.27:~~3.31. When reviewing the context for costs provided by the ~~ESO~~ISOP, the ~~Performance Panel~~assessment should consider, but not be limited to, criteria such as²⁶:

- Business Suitability – spend is necessary and has been appropriately prioritised against other activities;
- Resilience and adaptability – future uncertainty has been appropriately considered;
- Ongoing efficiency – value is managed throughout the life of the work; and
- Governance, including delivery and management of risk – spend is controlled, risks are managed and robust oversight and accountability is maintained.

~~3.28:~~3.32. The ~~Performance Panel~~assessment should not automatically deem any overspend or underspend against the Business Plan forecasts as demonstration of poor or good value for money. The context, quality of the rationale and evidence provided for the deviation, in conjunction with the ~~ESO's~~ISOP's outturn delivery of its outputs, Cost Monitoring Framework and IT RAG assessment, should be considered in the assessment of value for money.

~~3.29:~~3.33. The ~~Performance Panel~~ISOP should ~~consider that the ESO has~~be considered to have outperformed this criterion if it can provide a clear demonstration that it is operating to

²⁶ Specific technical criteria may also be considered where appropriate. For example, for IT investments it may be suitable to consider aspects such as the foundational capability of those investments.

the highest standards, clear evidence that best practice is being followed, and evidence that the [ESO ISOP](#) is taking all reasonable steps to maximise the value of its delivery through ongoing improvement.

~~3.30-3.34.~~ 3.34. The ~~Performance Panel~~ [ISOP](#) should ~~consider that the ESO has~~ [be considered to have underperformed this criterion](#) if it fails to demonstrate that it is operating to standard levels of industry good practice and/or provides insufficient evidence of driving ongoing improvement.

Overall scoring [Scoring](#) for each role

~~3.31.~~ ~~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 Determinations on the Business Plan, and the expectations in the Roles Guidance.~~

~~3.32-3.35.~~ 3.35. There is no explicit weighting associated with the evaluation criteria for each role. Instead, the criteria are the key aspects ~~the Performance Panel should~~ [Ofgem will](#) consider when carrying out an *overall* assessment of [ESO ISOP](#) performance for each role, recognising that there will be a degree of overlap between the criteria in practice. The criteria ~~should~~ [will](#) be considered holistically to assess the ~~ESO's~~ [ISOP's](#) performance. Ofgem ~~and the Performance Panel~~ will have discretion to consider areas of significant out- or underperformance when forming an overall view. [Ofgem will then determine a final score for each role using the criteria set out in Chapter 3.](#)

~~3.33-3.36.~~ 3.36. For each of the roles, ~~the Performance Panel should~~ [Ofgem will](#) score the ~~ESO's~~ [ISOP's](#) overall performance on a scale of 1 to 5, where:

1 = Overall performance clearly does not meet performance expectations, for example the [ESO ISOP](#) has strongly underperformed most criteria.

2 = Mixed overall performance and on balance the [ESO ISOP](#) mostly did not meet expectations, for example the [ESO ISOP](#) has net underperformance across the criteria.

3 = Mixed overall performance and on balance the [ESO ISOP](#) mostly met expectations, for example underperformance and outperformance across the criteria balance each other out.

4 = Mixed overall performance and on balance the [ESOSOP](#) mostly exceeded expectations, for example the [ESOSOP](#) has net outperformance across the criteria.

5 = Overall performance clearly exceeds performance expectations, for example the [ESOSOP](#) has strongly outperformed most criteria.

~~3.34.~~3.37. There may be instances where ~~the Performance Panel must~~[Ofgem may have to](#) consider evidence of competing positive and negative areas of performance within a role. In such cases ~~the Performance Panel should~~[Ofgem may](#) use its expertise and informed judgement to evaluate where the overall balance of performance lies. For example, this may include consideration of the level of confidence in the reasons provided by the [ESOSOP](#) 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.

~~3.35.~~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[Ofgem will](#) record and explain its reasons for the scores it assigns for the [ESOSOP](#) 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~~[Ofgem](#) ~~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~~[Ofgem](#) may wish to signal a 'high 4' score when the [ESOSOP](#) 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 reward / penalty

This chapter describes how the Authority will determine an incentive reward / penalty for the ESO for a particular business plan cycle.

Determination of an incentive reward or penalty

Total incentive value

4.1.—The maximum reward the ESO can achieve for BP2 is £30m and the maximum penalty is £12m. These figures are the totals across BP2. 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 2023–25

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 consider the grading of the ESO’s delivery schedule as part of Ofgem’s Final 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.

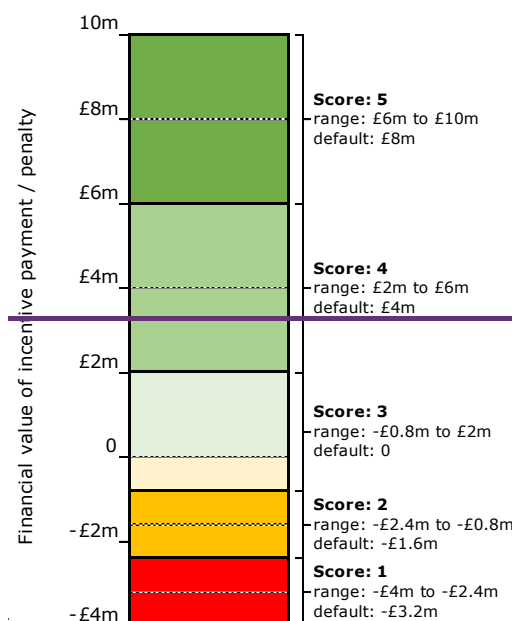
4.6.—The Authority will inform the ESO of where it intends to deviate from the Performance Panel’s scores. The ESO will then have an opportunity to provide additional evidence of its performance in these areas before the Authority finalises its decision.

4.7.—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

4.8.—Each score corresponds to a default incentive reward 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



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

Table 3: Worked example explaining default incentive reward / 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	-£2.4m to -£0.8m
Total default payment for all Roles (min to max range)	£2.4m (-£1.2m to £7.2m)		

Step 3) The adjustment process

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

- **Evaluation of consumer costs / benefits:** the Authority may consider whether the default incentive reward / 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 reward / 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.

~~4.11. Any adjustments made would remain within the incentive ranges determined for each role in Step 2). Any adjustments to the reward / penalty from the default amount will be made by calculating the mid-point from the default value to the upper or lower end of the incentive range. If a further adjustment is warranted, we will adjust the incentive value to the upper or lower end of 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. 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, and could receive either £5m (the mid-point from the default value to the upper limit of the incentive range) or £6m (the upper limit of the incentive range).~~

~~4.12.3.38. In practice, there may be crossover between roles (for example, the [ESOISOP](#) 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 [Ofgem](#) may consider whether [adjustments this](#) should be made [to impact the score of](#) multiple relevant roles.~~

~~ESO~~ **Part 2: ISOP Implementation Assessment**

[3.39. The ISOP Implementation Assessment is a supplementary qualitative evaluation of how well the ISOP has performed against our 'Expectations on establishing the ISOP', which are set out in Chapter 5 the Roles Guidance.](#)

[3.40. Ofgem will consider the ISOP's performance against these expectations and form a view on the extent to which the ISOP has failed to meet, met or exceeded those expectations. Our assessment on the delivery of new roles and activities will also be guided by the 'Quality of Outputs' criteria outlined in Chapter 6 of the Roles Guidance.](#)

[3.41. The following information will be considered as an input to this assessment:](#)

- [a\) Reporting related to spend and progress FSO Transition activities, including the End of Day 1 report;](#)
- [b\) Relevant information on new and enhanced roles provided through the ISOP's performance reports;](#)
- [c\) Experiences and evidence gathered from our ongoing monitoring of ISOP performance; and](#)

d) Any relevant stakeholder feedback.

3.42. Ofgem will summarise its key conclusions in the public report, alongside the assessment in Part 1.

Performance Panel assessment

3.43. The Performance Panel should carry out an assessment of the ISOP's performance as part of the End of Scheme Review and provide a recommendation to Ofgem. This should include recommendations in relation to both parts of the overall assessment (the BP2 Roles Assessment and the ISOP Implementation Assessment).

3.44. At a minimum the Performance Panel's assessment should provide its view whether the ISOP has overall fallen below, met or exceeded expectations in four areas: for each of the three BP2 roles and the ISOP implementation activities. This assessment should include consideration of the ISOP's delivery and quality of outputs; the evidence of value provided to consumers; and the feedback from the ISOP's stakeholders. The Performance Panel should draw out within its recommendations the specific reasons why it has reached these overall conclusions and should specify the activities or areas of performance that materially impacted these conclusions. The Performance Panel may choose to indicate where performance was borderline between two categories or scores.

3.45. The Performance Panel may also choose to follow the full assessment and scoring approach outlined in the previous sections of the chapter. However, we also recognise that the Performance Panel may not have the same degree of visibility of some aspects of ISOP performance as Ofgem (such as detailed value for money discussions under Cost Monitoring Framework and detailed involvement in the monitoring of ISOP implementation activities). The Performance Panel may therefore also choose, if it considers this to be appropriate, to carry out a more strategic and targeted assessment and recommendation (whilst still following the minimum guidance in paragraph 3.44). The Performance Panel should state the approach taken in its report.

3.46. Ofgem will consider the Performance Panel's recommendations when forming its final conclusions in relation to the ISOP's performance. The chair of the Performance Panel will also provide input to, and be engaged in, the Ofgem decision, though they will not be party to the decision itself.

3.47. If there is a significant deviation between Ofgem’s assessment and the Performance Panel’s report, then Ofgem may consider whether this is justified by the ISOP’s outturn performance, evidence collected throughout the assessment period and any changing situations or context.

3.48. Ofgem will inform the ISOP of where it has reached a different conclusion from Performance Panel’s report. The ISOP will then have an opportunity to provide additional evidence of its performance in these areas before Ofgem finalises its decision.

5.4. ISOP performance reporting requirements

This chapter outlines the reporting requirements on the [ESOSOP](#) as part of the [ESORI Arrangements](#) [ISOPRI arrangements](#) and provides guidance on what these reports should contain.

Within [Summary of within-scheme incentive performance reporting](#)

5.1.—As outlined in Chapter 2, there are several reporting requirements on the [ESOSOP](#) as part of the [ESORI Arrangements](#) [ISOPRI arrangements](#). The specific outputs the [ESOSOP](#) should report on during [the remainder of BP2](#) ~~is~~ [are](#) included in Table 4.3 below.

5.2.4.1. ~~Table 4: Incentive scheme reported~~ [For specific outputs for past stages of BP2, please refer to the previous version of this document²⁷.](#)

Table 3: Summary of performance reporting requirements and frequency

Criterion	Monthly Report	Quarterly Eighteen-month Report	Six-month and eighteen-month Quarterly Report	Mid-Scheme Report and End of Scheme Report
Timing	17th working day of the next month	17th October 2024	17th January 2025	16th May 2025
BP2 Roles Assessment				
Plan delivery	n/a	Progress against plan delivery schedule	Progress against plan delivery schedule n/a	Progress against plan delivery schedule

²⁷ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

Criterion	Monthly Report	Quarterly Eight een-month Report	Six-month and eighteen-month Quarterly Report	Mid-Scheme Report and End of Scheme Report
Metric performance	Outturn metric performance & supporting rationale (following the timings in Annex 2)	Outturn metric performance & supporting rationale (following the timings in Annex 2)	Outturn metric performance & supporting rationale (following the timings in Annex 2)	Outturn metric performance & supporting rationale (following the timings in Annex 2)
Stakeholder satisfaction	n/a	n/a	Results of stakeholder satisfaction surveys n/a	Results of stakeholder satisfaction surveys, including EMR Customer and Stakeholder satisfaction surveys. Optional narrative on stakeholder satisfaction
Quality of outputs	Regularly reported evidence ²⁸	Regularly reported evidence	Regularly reported evidence	Report against the delivery schedule for each of the activities outlined in the ESO's ISOP's original Business Plan CBA . Demonstration of how activities are delivered in line with ESO ISOP Roles Guidance expectations. Regularly reported evidence
Value for money		Update report on cost and delivery progress of against roles and all ESO ISOP specific IT investments.	Update report on cost and delivery progress against roles and all ESO ISOP specific IT investments.	Update report on cost and delivery progress against roles and all ESO ISOP specific IT investments.

²⁸ Monthly reporting is not applicable to all regularly reported evidence. See Annex [23](#) for further details.

Criterion	Monthly Report	Quarterly Eight een-month Report	Six-month and eighteen-month Quarterly Report	Mid-Scheme Report and End of Scheme Report
ISOP Implementation Assessment				
Progress updates		Update on progress against new FSO activities and FSO Transition Activities.	n/a	Update on progress against new FSO activities and FSO Transition activities.
Spending updates		Update on new FSO activity costs.		Update on new FSO activity costs.

[5.3.4.2.](#) These reporting documents should be consistent in their structure ~~in order for there to be~~ [allow](#) comparison and read across from the Business Plan ([where applicable](#)) 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~~ [ISOP's](#) performance throughout the ~~business plan cycle~~ [assessment period](#). The ~~ESO~~ [ISOP](#) should engage with its customers and stakeholders and take into account any feedback on the content or structure of the reports. ~~The ESO~~ [For BP2 Roles Assessment, the ISOP](#) should structure these documents per role and subsequent activities ~~in order~~ to align with the evaluation process. The ~~ESO~~ [ISOP](#) must ensure it considers the supporting guidance for each role and activity outlined in the Roles Guidance document when structuring its reports for each role.

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

[5.5.4.4.](#) The ~~ESO~~ [ISOP](#) 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~~ [ISOP](#) identifies that the information provided is not accurate or correct, the ~~ESO~~ [ISOP](#) must notify ~~the Authority~~ [Ofgem](#) and publish or resubmit corrected information as soon practicably possible, unless otherwise agreed with ~~the Authority~~ [Ofgem](#).

Guidance around specific requirements

Plan delivery

~~5.6.4.5.~~ The ~~ESO~~ISOP is required to update on its progress with its deliverables ~~every quarter~~ for the eighteen-month report and the End of Scheme Report. This should include publishing updates against a deliverables tracker²⁹. All the deliverables included in the tracker should be clearly numbered and in a consistent format with the original Business Plan.

~~5.7.4.6.~~ If any changes are made to the delivery schedule during the ~~business planning cycle~~assessment period 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~~ISOP's performance.

~~Performance measures~~

~~Metric performance~~

Performance metrics

~~5.8.4.7.~~ The ~~ESO~~ISOP 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~~ISOP should provide outturn metric performance data and supporting rationale.

~~5.9.4.8.~~ The full list of performance metrics for BP2 is included in Annex ~~1~~2.

~~Regularly reported evidence~~

~~5.10.~~ The ESO should report on 'regularly reported evidence' to support the realisation of the Business Plan's intended and identified benefits.

~~5.11.1.1.~~ We have outlined in Annex 2 the regularly reported evidence for BP2. This includes the methodologies to be used and the frequency of reporting required.

²⁹ <https://www.nationalgrideso.com/document/284596/download>

Stakeholder [evidence](#)

[Role stakeholder surveys](#)

~~5.12.4.9.~~ The ~~ESØ~~ISOP is required to commission surveys from an independent, reputable market research company. Stakeholder satisfaction surveys will measure satisfaction for each ~~ESØ~~ISOP role, focusing on the key activities within the role to track performance. [Stakeholder satisfaction surveys must also gather feedback on satisfaction for the ISOP's new activities.](#) We have outlined in Annex ~~34~~ the questions to be used for the stakeholder satisfaction surveys in BP2.

~~5.13.4.10.~~ The surveys should be undertaken ~~on a six-monthly basis,~~[for the End of Scheme report](#) so that they can inform the ~~ESO's six-monthly~~ISOP's ~~final~~ performance ~~reviews~~[review](#). The key aspects of the survey, including questions, research methods, and types of participants will be approved by Ofgem.

~~5.14.4.11.~~ We expect the surveys to be designed so that key drivers and themes of feedback are recorded and can be tracked over the course of the Business Plan.

[EMR surveys](#)

[4.12. The ISOP is required to commission annually an Electricity Market Reform \(EMR\) Customer and Stakeholder Satisfaction survey³⁰ \(as outlined in Annex 1\). The results of this survey are reported as part of the Regulatory Instructions and Guidance. Unless agreed otherwise with Ofgem, the ISOP should summarise the key outcomes of this survey within its End of Scheme Report.](#)

Quality of outputs

[Regularly reported evidence](#)

[4.13. The ISOP should report on 'regularly reported evidence' to support the realisation of the Business Plan's intended and identified benefits.](#)

[4.14. We have outlined in Annex 3 the regularly reported evidence for BP2. This includes the methodologies to be used and the frequency of reporting required.](#)

³⁰ [As part of its obligation outlined in Electricity System Operator licence condition G2.9\(e\)](#)

Cost benefit analysis (CBA)

Benefits reporting

~~5.15.4.15.~~ 5.15.4.15. The ~~ESO~~ISOP should report against the delivery schedule for each of its activities outlined in its original Business Plan ~~CBA~~^{3†}, focusing predominately on areas not picked up by performance metrics or regularly reported evidence.

~~5.16.4.16.~~ 5.16.4.16. Reporting should refer to the specified success measures from the original Business Plan ~~CBA~~Delivery Schedule and the relevant performance measures. The ~~ESO~~ISOP should also include clear justifications for any changes to ~~the plan and a description of any sensitivity factors which may have impacted on the~~ benefits calculated in~~expected from~~ the ~~original~~ Business Plan ~~CBA~~.

~~5.17.4.17.~~ 5.17.4.17. ~~The ESO should undertake this reporting for each of its transformational activities for which a CBA is quantified within the original Business Plan CBA. For any~~ For any material new activities not covered by the original Business Plan CBA, case studies should be presented detailing the consumer benefit of these activities. The ~~ESO's~~ISOP's calculation of these benefits should follow the requirements outlined in the section on 'General standards of conduct on reporting' below.

~~5.18.4.18.~~ 5.18.4.18. Where there are new material interventions or changes to arrangements, strong evidence should also include a clear demonstration that the ~~ESO~~ISOP has, where appropriate, assessed multiple solutions to issues and chosen the ones that maximise consumer value. ~~Where it is not practical to undertake a CBA, the ESO~~The ISOP should provide a clear articulation of why a particular option was chosen, demonstrating that the ~~ESO~~ISOP has assessed consumer value for each option. In addition, it should be clear that the ~~ESO~~ISOP has not solely pursued an ~~ESO~~ISOP-led solution without considering whether pursuing or supporting other industry initiatives could have resulted in greater consumer value.

Demonstration of Delivery in line with Roles Guidance Expectations

~~5.19.4.19.~~ 5.19.4.19. Where the ~~ESO~~ISOP cannot clearly demonstrate the benefits from its Business Plan through other reporting (~~CBA~~quantitative benefit reporting or regularly reported

^{3†} ESO Business Plan—Annex 7—Metrics and measuring performance:
<https://www.nationalgrideso.com/document/158086/download>

evidence), the [ESOSOP](#) should demonstrate *how* the delivery of its delivery schedule meets our expectations in the Roles Guidance.

ESOSOP Value for money reporting³²

~~5.20:~~4.20. At a minimum, we require that value for money evidence is presented at a role-by-role level and disaggregated by IT and non-IT categories. For Ofgem to be able to assess with greater accuracy and better distinguish where the [ESOSOP](#) has exceeded the value for money criterion, we will require higher quality evidence. For example, we will require a more granular level of detail regarding specific activities, actions taken and associated costs.

~~5.21:~~4.21. IT cost reporting should be clearly labelled with any associated IT investment(s). If a given role is not the sole beneficiary of that IT investment, it should be made clear how that cost has been derived.

~~5.22:~~4.22. Costs that are shared between roles, such as Business Support costs, should be disaggregated to an appropriate level as to facilitate effective scrutiny.

~~5.23:~~4.23. The [ESOSOP](#) should provide a clear rationale, supported by high quality evidence, for:

- any deviation from its Business Plan costs;
- any deviation from its Business Plan or publicly announced deliverables or outputs; and
- any delivered activity that the [ESOSOP](#) believes represented value for money that would be considered 'exceeding expectations'.

³² The Regulatory Reporting Pack remains the formal cost report for the [ESOSOP](#).

Updates to delivery schedule or value for money scoring within BP2

5.24. As outlined in Chapter 7 of the RIIO-2 Final Determinations—Electricity System Operator Annex, Ofgem may update the delivery schedule grading, performance measures and value for money scoring³³ within BP2 in response to material changes to the ESO's roles, 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; and
- changes to roles or governance structures that require the ESO to set up new functions and/or materially change its approach to investment.

5.25. The ESO should discuss with Ofgem the changes to its roles, responsibilities, and structure. Where Ofgem agrees an update to the delivery schedule is likely to be merited, the ESO should provide a detailed submission on its proposed deliverables. The updated delivery schedule should be consistent with the ESO's final delivery schedule for BP2 submitted on 31 August 2022.

ISOP Implementation Assessment reporting

4.24. The ISOP must provide updates, as part of its 18 month and End of Scheme reports, on its progress and spending on the FSO Transition Activities and its delivery of new ISOP activities not integrated within the BP2 Roles Assessment (as indicated in Table 3).

4.25. The reports should explain where there have been major changes to expected total spend compared to original costs forecasts³⁴ and the reasons why. To the extent that this has already been explained in previous reporting to Ofgem on the FSO Transition Activities, then these reports can contain an abridged summary of those previous reports, with more focus on spending from the point of ISOP designation to the end of BP2.

³³ For BP2, Ofgem will set an ex ante value for money scoring for each role rather than setting a cost benchmark.

³⁴ [Including the ESO's BP2 FSO annex and Ofgem's June 2023 consultation on 'Funding the transition to a Future System Operator'.](#)

4.26. The reports should also provide summary updates on progress against the expectations outlined in Chapter 5 of the Roles Guidance, including the ISOP’s delivery of major new outputs from its new activities.

4.27. The detailed format of this reporting must be agreed with Ofgem at least one month prior to the submission of the 18-month report.

4.28. Given the interrelated nature of the ISOP’s activities, we recognise that there may be crossover between BP2 Roles Assessment and the ISOP Implementation Assessment in some cases. The ISOP can suggest alternative ways of allocating costs and activities between the two assessments and/or reporting processes if this can result in a clearer and more streamlined assessment. These changes should be first agreed with Ofgem.

Cost Monitoring Framework reporting

~~5.26.~~4.29. The ~~ESO~~ISOP is required to provide quarterly reports as part of the Cost Monitoring Framework. The primary focus of this regular reporting is on the ~~ESO’s~~ISOP’s IT investments and IT portfolio. We have not specified any requirements for reporting non-IT costs, however it may be necessary on certain occasions for the ~~ESO~~ISOP to provide information relating to non-IT costs if requested by Ofgem.

~~5.27.~~4.30. A working paper between the ~~ESO~~ISOP and Ofgem will be established ahead of the first Cost Monitoring Framework quarterly report. This will set out the guiding principles of the Cost Monitoring Framework and include details such as: the agreed structure of the reports, the information required on a quarterly basis to facilitate effective monitoring and the manner of ongoing engagement with Ofgem and with industry. The reporting should include sufficient information to provide clarity to Ofgem on the progress of the ~~ESO’s~~ISOP’s IT investments and is expected to be in line with the position we set out in the Draft Determination³⁵.

³⁵ Chapter 4, RIIO-2 Business Plan 2 - ESO Draft Determinations: [RIIO-2 Business Plan 2 - ESO Draft Determinations | Ofgem](#)

General standards of conduct on reporting

~~5.28.4.31.~~ This ~~Guidance~~[Governance](#) Document also sets out general standards of conduct that should apply to all reporting performed by the ~~ESO~~[ISOP](#). These are that the ~~ESO~~[ISOP](#) 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~~[ISOP'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~~[ISOP's](#) knowledge at the time of submission, accurate and complete;
- Where the ~~ESO~~[ISOP](#) 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).

~~5.29.4.32.~~ Where the ~~ESO~~[ISOP](#) 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 [ESOISOP](#) has delivered balancing cost savings within BP2, this should be clearly cross-referenced with the reporting for the balancing cost metric (metric 1A Balancing costs).

Annex 1: EMR survey

Background

1.1. Under the ISOP's previous licence (held by the ESO) the ISOP had requirements to carry out customer and stakeholder surveys on its performance as the Electricity Market Reform (EMR) Delivery Body, including customer and stakeholder satisfaction in relation to the Contracts for Difference (CfD) and Capacity Market (CM) processes.

1.2. The new ISOP licence removed this requirement to enable a potential future integration of this survey within the broader stakeholder survey carried out by the ISOP under its performance incentives in the ISOPRI arrangements.

1.3. However, given the licence came into effect within an existing regulatory period, we are maintaining the EMR survey requirements within this governance document until the end of BP2.

Requirements

1.4. Unless otherwise agreed with the Authority, the ISOP must carry out Customer and Stakeholder Satisfaction Surveys at least once in each Regulatory Year to assess Customer and Stakeholder satisfaction with its CM and CfD activities.

1.5. If no results of a CfD allocation round were published either in or in respect of a Regulatory Year, then the ISOP is not obliged to conduct the CfD Customer and Stakeholder Satisfaction Surveys.

1.6. If no results of a CM auction were published either in or in respect of a Regulatory Year, then the ISOP is not obliged to conduct the CM Customer and Stakeholder Satisfaction Surveys.

1.7. When conducting a Customer and Stakeholder Satisfaction Survey in relation to either CM or CfD, the ISOP—

(a) may include such questions as it considers appropriate; but

(b) must include a question that asks for overall satisfaction with the ISOP's performance of its CfD or CM activity respectively, to be rated on a scale of 1 to 10 where 1 is low and 10 is high.

1.8. The ISOP must report on the outcomes of each overall customer and stakeholder satisfaction question in accordance with Condition G3 (Regulatory Instructions and Guidance (RIGs)).

1.9. The ISOP must publish the outcomes of each survey on its website during the period of three months beginning with the date on which each survey takes place.

1.10. The ISOP must provide the Authority with a report on each Customer and Stakeholder Satisfaction Survey and the report must include the following information:

- (a) a list of each of the questions included, and their average scores across all respondents;
- (b) a comprehensive summary of responses to each of the questions; and
- (c) a detailed list of future actions the licensee will take to build on the responses received in the Customer and Stakeholder Satisfaction Surveys.

Annex 2: Performance metrics 2023-25

Table 54 sets out the details of the performance metrics for 2023-25. Within this we have included annual performance benchmarks to further support transparency of the [ESO's ISOP's](#) within-scheme performance. For the avoidance of doubt, the [ESO's ISOP's](#) outturn performance against the performance metrics (and the [ESO's ISOP's](#) reasons for this outturn performance) over the complete two-year period will be considered for the final [incentive decision assessment](#).

Table 54: Performance metrics set for [the remainder of BP2](#)

Role 1	
1A. Balancing costs	
Method	<p>This metric measures the ESO's ISOP's outturn balancing costs (including Electricity System Restoration costs) against a balancing cost benchmark. The methodology includes the following elements:</p> <ol style="list-style-type: none"> 1. Benchmark created using monthly data from the preceding 3 years. 2. A straight-line relationship established between historic constraint costs, outturn wind generation and the historic wholesale day ahead price of electricity. 3. A straight-line relationship established between historic non-constraint costs and the historic wholesale day ahead price of electricity. 4. Ex-post actual data inputted into the equation created by the historic relationships to create the monthly benchmarks.

<p>Performance benchmarks</p>	<p>Ofgem will publish an addendum with the metric equations as soon as possible once the outturn data to the end of March 2023 is available. The benchmark will then be updated each month based on the average wholesale day ahead electricity prices and outturn wind conditions.</p> <p>Exceeds 10% lower than the <i>annual balancing cost benchmark</i></p> <p>Meets Within $\pm 10\%$ of the <i>annual balancing cost benchmark</i></p> <p>Below 10% higher than the <i>annual balancing cost benchmark</i></p>
<p>Reporting frequency</p>	<p>Monthly</p>
<p>Associated reporting</p>	<p>Explicit reporting on key monthly drivers of costs, including:</p> <ul style="list-style-type: none"> • Volumes of actions taken disaggregated to constraint and non-constraint actions, • any major network outages, and • any material changes in energy balancing prices.
<p>1B. Demand forecasting</p>	
<p>Method</p>	<p>Measures the average absolute MW error between day-ahead forecast demand (taken from Balancing Mechanism Report Service (BMRS³⁶) as the National Demand Forecast published between 09:00 and 10:00) and outturn demand (taken from BMRS as the Initial National Demand Outturn) for each half hour period. The benchmarks are drawn from analysis of historical errors for the five years preceding the performance year.</p> <p>5% improvement in historical 5-year average performance expected, with range of $\pm 5\%$ used to set benchmark for meeting expectations.</p> <p>In settlement periods where Optional Downward Flexibility Management (ODFM) and/or Demand Flexibility Service (DFS) are instructed by the ESOISOP, this will be retrospectively accounted for in the data used to calculate performance. The ESOISOP shall publish the volume of instructed ODFM to enable this to be done.</p>

³⁶ <https://www.bmreports.com/bmrs/?q=demand/>

Performance benchmarks	<p>Ofgem will publish an addendum with the performance benchmarks to include outturn data to the end of March 2023 once this data is available. Below is a description of the benchmarks.</p> <p>Exceeds Year 1: < 5% lower than 95% of average value for previous 5 years. Year 2: As for Year 1, but with 5-year period refreshed.</p> <p>Meets Year 1: ±5% window around 95% of average value for previous 5 years. Year 2: As for Year 1, but with 5-year period refreshed.</p> <p>Below Year 1: > 5% higher than 95% of average value for previous 5 years. Year 2: As for Year 1, but with 5-year period refreshed.</p>
Reporting frequency	Monthly
Associated reporting	<p>The narrative on performance against the benchmark should compare to monthly indicative figures (calculated as 95% of the average value for the previous 5 years’ data for the same calendar month). This is an indicative process only and does not necessarily reflect the final annual figure.</p> <p>The ESOISOP should also include in their monthly reports:</p> <ul style="list-style-type: none"> • Narrative relating to the effect of Triad avoidance; and • Notification of any missed / late publication of forecast data for the previous month, including the reasons for the missed / late publication. <p>The ESOISOP should provide Ofgem with the forecasts and performance of any operational forecast used that account for the sensitivity of demand to anticipated market prices for electricity.</p>
1C. Wind generation forecasting	
Method	Measures the average absolute error between day-ahead forecast (between 09:00 and 10:00, as published on ESO Data Portal ISOP data)

	<p>portal³⁷) and outturn wind generation (as published on ESO Data PortalISOP data portal) for each half hour period as a percentage of capacity for BM wind units only. The data will only be taken for sites that did not have a bid-offer acceptance (BOA) during the relevant settlement period. The ESO will publish this data on its Data Portal for transparency purposes.:</p> <ul style="list-style-type: none"> • did not have a bid-offer acceptance (BOA); • did not withdraw availability between time of forecast and time of metering; <p>for the relevant settlement period. The ISOP will publish this data on its data portal for transparency purposes.</p> <p>Sites deemed to have withdrawn availability are those that:</p> <ul style="list-style-type: none"> • re-declare maximum export limit (MEL) from a positive value day-ahead to zero at real-time; • re-declare their physical notification (PN) from a positive value day-ahead to zero at gate closure of the Balancing Mechanism. <p>The benchmarks are drawn from analysis of historical errors of the five years preceding the performance year. 5% improvement in performance expected on the 5-year historical average, with range of ±5% used to set benchmark for meeting expectations.</p>
<p>Performance benchmarks</p>	<p>Ofgem will publish an addendum with the performance benchmarks to include outturn data to the end of March 2023 once this data is available. Below is a description of the benchmarks.</p> <p>Exceeds</p> <p>Year 1: < 5% lower than 95% of average value for previous 5 years. Year 2: As for Year 1, but with 5-year period refreshed.</p> <p>Meets</p> <p>Year 1: ±5% window around 95% of average value for previous 5 years. Year 2: As for Year 1, but with 5-year period refreshed.</p> <p>Below</p> <p>Year 1: > 5% higher than 95% of average value for previous 5 years. Year 2: As for Year 1, but with 5-year period refreshed.</p>

³⁷ <https://data.nationalgrideso.com/>

Reporting frequency	Monthly
Associated reporting	<p>The monthly narrative on performance against the benchmark should compare to monthly indicative figures (calculated as 95% of the average value for the previous 5 years’ data for the same calendar month). This is an indicative process only and does not necessarily reflect the final annual figure.</p> <p>The ESOISOP should also include in their monthly reports:</p> <ul style="list-style-type: none"> • The details if wind units withdraw availability or become available between time of forecast and time of metering; and • Notification of any missed / late publication of forecast data for the previous month, including the reasons for the missed / late publication. <p>Additionally, the ESOISOP should publish on its Data Portaldata portal the following:</p> <p>Half hourly and unadjusted for BOAs for BM wind units only:</p> <ul style="list-style-type: none"> • Day ahead wind forecast; • Metered wind outturn; and • Wind capacity. <p>Half hourly broken down by BM wind unit:</p> <ul style="list-style-type: none"> • Day ahead wind forecast; • The closest to real time wind forecast; • Metered wind outturn; • An indication of whether in that half hour a BOA was issued for that site; • The associate volume specified in any BOA for that site; and • An indication of whether that site re-declared its MEL from a positive MW value at day-ahead to zero MW at real time or re-declared its PN from a positive MW value at day-ahead to zero MW at gate closure of the Balancing Mechanism; and • The locational tag to BM wind unit forecasts.

	The ESOSOP should send all associated reporting to Ofgem in an appropriate time.
1D. Short notice changes to planned outages	
Method	Measures the number of planned outages delayed by more than an hour or cancelled in the control phase (within day) due to process failure, per 1,000 outages.
Performance benchmarks	<p>Exceeds Year 1: <1 Year 2: <1</p> <p>Meets Year 1: 1 to 2.5 Year 2: 1 to 2.5</p> <p>Below Year 1: >2.5 Year 2: >2.5</p>
Reporting frequency	Monthly Quarterly
Associated reporting	Narrative on performance against benchmark.
Role 2	
2Ai. Phase-out of non-competitive balancing services	
Method	<p>Measures % of non-competitive services based on volume of contracted services for all relevant services currently procured by the ESOSOP. Expectations are set for the current suite of products and may be revised if new products are introduced. Excludes SO-SO trades.</p> <p>We have set benchmarks for the following categories: Frequency response and Reserve, Reactive power, and Constraints.</p>

	<p>Benchmarks are set based on the ESO's ISOP's current and projected procurement for each of these services. The ESO ISOP will report on MW procurement volumes for all of the services, apart from reactive power where reporting is against procurement volumes in MVar.</p>
<p>Performance Benchmarks</p>	<p>Frequency response & Reserve Y1: 25% Y2: 20%</p> <p>Reactive power Y1: 90% Y2: 90%</p> <p>Constraints Y1: 65% Y2: 55%</p> <p>Exceeds 5% or more lower than annual procurement benchmark</p> <p>Meets Within \pm 5% of the annual procurement benchmark</p> <p>Below 5% or more higher than the annual procurement benchmark</p>
<p>Reporting frequency</p>	<p>QuarterlyBiannually</p>
<p>Associated reporting</p>	<p>The ESO ISOP should include the following in their reports:</p> <ul style="list-style-type: none"> • A breakdown of spend for each of the following services: frequency response, reserve, reactive power and constraints; • A list of services procured competitively and non-competitively; • The spend for services procured competitively; and • Narrative on SO-SO trades³⁸ made during the period, including measures taken to avoid such trades.

³⁸SO-SO trades refer to trades made between system operators of connected countries, used to determine the direction of electricity flow over interconnectors.

2X. Day-ahead procurement	
Method	<p>Measures percentage of balancing services³⁹ procured at no earlier than the day-ahead -stage.⁴⁰</p> <p>Benchmarks are set based on expected product expirations and expectations for new procurement volumes.</p> <p>Expectations are set for all relevant services currently procured by the ESOISOP and may be revised if new products are introduced.</p>
Performance benchmarks	<p>Y1: 55%</p> <p>Y2: 80%</p> <p>Exceeds 5% or more higher than the annual day-ahead procurement benchmark</p> <p>Meets Within ± 5% of the annual day-ahead procurement benchmark</p> <p>Below 5% or more lower than the annual day-ahead procurement benchmark</p>
Reporting frequency	Quarterly
Associated reporting	Requirement to provide accompanying narrative on the progress of response and reserve products and phase-out of legacy products, including reasons for product reform delays.

³⁹ Note that for services introduced during BP2, only those that displace those procured earlier than day-ahead or those procured at earlier than day-ahead should be added to the list of balancing services for the purposes of this metric.

⁴⁰ Note that in line with the terms of a derogation from the requirements of Article 6(9) of the Electricity Regulation, the [ESOISOP](#) is required to procure **at least** 30% of services no earlier than day-ahead stage. An example of a derogation held by the [ESOISOP](#) detailing this requirement can be accessed here: <https://www.ofgem.gov.uk/publications/decision-grant-eso-derogation-requirements-article-69-electricity-regulation-and-exemption-requirements-article-323-ebgl-mandatory-and-firm-frequency-response>

Annex 23: Regularly reported evidence 2023-25

Table 65: Regularly reported evidence set for BP2

Role 1:	
1E. Transparency of operational decision making	
Method	Measures the % of balancing actions taken outside of merit order in the Balancing Mechanism each month.
Quantitative expectations	n/a
Reporting frequency	Monthly
Associated reporting	<p>The ESO's ISOP's supporting rationale for the % of actions taken outside of the merit order including trends seen over the course of BP2. This should include an explanation of any steps being taken that may change the future trends.</p> <p>The ESO ISOP will also report three supporting statistics:</p> <ul style="list-style-type: none"> • Monthly percentage of actions taken in merit order, or out of merit order due to an electrical parameter (e.g. voltage constraint); • Monthly percentage of actions that have reason groups⁴¹ allocated; and • Monthly number of actions without a reason. <p>Reporting to include narrative explaining:</p> <ul style="list-style-type: none"> • the action the ESO ISOP is taking to increase transparency of operational decision making; • the causes of actions being taken outside of merit; and • the actions planned or taken by the ESO ISOP to address the need for actions to be taken out of the merit order.

⁴¹ Reason groups are defined in the methodology published on the [ESO's Data Portal/ISOP's data portal \(https://data.nationalgrideso.com/balancing/dispatch-transparency\)](https://data.nationalgrideso.com/balancing/dispatch-transparency) and provide a descriptor for when an action is taken out of merit order.

<p>1F. Zero Carbon Operability (ZCO) indicator</p>	
<p>Method</p>	<p>Measures the proportion of zero carbon transmission connected generation that the system can accommodate. The ZCO indicator is defined as:</p> $ZCO(\%) = \frac{\text{(Zero carbon transmission connected generation)}}{\text{(Total transmission connected generation)}} \times 100$ <p>Zero carbon generation is defined as electricity generation that produces zero carbon emissions at the point of generation. This includes hydropower, nuclear, solar, wind and pumped storage technologies.</p> <p>This regularly reported evidence will be structured as follows:</p> <p><u>Part 1: defining the maximum ZCO limit</u></p> <p>The ESOSOP will define the approximate maximum ZCO limit (using a reasonable approximation of likely operating conditions), the system can accommodate at the start and end of BP2, explaining which deliverables are critical to increasing the limit.</p> <p><u>Part 2: regular reporting on actual ZCO</u></p> <p>Every quarter, the ESOSOP will report the data on the ZCO provided by the market versus the ZCO following ESOSOP actions. This should be presented at a monthly granularity.</p> <p><u>Part 3: updates on progress towards increasing the ZCO limit</u></p> <p>Every year, the ESOSOP will provide detailed case studies on the periods where the market delivered the highest ZCO and the actions the ESOSOP had to take in response. The ESOSOP will provide updates of any actions that are expected to have a material impact on the ZCO limit or are expected to in the future. The ESOSOP will report this as part of its Mid-Scheme and End of Scheme Reports.</p>
<p>Quantitative expectations</p>	<p>n/a</p>

Reporting frequency	Part 1: In first quarterly report and End of Scheme Report Part 2: Quarterly Part 3: Annually (Mid-Scheme and End of Scheme Reports)
1G. Carbon intensity of ESOSOP actions	
Method	<p>Calculates the approximate gCO₂/kWh of actions taken by the ESOSOP, considering the proportion of the total CO₂ emissions on the system which is a result of ESOSOP actions.</p> <p>The ESOSOP will use its carbon intensity forecast methodology⁴² to estimate carbon intensity factors for each fuel type and interconnector import.</p> <p>The ESOSOP will report on aggregated settlement period data. Full data will be available on the ESO Data Portal ESOSOP data portal.</p>
Quantitative expectations	n/a
Reporting frequency	Monthly
1H. Constraints cost savings from collaboration with TOs	
Method	<p>Measures the estimated £m avoided constraints costs through solutions brought forward in STCP 11.4.</p> <p>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 ESOSOP should state the assumptions used for its estimated savings.</p>

⁴² The [ESOSOP's](#) carbon intensity forecast methodology can be found at: www.carbonintensity.org.uk

	The ESO ISOP should provide additional narrative on any other solutions, such as outage planning actions, and the impact of these solutions on balancing costs.
Quantitative expectations	n/a
Reporting frequency	Quarterly
1I. Security of Supply reporting	
Method	<p><u>Part 1: Excursions</u></p> <p>Monthly reporting on instances of any:</p> <ul style="list-style-type: none"> i. frequency excursions outside 0.3Hz for more than 60 seconds. ii. voltage excursions outside statutory limits <p><u>Part 2: Annual backward and forward-looking reporting</u></p> <p>Annual summary of the ESO's ISOP's compliance with its frequency control methodology and plans for any future changes to the methodology.</p>
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	
2Aii. Balancing services procured in a non-	

competitive manner	
Method	<p>Measures the volume and spend for non-competitive services for contracts signed after 31 March 2023.</p> <p>Legacy Short-Term Operating Reserve (STOR) and Enhanced Frequency Response (EFR) contracts will be excluded. However, all SO-SO trades and NTC application, as well as any other non-competitively procured services with contract award after this date, will be included.</p>
Reporting frequency	Quarterly
Associated reporting	<p>The ESOISOP should explain the rationale for the need to take actions including:</p> <ul style="list-style-type: none"> • why competitive alternatives were not chosen; • why alternatives were not available (e.g. delays to product reform programmes); and • actions being taken to increase availability of competitive alternatives.
2B. Diversity of service providers	
Method	<p>Measures the diversity of technologies that provide services to the ESO in each of the markets covered by performance metric 2A (Competitive procurement).</p> <p>The ESO should report on total contracted volumes (mandatory and tendered), with the supporting narrative providing more detail about the % of the service that is procured through mandatory means.</p> <p>The data should be reported at a monthly granularity, which can be aggregated for each quarter to align with quarterly reporting.</p> <p>The ESO will not need to publish data for Black Start providers for security reasons. This information will be provided to Ofgem bilaterally.</p>

	The full list of services to be reported, including the basis on which the volume is calculated is included in Table 7 below.
Quantitative expectations	n/a
Reporting frequency	Quarterly
2D. EMR demand forecast accuracy	
Method	Measures the ESO's ISOP's accuracy of Peak national demand forecasts for Capacity Market auctions.
Quantitative expectations	See Table 8 below
Reporting frequency	Following the end of the forecasted delivery year.
Scope	All forecasts that outturn post 1 April 2023 will be assessed against this measure.
2E. Accuracy of forecasts for charge setting	
Method	Measures the accuracy of Transmission Network Use of System (TNUoS) and Balancing Services Use of System (BSUoS) forecasts used to set industry charges against actual charges.
Quantitative expectations	n/a
Reporting frequency	TNUoS charges Charges - Annually BSUoS charges —MonthlyCharges - Quarterly
Role 3	
3A. Future savings from operability solutions	

<p>Method</p>	<p>Forecast medium to long term benefits from new operability solutions (including the Networks Options Assessment (NOA) pathfinders (now called Network Services Procurement) and other operability measures).</p> <p>We expect this to measure to include, where applicable, estimated:</p> <ul style="list-style-type: none"> • Saved balancing costs • Saved infrastructure costs • Monetised carbon reductions • Any indicative impact on the SZCP limit <p>This should be underpinned by transparent, published benefit calculation methodology.</p> <p>The final details of this measure, such as the calculation and presentation of benefits, as well as scope of solutions included, will be agreed with the ESOISOP before the ESOISOP report on RRE 3A.</p>
<p>Quantitative expectations</p>	<p>n/a</p>
<p>Reporting frequency</p>	<p>Six-monthly</p>
<p>3X. Timeliness of connection offers</p>	
<p>Method</p>	<p>The ESOISOP will report quarterly on the number of connection offers made within 3 months, and the number of connection offers made that took longer than 3 months.</p> <p>The ESOISOP will provide Ofgem with this information separately for the England and Wales area, the Scotland area and by TO area.</p> <p>In Y1, in England and Wales - while the two-step offer process is running - the ESOISOP will report:</p> <ul style="list-style-type: none"> • the number of one-step offers issued within 3 months;

	<ul style="list-style-type: none"> the number of two-step offers issued within nine months after counter signature of the step one offer; and the number of any connection offers that took longer than the above timeframes.
Reporting frequency	Quarterly
Associated reporting	<p>The ESOSOP should provide reasons, including those outside its control, where they have missed deadlines, including where derogations have been granted, the length of any delay, and any trend analysis. The ESOSOP should also explain any process improvements implemented to address any underlying issue and include information on the performance of the 2-step process.</p> <p>The ESOSOP should report on the scale of the connection queue in terms of GW and average time from offer acceptance to connection date, including the delta from when this data was last reported. The ESOSOP should also include a breakdown of assets in the connection queue by size and technology type, TO (or more granular) area and comment on any trends.</p>
3Y. Percentage of 'right first time' connection offers	
Method	Measures the % of connection offers made which did not need reissuing. ⁴³
Quantitative expectations	n/a
Reporting frequency	Quarterly
Associate reporting	The ESOSOP will report the percentage of connection offers made over the period which were right first time, in addition to a breakdown of connection offers which needed reissuing by reason.

⁴³ Other than as provided for under the 2 step offer process. This process is due to conclude by 1 March 2024.

	<p>The ESOSOP will report the total number of connection offers made in the period and provide Ofgem with this information separately for the England and Wales area, and the Scotland area, in addition to by TO area. During the period where the 2-step offer process is in place, the ESOSOP will report this separately for step 1 and step 2 offers. This will subsequently revert to a single offer.</p> <p>The ESOSOP will provide commentary around the numbers reported for this, particularly if any trends are apparent.</p>
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Table 7: Full list of services and volume calculations for regularly reported evidence 2B (Diversity of service providers)

Product		BP1 Definition	BP2 Definition
Response	Mandatory Frequency Response (MFR)	ESO reported on contracted volumes for every unit. Figures only apply to a single day, not the whole month. E.g. a 20MW MFR contract is only recorded as 20MW, not 600MW (20MW X 30 days).	ESO to report on contracted volumes for every unit. Figures only apply to a single day, not the whole month. E.g. a 20MW MFR contract is only recorded as 20MW, not 600MW (20MW X 30 days).
	Static Firm Frequency Response (sFFR) Dynamic Firm Frequency Response (dFFR)	N/A	ESO to report on the highest volume for each unit that has been contracted for a particular service block for the relevant month. The sum of those values is presented in the report.
	Dynamic Containment (DC) Dynamic Moderation (DM) Dynamic Regulation (DR) Firm Frequency Response Auction	ESO reported on the highest volume for each unit that has been contracted for a particular Electricity Forward Assessment (EFA) block for the relevant month. The sum of those values is presented in the report.	ESO to report on the highest volume for each unit that has been contracted for a particular EFA block for the relevant month. The sum of those values is presented in the report.
	Enhanced Frequency Response (EFR)	ESO reported on contracted MW. This doesn't change from month to month unless a contract ends.	ESO to report on contracted volumes. This will not change from month to month unless a contract ends.

Reserve	Short Term Operating Reserve (STOR)	ESO reported on the total volume of pre-qualified units that are eligible to take part in the day-ahead tenders. Not all prequalified units will win day-ahead tenders.	ESO to report on the highest volume for each unit that has been contracted for a particular service window for the relevant month. The sum of those values is presented in the report.
	Fast Reserve	ESO reported on contracted volumes. The ESO record the highest available volume for each unit for each month. Available volumes can change throughout the month for a unit. For example, a unit can be available at 60MW for 29 days in a month, and at 70MW for 1 day of the same month.	ESO to report on contracted volumes. The ESO will record the highest available volume for each unit for each month. Available volumes can change throughout the month for a unit. For example, a unit can be available at 60MW for 29 days in a month, and at 70MW for 1 day of the same month.
	Quick Reserve Slow Reserve	N/A	ESO to report on the highest volume for each unit that has been contracted for a particular service window for the relevant month. The sum of those values is presented in the report.
Reactive	Reactive	ESO reported on contracted volumes for every unit. Figures only apply to a single day, not the whole month. E.g. a 20MW Reactive contract is only recorded as 20MW, not 600MW (20MW X 30 days).	ESO to report on contracted volumes for every unit. Figures only apply to a single day, not the whole month. E.g. a 20MW Reactive contract is only recorded as 20MW, not 600MW (20MW X 30 days).
Constraints	Constraints	ESO reported on contracted volumes for all contracts that are live for any part of the month. Some are live for the whole month whereas others are live for part of the month. The highest available volume on a specific day for each unit for the relevant month is captured. The sum of those values is what the ESO present in the monthly report.	ESO to report on contracted volumes for all contracts that are live for any part of the month. Some are live for the whole month whereas others are live for part of the month. The highest available volume on a specific day for each unit for the relevant month is captured. The sum of those values is what the ESO will present in the monthly report.

Table 8

Table 6: 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 34: Stakeholder satisfaction survey 2023-25

Survey method

The survey will be undertaken either by phone and/or online, dependent on stakeholder preferences.

Participants

The survey will be targeted at senior managers, decision makers and experts and will include a wide selection of relevant stakeholders who have had material interactions with the [ESO's ISOP's](#) services. The exact survey participants will be determined by the [ESO's ISOP's](#) stakeholder contacts database. We expect the [ESO ISOP](#) to maintain up to date contact details of its stakeholders.

Questions

The [ESO ISOP](#) will ask one question on stakeholder satisfaction for each role, outlined below:

“One of our [ESO ISOP](#) roles is focused on [Control Centre Operations], which includes key activities such as [real-time system operation], [system restoration] and [provision of data and forecasting].

Overall, from your experience engaging with [ESO ISOP](#) teams in these areas in the last six months, how would you rate the [ESO's ISOP's](#) performance?

- a) Below expectations / Meeting expectations / Exceeding expectations / Don't know
- b) Please explain your reasoning.”

The [ESO's ISOP's](#) recent activities for each role should draw from the most relevant deliverables over the past six months of activity.

[The ISOP will also ask one question on stakeholder satisfaction on the ISOP's performance establishing its new organisation and roles. This question should be agreed with Ofgem in advance.](#)

Annex 45: Glossary of ~~ESORI Guidance~~ ISOPRI Governance terms

Table 87: Glossary of key terms used in ~~ESORI Guidance~~ ISOPRI Governance

Element	Description
Activity	A subset of responsibilities within a role with specific expectations and deliverables attached to it.
<u>Assessment Period</u>	<u>Has the meaning given in the ISOP’s Electricity System Operator and Gas System Planner licences.</u>
<u>Balancing Mechanism (BM)</u>	<u>Has the meaning given in the ISOP’s Electricity System Operator licence.</u>
<u>Balancing Services Use of System (BSUoS) Charges</u>	<u>Has the meaning given to that term in the CUSC Section 11.3.</u>
Business Plan	Details the ESO’s <u>ISOP’s</u> 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 second business plan cycle (BP2) covers the incentive scheme starting on 1 April 2023 and ending on 31 March 2025.
<u>Capacity Market (CM)</u>	<u>Has the meaning given in the ISOP’s Electricity System Operator licence.</u>
<u>Contracts for Difference (CfD)</u>	<u>Has the meaning given in the ISOP’s Electricity System Operator licence.</u>
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 <u>Demand Flexibility Service (DFS)</u>	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. An <u>ISOP balancing service, as approved into the terms and conditions related to balancing by Ofgem⁴⁴.</u>

⁴⁴ <https://www.ofgem.gov.uk/publications/decision-demand-flexibility-service-relation-update-terms-and-conditions-related-balancing-202324>

Electricity Market Reform (EMR)	Has the meaning given in the ISOP’s Electricity System Operator licence.
Electricity Regulation	Regulation (EU) 2019/943, as amended by The Electricity and Gas (Internal Markets and Network Codes) (Amendment etc.) (EU Exit) Regulations 2020.
Electricity System Operator (ESO)	The entity which was designated as ISOP in 2024.
Enhanced Frequency Response (EFR)	An ISOP balancing service which is no longer actively procured, as established within the Procurement Guidelines Statement.
Evaluation criteria	The criteria used by the ISOP Performance Panel to measure the ESO’s ISOP’s performance for each role.
Incentive scheme	The process over a business plan cycle to assess the ESO’s ISOP’s performance against five key criteria, resulting in the award of a £m reward or penalty.
Initial National Demand Outturn	Has the meaning given in the Balancing and Settlement Code⁴⁵.
ISOP Performance Panel	A mix of independent experts and industry representatives that are responsible for reviewing the ISOP’s plans and performance, as well as performing an End of Scheme evaluation of the ISOP’s performance.
ISOP Roles Guidance	Sets out our expectations for how the ISOP 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.
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.
National Demand Forecast	Has the meaning given in the Balancing and Settlement Code⁴⁶.

⁴⁵ <https://www.elexon.co.uk/glossary/initial-national-demand-out-turn/#:~:text=The%20half%2Dhour%20average%20MW,of%20the%20effective%20Settlement%20Period.>

⁴⁶ <https://www.elexon.co.uk/glossary/national-demand-forecast/>

Optional Downward Flexibility Management (ODFM)	An ISOP balancing service, as approved into the terms and conditions related to balancing by Ofgem⁴⁷.
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 ISOP's performance, including performance metrics, stakeholder satisfaction and other regularly reported evidence.
Performance metric	A numerical measure of ESO ISOP 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.
Procurement Guidelines Statement	A document produced by the ISOP under its Electricity System Operator Licence Condition C9.
Regularly reported evidence	Evidence that should be regularly reported by the ESO ISOP 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.
ESO Roles GuidanceShort-Term Operating Reserve (STOR)	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. An ISOP balancing service, as approved into the terms and conditions related to balancing by Ofgem⁴⁸.
Transmission Network Use of System (TNUoS) Charges	Has the meaning given in the ISOP's Electricity System Operator licence.

⁴⁷ <https://www.ofgem.gov.uk/publications/decision-odfm-relation-tc-related-balancing>

⁴⁸ <https://www.ofgem.gov.uk/publications/decision-short-term-operating-reserve-relation-update-terms-and-conditions-related-balancing>

Triad	Has the meaning given in the Balancing Settlement Code⁴⁹.
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⁴⁹ <https://www.elexon.co.uk/glossary/triad/>