

Guidance

NESO Performance Arrangements Governance Document

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This Governance Document sets out the detailed arrangements for National Energy System Operator (NESO)'s performance incentives for the assessment period¹ up to 31 March 2025. These arrangements are broadly a continuation of the incentives in place for the Electricity System Operator (ESO) for its RII0-2 Business Plan 2 (BP2) assessment period¹, with targeted amendments, including an additional assessment, to reflect NESO's new organisational model and expanded set of activities.

This document is subject to the Secretary of State designating NESO as the Independent System Operator and Planner (ISOP), making the electricity licensing direction [for the Electricity System Operator \(ESO\) licence](#)² and granting the Gas System Planner (GSP) licence.³ The document will come into effect on the same date that NESO's ESO and GSP licences come into effect.

¹ 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>

² Under this direction, the Secretary of State would use powers under section 167 of the Energy Act 2023 to convert NGEN's existing transmission licence into the ESO Licence held by NESO. Please see: https://www.ofgem.gov.uk/sites/default/files/2024-08/ESO_Licence_Direction_and_Terms_and_Conditions_Unsigned.pdf

³ Please see: https://www.ofgem.gov.uk/sites/default/files/2024-08/GSP_Licence_Terms_and_Conditions_unsigned_and_subject_to_SoS_decision_to_grant.pdf

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Version History

Version	Changes	Purpose	Publication date	Release date
Versions applicable the ESO				
0.1	n/a	Consultation on the 'ESO Reporting and Incentives Arrangements Guidance Document – Draft Version'	23 February 2018	n/a
1.0	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
2.0	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
3.0	Clarifications and changes to roles and evaluation criteria for regulatory year 2020-21, following	To update and revise the ESO Reporting and Incentives Arrangements Guidance Document for 2020-21	6 March 2020	1 April 2020

	consultation with industry			
4.0	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
5.0	Clarifications and changes to the methodology of metric 1D	To correct the methodology of metric 1D	1 July 2021	1 April 2021
6.0	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
7.0	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
Versions applicable to NESO				
8.0	Changes to reflect the designation of NESO as the ISOP, including changes to ESO's roles and organisational design.	To update the BP2 incentives scheme to reflect NESO's introduction and changes following consultation.	12 September 2024	From Day 1 of NESO

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1. Introduction

This chapter sets out the background to National Energy System Operator's (NESO's) Performance Arrangements, the purpose of this Governance Document, and its status from a compliance perspective.

- 1.1 National Energy System Operator (NESO) is an expert, impartial body with responsibilities across both the electricity and gas systems, driving progress towards net zero while maintaining energy security and minimising costs for consumers. NESO is an independent, non-profit, Government-owned public corporation, licenced and regulated by Ofgem. Upon its designation in 2024, NESO 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 We⁴ regulate NESO to help ensure its actions align with consumers' interests. This Governance document explains the processes and requirements involved in NESO's performance incentives, including the methodology used to assess NESO's performance, and the performance reporting requirements placed on NESO.
- 1.3 Until 31 March 2025⁵, NESO's performance will broadly continue to be regulated through the arrangements which were put in place for ESO for the RIIO-2

⁴ 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.

⁵ 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.

Business Plan 2 (BP2) assessment period⁶, with amendments to reflect NESO's new organisational design. These amendments include:

- (a) the removal of the financial elements of the incentive arrangements, to reflect NESO's not-for-profit organisational model;
- (b) the integration of new NESO 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 NESO Performance Panel.

1.4 This NESO Performance Arrangements Governance Document is issued by the Authority under Part B of Condition G2 (Performance reports and assessment) of NESO's Electricity System Operator and Gas System Planner licences. As set out in paragraph G2.9 of those licences the Authority may make appropriate provision about or impose requirements in the NESO Performance Arrangements Governance Document, which may include, but will not be limited to:

- (a) reports NESO must publish on its website to demonstrate its performance;
- (b) the process and procedures that will be in place for any assessment of the performance of NESO by the Authority;
- (c) the requirements NESO must fulfil as part of any assessment process;
- (d) how any assessment of the performance of NESO will be published by the Authority;
- (e) requirements in relation to NESO gathering feedback from its stakeholders; and
- (f) any other matters relating to the regulation, governance, or administration of NESO's regulatory performance incentives.

1.5 This document may be revised and reissued in accordance with Part B of Condition G2 of NESO's licences.

Compliance

1.6 Where provisions of this Governance Document require the compliance of the licensee, the licensee must comply with those provisions as if the Governance

⁶ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

Document were part of Condition G2 of NESO'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.

- 1.7 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 Governance Document, the licence will take precedence.
- 1.8 The contents of this Governance Document do not alter or supplement NESO'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 NESO Performance Arrangements only.

2. The NESO Performance Arrangements process

This chapter provides an overview of the NESO Performance Arrangements. It provides guidance on the processes, procedures and timings involved in this assessment period.

Overview of the NESO Performance Arrangements

2.1 The NESO Performance Arrangements supersede the Electricity System Operator Reporting and Incentives (ESORI) arrangements that were put in place for the ESO for the RIIO-2 Business Plan 2 (BP2) period⁷. 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.

NESO Roles Guidance

2.2 Our regulatory approach for RIIO-2 requires upfront clarity around the behaviours we expect of NESO and places the onus on NESO to engage with stakeholders to identify how to best meet and exceed these expectations in order to maximise benefits for consumers.

2.3 Underpinning NESO's BP2 regulatory framework is our NESO Roles Guidance (the 'Roles Guidance'). The Roles Guidance is the key guide for understanding our performance expectations and forms a key point of reference for the NESO Performance 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 NESO should best fulfil its licence obligations and is designed to align expectations between NESO, NESO's customers and stakeholders, the Authority, and the NESO Performance Panel (the 'Performance Panel')⁸.

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

⁸ The ISOP Performance Panel is an independent panel of experts and/or stakeholder representatives, who will assess the ISOP's performance and provide recommendations to the Authority.

2.4 The Roles Guidance also helped set the structure for NESO’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 NESO's roles and activities

Role	Role activity
Role 1: Control centre operations	a) Electricity system operation b) Electricity system restoration c) Transparency, data, and forecasting
Role 2: Market development and transactions	a) Markets for electricity system services b) Electricity Market Reform c) Wholesale markets, industry codes and charging
Role 3: System insight, strategic planning and network development	a) Electricity connections and network access b) Energy system strategy and insight c) Optimal network investment

2.5 The roles in Table 1 are outlined in more detail in our Roles Guidance published on our website. An updated version of the Roles Guidance has been published alongside this Governance Document. Where appropriate we have amended expectations in each of Roles to reflect new and enhanced NESO responsibilities that are already well aligned with existing roles.

2.6 We have also introduced new general expectations around the establishment of NESO within the Roles Guidance which will be used to inform a supplementary performance assessment. NESO’s performance will be evaluated using the evaluation process described in Chapter 3.

THE NESO Performance Arrangements

2.7 The NESO Performance Arrangements are a set of processes and requirements designed to create reputational incentives on NESO in order to drive its performance. As part of the original ESORI arrangements, the ESO engaged with its stakeholders and published a Business Plan before the start of the BP2 assessment period. This outlined the details of the ESO’s costs, activities, and deliverables for delivering its RIIO-2 strategy from April 2023 to March 2025. The NESO Performance Arrangements involve an ongoing and final assessment

of NESO’s progress delivering its BP2 outputs and its demonstration of the expectations in the Roles Guidance.

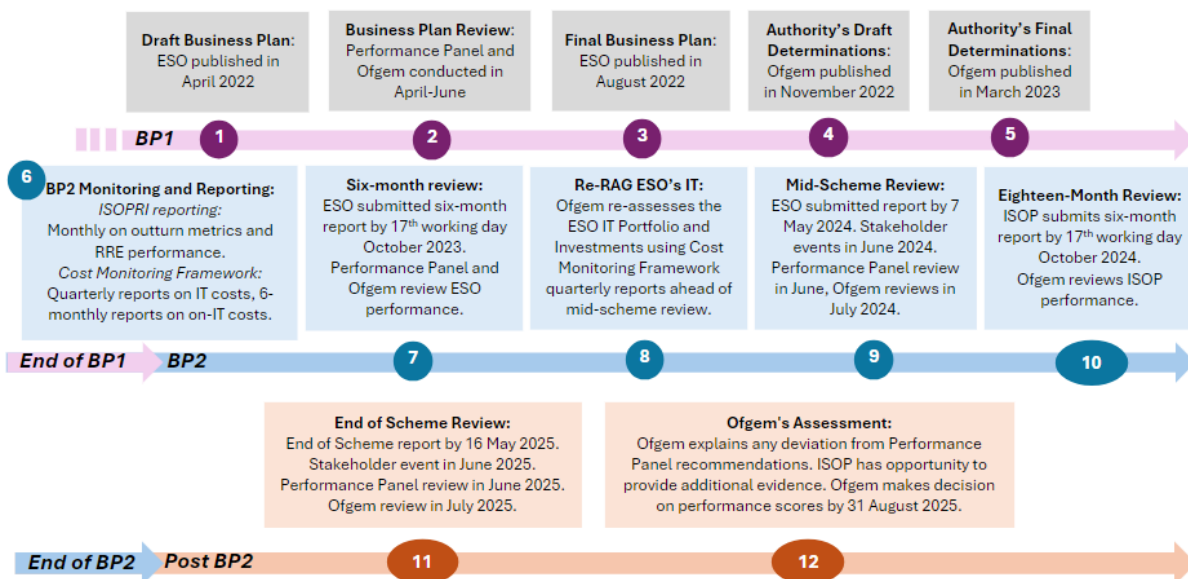
2.8 In summary, the NESO Performance Arrangements for BP2 comprise of:

- A requirement to engage with stakeholders to produce a Business Plan (**completed by ESO**);
- Requirements on NESO 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 stakeholder representatives, with an independent chair, who provide recommendations to Ofgem on NESO’s performance; and
- An ‘evaluative’ reputational incentive, where the Authority will perform a final public assessment of NESO’s performance at the end of BP2 (informed by a recommendation from the Performance Panel). This is based on an ex-ante evaluation methodology (described in Chapter 3).

Stages in the annual NESO Performance Arrangements cycle

2.9 Figure 1 provides an overview of the key stages and timings in the reporting and incentives process for BP2. We provide guidance on each of these stages in the sections below.

Figure 1: Regulatory process for BP2



Steps 1 to 5: The Business Plan

Steps 1) to 5) Business plan submission and assessment

Complete - for Steps 1 to 5, please refer to the previous version of this document⁹. The ESO published the final version of its Business Plan in August 2022¹⁰. The Authority published its Final Determinations in response to the Business Plan in March 2023¹¹.

Revisions to the Business Plan

- 2.10 We expect NESO to remain flexible and adaptable throughout the remainder of the assessment period and respond to changing situations. NESO may deviate from the 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 NESO should change its approach and explain why.
- 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 4), we expect any changing context and changes from the plan to be explained through the reporting throughout the rest of the 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.¹²
- 2.12 We do not require a full new Business Plan submission within BP2 for NESO to reflect its expanded responsibilities, given the relatively short period until a new business plan is due in April 2025. However, we will assess NESO's performance

⁹ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

¹⁰ <https://www.nationalgrideso.com/what-we-do/our-strategy/our-riio-2-business-plan>

¹¹ <https://www.ofgem.gov.uk/publications/business-plan-2-final-determinations-electricity-system-operator>

¹² 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>

establishing and performing its new responsibilities using the methodology in Chapter 3.

Steps 6 to 10: Within-scheme monitoring and reporting

Step 6) Ongoing monitoring and reporting

NESO incentive reporting

- 2.13 In order to create transparency around NESO's performance throughout the assessment period, and to help stakeholders, the Performance Panel and Ofgem monitor NESO's progress against its Business Plan, NESO must publish on its website¹³:
- 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).
- 2.14 NESO will meet with Ofgem on a monthly basis to discuss the contents of these performance reports. Further guidance is provided in Chapter 4 on the detailed reporting requirements during BP2.

Cost Monitoring Framework reporting

- 2.15 We introduced a Cost Monitoring Framework to monitor the delivery of NESO'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, NESO will provide Ofgem with quarterly updates on its IT portfolio and individual IT investments, as described in NESO's Business Plan.
- 2.16 NESO's quarterly IT updates will focus on the progress, governance and cost of NESO's IT portfolio and individual IT investments. In addition, the quarterly IT updates will provide an opportunity for NESO to offer additional evidence to address any concerns Ofgem has raised as part of our ex-ante value for money

¹³ 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>

assessment. Ofgem will provide NESO with feedback on these submissions where appropriate.

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

Step 7) The six-month review

- 2.18 Complete - please refer to the previous version of this document¹⁴.

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

- 2.19 Complete - please refer to the previous version of this document¹⁵.

Step 9) The Mid-Scheme Review

- 2.20 The ESO was required to produce and 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 2024¹⁶. Following the process described in the previous version of this document¹⁷, the Performance Panel and Ofgem's views will be published on Ofgem's website in summer 2024.

Step 10) Eighteen-month feedback

- 2.21 This step, and associated reporting requirements at the eighteen-month stage, are subject to a confirmation on the timing of Day 1 of NESO. As there is a possibility that the transition from NGEN to NESO may occur partway through the 18 month process, we may consider applying some flexibility to the these

¹⁴ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

¹⁵ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

¹⁶ <https://www.nationalgrideso.com/document/318501/download>

¹⁷ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

- processes and requirements, where it would be appropriate and beneficial to do so. Any changes to specific requirements must be agreed with Ofgem.
- 2.22 NESO will be required to publish a report at eighteen-months into the scheme, by the 17th working day of October 2024. Further guidance is provided in Chapter 4 on the reporting requirements for this report.
- 2.23 Ofgem will communicate its view on NESO's performance and provide a broad trajectory of performance at the eighteen-month stage. The review undertaken by Ofgem at 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.
- 2.24 We will not hold a formal stakeholder event or issue a call for evidence at this stage but will continue to engage widely with stakeholders throughout the incentive scheme.

Steps 11 to 12: Final performance evaluation

Step 11) The End of Scheme Review

- 2.25 By 16 May following the end of the assessment period, NESO 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 NESO's performance.
- 2.26 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 NESO around its End of Scheme Report (for example, if there are any unclear or ambiguous points). NESO should respond to these questions promptly and in line with the general guidance in Chapter 4.
- 2.27 Following this review period, NESO 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 mid-June following the end of the assessment period.
- 2.28 The Performance Panel will consider all evidence presented and conduct an assessment of NESO's performance against each of the original BP2 roles and NESO's new responsibilities, in line with the methodology in Chapter 3. Any notable differences between the members' 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.

- 2.29 Following the publication of the Performance Panel's recommendations, stakeholders including NESO 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 performance.

Step 12) Authority's assessment

- 2.30 The Authority will consider the Performance Panel's recommendations, as well as any other evidence received or collected, and make a determination on NESO'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. 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.
- 2.31 In advance of the Authority's decision being finalised, Ofgem will provide NESO with an explanation of where it plans to materially deviate from the Performance Panel's views, giving NESO an opportunity to provide additional evidence of its performance where needed.
- 2.32 The Authority will produce its final performance assessment by 31 August following the end of the assessment period, or such later date that it considers appropriate. This decision will be published on the Ofgem website.

3. NESO Performance Assessment

The purpose of this chapter is to set out guidance for how NESO's performance will be evaluated by Ofgem for the BP2 period.

Summary of performance assessment approach

- 3.1 There will be two parts to NESO's performance assessment for the BP2 period:
 - Part 1: the BP2 Roles Assessment
 - Part 2: the NESO Implementation Assessment
- 3.2 The BP2 Roles Assessment is a continuation of the assessment in place for the ESO for BP2. NESO'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 NESO 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 NESO Implementation Assessment looks at the work carried out by the ESO/NESO to establish NESO and its new roles more generally. This includes work carried out prior to the designation of NESO on FSO Transition Activities, as well as continued work by NESO until the end of BP2 to establish itself as a separate/independent entity. We will also consider NESO'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>

Assessment	• Scope	Method
Part 2: NESO Implementation Assessment	<ul style="list-style-type: none"> • FSO Transition Activities; • Whole system security and resilience roles, including the Resilience and Emergency Management; • Advisory role; • All other gas-related work, including strategic network planning, gas forecasting, 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 NESO activities. 	<p>Additional qualitative assessment against pre-defined performance expectations</p> <p><i>(See Chapter 5 of the Roles Guidance for 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

3.6 Under the BP2 Roles Assessment we score NESO’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 NESO. For the purposes of the NESO Performance Arrangements, meeting our expectations equates to a level of performance expected from NESO which would merit a score of 3.

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

- 3.8 Ofgem's Final Determinations also provide clear, ex-ante performance expectations¹⁸ 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 NESO 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 NESO clarity on the level of performance that will meet or exceed our expectations.
 - A value for money assessment – Ofgem assessed NESO's proposed internal costs against our cost expectations and set up-front grading for each role based on the requested funding. This grading provides NESO 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.
- 3.9 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 assessment periods.
- 3.10 For the avoidance of doubt, we expect innovation to be a core part of NESO's business-as-usual activities and for this to be demonstrated through NESO's planned deliverables. Undertaking innovation projects, whether funded through NESO's main price control totex or through dedicated innovation funding, does not automatically qualify as exceeding expectations. NESO's delivery of outputs and outcomes as part of innovation-funded projects will be considered as part of the performance evaluation. However, we have excluded innovation-funded projects from the cost benchmarks because these costs are funded through a

¹⁸ Further details can be found in Chapter 3, Appendix 1 and Appendix 2 of our Business Plan 2 Final Determinations – Electricity System Operator: <https://www.ofgem.gov.uk/publications/business-plan-2-final-determinations-electricity-system-operator>

separate Use it or Lose It (UIOLI) funding mechanism, reflecting the lower technological readiness of these projects.

Performance evaluation criteria

- 3.11 The key criteria used to determine a score for each role are:
- (a) Plan delivery;
 - (b) Metric performance;
 - (c) Stakeholder evidence;
 - (d) Quality of outputs; and
 - (e) Value for money.
- 3.12 These criteria are designed to be considered together to establish an overall picture of NESO's performance for each role. Below is the guidance to determine NESO's performance in relation to each of the criteria.

a) Plan delivery

- 3.13 The assessment should consider whether the delivery schedule has been successfully delivered on time and/or whether NESO has delivered additional outputs in line with the expectations in our Roles Guidance. The assessment should refer to Ofgem's Final Determinations, which grade NESO's two-year delivery schedule to indicate the link more clearly between on track plan delivery and performance assessment.
- 3.14 The assessment should consider where NESO can clearly explain why a plan deviation was in consumers' interest or outside of its control. In addition, where NESO has not produced an 'exceeding' delivery schedule (i.e. a delivery schedule graded as a 4 or 5), the assessment should consider whether NESO has demonstrated additional activities that would exceed expectations.
- 3.15 NESO should be considered to have outperformed this criterion if NESO has successfully delivered the key components of a 4- or 5-graded delivery schedule. Alternatively, NESO could outperform this criterion if NESO 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 NESO clearly explaining the reasons why any major changes to the original delivery schedule timelines were in consumers' interest or outside of its control.

- 3.16 NESO should be considered to have *underperformed this criterion* if NESO 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 NESO 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

- 3.17 The assessment should consider NESO's outturn performance against the performance metrics and NESO's reasons for this outturn performance. The numerical quantifications related to the metrics should be considered with the supporting explanations provided by NESO of the actions it has taken to achieve the outturn performance. The assessment should also consider any wider factors outside of NESO's control that could have impacted the performance metric (such as weather, market trends, policy etc).
- 3.18 NESO should be considered to have *outperformed this criterion* if NESO has exceeded expectations for the majority of its performance metrics and NESO has demonstrated that its actions have driven positive outturn metric performance. Alternatively, NESO may have significantly outperformed a certain metric that is particularly stretching or has high associated consumer value or NESO may have provided strong, convincing justifications for any metrics where performance has not exceeded expectations.
- 3.19 NESO should be considered to have *underperformed this criterion* if NESO has performed below expectations for the majority of metrics, and there are no strong reasons or mitigating circumstances for this. Alternatively, NESO 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 NESO demonstrate that its actions have driven positive outturn metric performance.

c) Stakeholder evidence

- 3.20 The assessment should consider stakeholders' satisfaction on the quality of NESO'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 NESO'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 assessment should consider NESO's explanations for feedback received.

- 3.21 NESO should 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 consensus¹⁹ amongst stakeholders that NESO has exceeded expectations for that role.
- 3.22 NESO should also 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 NESO as 'exceeds expectations' and/or the overall quality and strength of their feedback. The assessment should consider whether NESO has provided sufficient justification and explanation of any negative stakeholder feedback. In addition, outperformance may be demonstrated if there is evidence that NESO has actively sought and taken into account the feedback of stakeholders throughout the assessment period.
- 3.23 NESO should 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 NESO has performed below expectations for that role and NESO cannot provide satisfactory reasons for why this is the case. NESO should 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 NESO has not actively sought and taken into account the feedback of stakeholders throughout the business planning cycle.

¹⁹ 'Broad consensus' does not mean there needs to be complete unanimity and agreement amongst stakeholders about the ISOP's performance. The Performance Panel and Ofgem may consider carefully whether the stakeholder feedback could be influenced by the particular interests of the party providing the feedback.

d) Quality of outputs

- 3.24 The assessment should consider the actual benefits NESO 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 assessment should consider NESO's regularly reported evidence and reporting against the delivery schedule for each of its activities outlined in the original Business Plan. Where quantitative benefits cannot be clearly evidenced during the incentive scheme, the Performance Panel should explicitly consider 'how' NESO has delivered its Business Plan in line with the expectations in our Roles Guidance.
- 3.25 The assessment should consider both delivered outputs that produce benefits within the assessment period and delivered outputs that are expected to produce benefits in future periods. The assessment should consider whether NESO has taken concrete steps to progress its longer-term vision and medium-term strategy. For example, this may include considering whether NESO's interim deliverables have taken account of the energy system's evolving characteristics and/or whether NESO has adapted its activities flexibly to ensure deliverables have been delivered in a way that maximises benefits. NESO could demonstrate this through explaining the rationale for adaptations and providing evidence of greater benefits that result from adaptations.
- 3.26 NESO should be considered to have *outperformed this criterion* if NESO'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 NESO's medium-term strategy). This may include NESO demonstrating that the actual outputs produced as part of an ambitious (i.e. 4- or 5-graded) delivery schedule deliver NESO's outlined success measures and directly achieve the intended benefits as outlined in the original Business Plan. The Performance Panel should also consider NESO has outperformed this criterion if it produces outputs that demonstrate most or all the 'exceeds expectations' guidance in our Roles Guidance. Alternatively, NESO may outperform this criterion if NESO has produced additional outputs that clearly seek to maximise benefits for

consumers. This may include NESO quickly and proactively identifying changes to existing plans and course-correcting where needed.

- 3.27 NESO should be considered to have *underperformed this criterion* if NESO'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 NESO 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. The assessment should also consider NESO has underperformed this criterion if it does not produce outputs that demonstrate the meets expectations guidance in our Roles Guidance. NESO may also have underperformed this criterion if it has not delivered necessary additional outputs that seek to maximise benefits for consumers. This may include NESO not identifying necessary changes to its original plan and course-correcting when this is clearly needed.

e) Value for money

- 3.28 The assessment should consider whether NESO 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 NESO.
- 3.29 For all investments and business activities within a role, the 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.
- 3.30 Good industry practice will differ across activities or types of activity. For example, where best practice is referenced for IT investment delivery, NESO is expected to be able to provide evidence of the referenced best practice and performance in line with that. For NESO 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.

- 3.31 When reviewing the context for costs provided by NESO, the assessment should consider, but not be limited to, criteria such as²⁰:
- 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.
- 3.32 The 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 NESO's outturn delivery of its outputs, Cost Monitoring Framework and IT RAG assessment, should be considered in the assessment of value for money.
- 3.33 NESO should be considered to have outperformed this criterion if it can provide a clear demonstration that it is operating to the highest standards, clear evidence that best practice is being followed, and evidence that NESO is taking all reasonable steps to maximise the value of its delivery through ongoing improvement.
- 3.34 NESO should 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.

Scoring for each role

- 3.35 There is no explicit weighting associated with the evaluation criteria for each role. Instead, the criteria are the key aspects Ofgem will consider when carrying out an *overall* assessment of NESO performance for each role, recognising that there will be a degree of overlap between the criteria in practice. The criteria will be considered holistically to assess NESO's performance. Ofgem will have discretion to consider areas of significant out- or underperformance when

²⁰ 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.

forming an overall view. Ofgem will then determine a final score for each role using the criteria set out in Chapter 3.

3.36 For each of the roles, Ofgem will score NESO's overall performance on a scale of 1 to 5, where:

1 = Overall performance clearly does not meet performance expectations, for example NESO has strongly underperformed most criteria.

2 = Mixed overall performance and on balance NESO mostly did not meet expectations, for example NESO has net underperformance across the criteria.

3 = Mixed overall performance and on balance NESO mostly met expectations, for example underperformance and outperformance across the criteria balance each other out.

4 = Mixed overall performance and on balance NESO mostly exceeded expectations, for example NESO has net outperformance across the criteria.

5 = Overall performance clearly exceeds performance expectations, for example NESO has strongly outperformed most criteria.

3.37 There may be instances where Ofgem may have to consider evidence of competing positive and negative areas of performance within a role. In such cases 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 NESO 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.

3.38 Ofgem will record and explain its reasons for the scores it assigns for NESO against each role and record its rationale in a report, as set out in Chapter 2. Ofgem may 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, Ofgem may wish to signal a 'high 4' score when NESO has, on balance, exceeded expectations but

outperformance is not quite considered strong enough to merit a score of 5. In practice, there may be crossover between roles (for example, NESO 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, Ofgem may consider whether this should impact the score of multiple relevant roles.

Part 2: NESO Implementation Assessment

- 3.39 The NESO Implementation Assessment is a supplementary qualitative evaluation of how well NESO has performed against our 'Expectations on establishing NESO', which are set out in Chapter 5 the Roles Guidance.
- 3.40 Ofgem will consider NESO's performance against these expectations and form a view on the extent to which NESO 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 NESO's performance reports;
 - (c) Experiences and evidence gathered from our ongoing monitoring of NESO 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 NESO'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 NESO Implementation Assessment).

- 3.44 At a minimum the Performance Panel's assessment should provide its view whether NESO has overall fallen below, met or exceeded expectations in four areas: for each of the three BP2 roles and NESO implementation activities. This assessment should include consideration of NESO's delivery and quality of outputs; the evidence of value provided to consumers; and the feedback from NESO'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 NESO performance as Ofgem (such as detailed value for money discussions under Cost Monitoring Framework and detailed involvement in the monitoring of NESO 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 NESO'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 NESO's outturn performance, evidence collected throughout the assessment period and any changing situations or context.
- 3.48 Ofgem will inform NESO of where it has reached a different conclusion from Performance Panel's report. NESO will then have an opportunity to provide additional evidence of its performance in these areas before Ofgem finalises its decision.

4. NESO performance reporting requirements

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

Summary of within-scheme performance reporting

- 4.1 As outlined in Chapter 2, there are several reporting requirements on NESO as part of the NESO Performance Arrangements. The specific outputs NESO should report on during the remainder of BP2 are included in Table 3 below. For specific outputs for past stages of BP2, please refer to the previous version of this document²¹.

Table 3: Summary of performance reporting requirements and frequency

²¹ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

	Monthly Report	Eighteen-month Report	Quarterly Report	End of Scheme Report
Timing	17 th working day of the next month	17 th working day of October 2024	17 th working day of January 2025	16 th May 2025
BP2 Roles Assessment				
Plan delivery	n/a	Progress against plan delivery schedule	n/a	Progress against plan delivery schedule
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	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 ²²	Regularly reported evidence	Regularly reported evidence	Report against the delivery schedule for each of the activities outlined in NESO's original Business Plan. Demonstration of how activities are delivered in line with NESO Roles Guidance expectations. Regularly reported evidence
Value for money		Update report on cost and delivery progress against roles and all NESO specific IT investments.	Update report on cost and delivery progress against all NESO specific IT investments.	Update report on cost and delivery progress against roles and all NESO specific IT investments.
NESO Implementation Assessment				
Progress updates	Update on progress against new FSO activities and FSO Transition Activities (optional but at least one report required prior to End of Scheme Report).	Update on progress against new FSO activities and FSO Transition Activities (optional but at least one report required prior to End of Scheme Report).	Update on progress against new FSO activities and FSO Transition Activities (optional but at least one report required prior to End of Scheme Report).	Update on progress against new FSO activities and FSO Transition activities.

²² Monthly reporting is not applicable to all regularly reported evidence. See Annex 3 for further details.

Spending updates	Update on new FSO activity costs (optional but at least one report required prior to End of Scheme Report).	Update on new FSO activity costs (optional but at least one report required prior to End of Scheme Report).	Update on new FSO activity costs (optional but at least one report required prior to End of Scheme Report).	Update on new FSO activity costs.
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- 4.2 These reporting documents should be consistent in their structure to 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 NESO’s performance throughout the assessment period. NESO should engage with its customers and stakeholders and take into account any feedback on the content or structure of the reports. For BP2 Roles Assessment, NESO should structure these documents per role and subsequent activities to align with the evaluation process. NESO 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.
- 4.3 Further reporting guidance on what is expected for each of these reports is provided below. NESO is required to publish all these reports on its website. Where there is any confidential or commercially sensitive information, this should be redacted.
- 4.4 NESO 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 NESO identifies that the information provided is not accurate or correct, NESO must notify Ofgem and publish or resubmit corrected information as soon practicably possible, unless otherwise agreed with Ofgem.

Guidance around specific requirements

Plan delivery

- 4.5 NESO is required to update on its progress with its deliverables for the eighteen-month report and the End of Scheme Report. This should include publishing updates against a deliverables tracker²³. All the deliverables included in the tracker should be clearly numbered and in a consistent format with the original Business Plan.
- 4.6 If any changes are made to the delivery schedule during the 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 NESO's performance.

Metric performance

Performance metrics

- 4.7 NESO 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, NESO should provide outturn metric performance data and supporting rationale.
- 4.8 The full list of performance metrics for BP2 is included in Annex 2.

Stakeholder evidence

Role stakeholder surveys

- 4.9 NESO is required to commission surveys from an independent, reputable market research company. Stakeholder satisfaction surveys will measure satisfaction for each NESO role, focusing on the key activities within the role to track

²³ <https://www.nationalgrideso.com/document/284596/download>

performance. Stakeholder satisfaction surveys must also gather feedback on satisfaction for NESO's new activities. We have outlined in Annex 4 the questions to be used for the stakeholder satisfaction surveys in BP2.

4.10 The surveys should be undertaken for the End of Scheme report so that they can inform NESO's final performance review. The key aspects of the survey, including questions, research methods, and types of participants will be approved by Ofgem.

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 NESO is required to commission annually an Electricity Market Reform (EMR) Customer and Stakeholder Satisfaction survey²⁴ (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, NESO should summarise the key outcomes of this survey within its End of Scheme Report.

Quality of outputs

Regularly reported evidence

4.13 NESO 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.

Benefits reporting

4.15 NESO should report against the delivery schedule for each of its activities outlined in its original Business Plan, focusing predominately on areas not picked up by performance metrics or regularly reported evidence.

²⁴ As part of its obligation outlined in Electricity System Operator licence condition G2.9(e)

- 4.16 Reporting should refer to the specified success measures from the original Business Plan Delivery Schedule and the relevant performance measures. NESO should also include clear justifications for any changes to benefits expected from the Business Plan.
- 4.17 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. NESO's calculation of these benefits should follow the requirements outlined in the section on 'General standards of conduct on reporting' below.
- 4.18 Where there are new material interventions or changes to arrangements, strong evidence should also include a clear demonstration that NESO has, where appropriate, assessed multiple solutions to issues and chosen the ones that maximise consumer value. NESO should provide a clear articulation of why a particular option was chosen, demonstrating that NESO has assessed consumer value for each option. In addition, it should be clear that NESO has not solely pursued an NESO-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

- 4.19 Where NESO cannot clearly demonstrate the benefits from its Business Plan through other reporting (quantitative benefit reporting or regularly reported evidence), NESO should demonstrate *how* the delivery of its delivery schedule meets our expectations in the Roles Guidance.

Value for money²⁵

- 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 NESO 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.

²⁵ The Regulatory Reporting Pack remains the formal cost report for the ISOP.

- 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.
- 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.
- 4.23 NESO 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 NESO believes represented value for money that would be considered 'exceeding expectations'.

NESO Implementation Assessment reporting

- 4.24 This reporting requirements at the eighteen-month stage are subject to confirmation on the timing of Day 1 of NESO. As there is a possibility that the transition from NGESO to NESO may occur partway through the 18 month process, we may consider applying some flexibility to the these requirements, where it would be appropriate and beneficial to do so. Any changes to specific requirements must be agreed with Ofgem.
- 4.25 NESO must provide updates on its progress and spending on the FSO Transition Activities and its delivery of new NESO activities not integrated within the BP2 Roles Assessment (as indicated in Table 3). This includes reporting as part of the End of Scheme report and at least one update prior to that. The update prior to the End of Scheme report may be combined with an existing BP2 report (such as the 18 month report, a monthly report, or quarterly report) or it could be provided as a separate report at a separate time.
- 4.26 The reports should explain where there have been major changes to expected total spend compared to original costs forecasts²⁶ 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 NESO designation to the end of BP2.

²⁶ Including the ESO's BP2 FSO annex and Ofgem's June 2023 consultation on 'Funding the transition to a Future System Operator'.

- 4.27 The reports should also provide summary updates on progress against the expectations outlined in Chapter 5 of the Roles Guidance, including NESO's delivery of major new outputs from its new activities.
- 4.28 The detailed format of this reporting must be agreed with Ofgem at least one month prior to submission.
- 4.29 Given the interrelated nature of NESO's activities, we recognise that there may be crossover between BP2 Roles Assessment and the NESO Implementation Assessment in some cases. NESO 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

- 4.30 NESO is required to provide quarterly reports as part of the Cost Monitoring Framework. The primary focus of this regular reporting is on NESO'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 NESO to provide information relating to non-IT costs if requested by Ofgem.
- 4.31 A working paper between NESO 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 NESO's IT investments and is expected to be in line with the position we set out in the Draft Determination²⁷.

General standards of conduct on reporting

- 4.32 This Governance Document also sets out general standards of conduct that should apply to all reporting performed by NESO. These are that NESO must ensure that:

²⁷ Chapter 4, RIIIO-2 Business Plan 2 - ESO Draft Determinations: [RIIO-2 Business Plan 2 - ESO Draft Determinations | Ofgem](#)

- 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 NESO'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 NESO's knowledge at the time of submission, accurate and complete;
- Where NESO 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).

4.33 Where NESO 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 NESO 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).

Appendices

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Appendix 1 – EMR Survey

Background

A1.1 Under the transmission licence (held by the ESO) NESO 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.

A1.2 In the NESO licence, this requirement has been removed. This is to enable a potential future integration of this survey within the broader stakeholder survey carried out by NESO under its performance incentives in the NESO Performance Arrangements.

A1.3 However, given the licence took effect within an existing regulatory period, we are maintaining the EMR survey requirements within this governance document until the end of BP2.

Requirements

A1.4 Unless otherwise agreed with the Authority, NESO 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.

A1.5 If no results of a CfD allocation round were published either in or in respect of a Regulatory Year, then NESO is not obliged to conduct the CfD Customer and Stakeholder Satisfaction Surveys.

A1.6 If no results of a CM auction were published either in or in respect of a Regulatory Year, then NESO is not obliged to conduct the CM Customer and Stakeholder Satisfaction Surveys.

A1.7 When conducting a Customer and Stakeholder Satisfaction Survey in relation to either CM or CfD, NESO—

- a) may include such questions as it considers appropriate; but
- b) must include a question that asks for overall satisfaction with NESO'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.

A1.8 NESO must report on the outcomes of each overall customer and stakeholder satisfaction question in accordance with Condition G3 (Regulatory Instructions and Guidance (RIGs)).

A1.9 NESO 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.

A1.10 NESO 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.

Appendix 2 – Performance metrics 2023-25

Table 4 sets out the details of the performance metrics for 2023-25. Within this we have included annual performance benchmarks to further support transparency of NESO’s within-scheme performance. For the avoidance of doubt, NESO’s outturn performance against the performance metrics (and NESO’s reasons for this outturn performance) over the complete two-year period will be considered for the final assessment.

Table 4: Performance metrics set for remainder of BP2

Role 1	
1A. Balancing costs	
Method	<p>This metric measures NESO’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.
Performance benchmarks	<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>
Reporting frequency	Monthly

Associated reporting	<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.
1B. Demand forecasting	
Method	<p>Measures the average absolute MW error between day-ahead forecast demand (taken from Balancing Mechanism Report Service (BMRS²⁸) 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 NESO, this will be retrospectively accounted for in the data used to calculate performance. NESO shall publish the volume of instructed ODFM to enable this to be done.</p>
Performance benchmarks	<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: $\pm 5\%$ 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>

²⁸ <https://www.bmreports.com/bmrs/?q=demand/>

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>NESO 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>NESO 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	<p>Measures the average absolute error between day-ahead forecast (between 09:00 and 10:00, as published on NESO data portal²⁹) and post-event outturn wind settlement metering (as published on the Elexon insights 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:</p> <ul style="list-style-type: none"> • did not have a bid-offer acceptance (BOA); • did not withdraw availability completely between time of forecast and time of metering; <p>for the relevant settlement period. NESO 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; or

²⁹ <https://data.nationalgrideso.com/>

	<ul style="list-style-type: none"> 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 $\pm 5\%$ used to set benchmark for meeting expectations.</p>
Performance benchmarks	<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: $\pm 5\%$ 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 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>NESO 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, NESO should publish on its data 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; • 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. <p>NESO should send all associated reporting to Ofgem in an appropriate time.</p>
<p>1D. Short notice changes to planned outages</p>	
<p>Method</p>	<p>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.</p>
<p>Performance benchmarks</p>	<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	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 NESO. 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 NESO’s current and projected procurement for each of these services. NESO will report on MW procurement volumes for all of the services, apart from reactive power where reporting is against procurement volumes in MVAR.</p>
Performance Benchmarks	<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</p>

	<p>Within \pm 5% of the annual procurement benchmark</p> <p>Below</p> <p>5% or more higher than the annual procurement benchmark</p>
Reporting frequency	Biannually
Associated reporting	<p>NESO 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 trades³⁰ made during the period, including measures taken to avoid such trades.
2X. Day-ahead procurement	
Method	<p>Measures percentage of balancing services³¹ procured at no earlier than the day-ahead -stage.³²</p> <p>Benchmarks are set based on expected product expirations and expectations for new procurement volumes.</p>

³⁰SO-SO trades refer to trades made between system operators of connected countries, used to determine the direction of electricity flow over interconnectors.

³¹ 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.

³² Note that in line with the terms of a derogation from the requirements of Article 6(9) of the Electricity Regulation, the ISOP is required to procure **at least** 30% of services no earlier than day-ahead stage. An example of a derogation held by the ISOP 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>

	Expectations are set for all relevant services currently procured by NESO and may be revised if new products are introduced.
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 \pm 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.

Appendix 3 – Regularly reported evidence 2023-25

Table 5: 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>NESO’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>NESO 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 groups³³ allocated; and • Monthly number of actions without a reason. <p>Reporting to include narrative explaining:</p> <ul style="list-style-type: none"> • the action NESO 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 NESO to address the need for actions to be taken out of the merit order.

³³ Reason groups are defined in the methodology published on the ISOP's data portal (<https://data.nationalgrideso.com/balancing/dispatch-transparency>) and provide a descriptor for when an action is taken out of merit order.

1F. Zero Carbon Operability (ZCO) indicator	
Method	<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> NESO 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> Every quarter, NESO will report the data on the ZCO provided by the market versus the ZCO following NESO actions. This should be presented at a monthly granularity.</p> <p><u>Part 3: updates on progress towards increasing the ZCO limit</u> Every year, NESO will provide detailed case studies on the periods where the market delivered the highest ZCO and the actions NESO had to take in response. NESO 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. NESO will report this as part of its Mid-Scheme and End of Scheme Reports.</p>
Quantitative expectations	n/a

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 NESO actions	
Method	Calculates the approximate gCO ₂ /kWh of actions taken by NESO, considering the proportion of the total CO ₂ emissions on the system which is a result of NESO actions. NESO will use its carbon intensity forecast methodology ³⁴ to estimate carbon intensity factors for each fuel type and interconnector import. NESO will report on aggregated settlement period data. Full data will be available on NESO data portal.
Quantitative expectations	n/a
Reporting frequency	Monthly
1H. Constraints cost savings from collaboration with TOs	
Method	Measures the estimated £m avoided constraints costs through solutions brought forward in STCP 11.4. Where applicable, these savings should be calculated in line with the methodology that will be developed as part of the new financial incentive on TOs (the SO:TO Optimisation ODI-F). In other cases, NESO should state the assumptions used for its estimated savings. NESO should provide additional narrative on any other solutions, such as outage planning actions, and the impact of these solutions on balancing costs.

³⁴ The ISOP's carbon intensity forecast methodology can be found at: www.carbonintensity.org.uk

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 NESO’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-</p>

	competitively procured services with contract award after this date, will be included.
Reporting frequency	Biannually
Associated reporting	<p>NESO 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.
2D. EMR demand forecast accuracy	
Method	Measures NESO'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 – Annually BSUoS Charges - 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 NESO before NESO 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>NESO 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>NESO 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 - NESO will report:</p> <ul style="list-style-type: none"> • the number of one-step offers issued within 3 months; • 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>NESO 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. NESO 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>NESO 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. NESO 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. ³⁵
Quantitative expectations	n/a
Reporting frequency	Quarterly
Associate reporting	<p>NESO 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.</p> <p>NESO 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, NESO will report this separately for step 1 and step 2 offers. This will subsequently revert to a single offer.</p> <p>NESO will provide commentary around the numbers reported for this, particularly if any trends are apparent.</p>

³⁵ Other than as provided for under the 2 step offer process. This process is due to conclude by 1 March 2024.

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

Appendix 4 – 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 NESO's services. The exact survey participants will be determined by NESO's stakeholder contacts database. We expect NESO to maintain up to date contact details of its stakeholders.

Questions

NESO will ask one question on stakeholder satisfaction for each role, outlined below:

"One of our NESO 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 NESO teams in these areas in the last six months, how would you rate NESO's performance?

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

NESO's recent activities for each role should draw from the most relevant deliverables over the past six months of activity.

NESO will also ask one question on stakeholder satisfaction on NESO's performance establishing its new organisation and roles. This question should be agreed with Ofgem in advance.

Appendix 5 – Glossary of NESO Performance Arrangements Governance terms

Table 7: Glossary of key terms used in NESO Performance Arrangements Governance

Element	Description
Activity	A subset of responsibilities within a role with specific expectations and deliverables attached to it.
Assessment Period	Has the meaning given in NESO's Electricity System Operator and Gas System Planner licences.
Balancing Mechanism (BM)	Has the meaning given in NESO's Electricity System Operator licence.
Balancing Services Use of System (BSUoS) Charges	Has the meaning given to that term in the CUSC Section 11.3.
Business Plan	Details NESO's costs, activities, deliverables, and performance metrics for delivering its strategy over the first two years of the RIIO-2 period.
Business plan cycle	The business plan cycle is the period for which the business plan is applicable. The second business plan cycle (BP2) covers the incentive scheme starting on 1 April 2023 and ending on 31 March 2025.
Capacity Market (CM)	Has the meaning given in NESO's Electricity System Operator licence.
Contracts for Difference (CfD)	Has the meaning given in NESO's Electricity System Operator licence.
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.
Demand Flexibility Service (DFS)	An NESO balancing service, as approved into the terms and conditions related to balancing by Ofgem ³⁶ .
Electricity Market Reform (EMR)	Has the meaning given in NESO'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 NESO in 2024.

³⁶ <https://www.ofgem.gov.uk/publications/decision-demand-flexibility-service-relation-update-terms-and-conditions-related-balancing-202324>

Enhanced Frequency Response (EFR)	An NESO balancing service which is no longer actively procured, as established within the Procurement Guidelines Statement.
Evaluation criteria	The criteria used by NESO Performance Panel to measure NESO's performance for each role.
Incentive scheme	The process over a business plan cycle to assess NESO'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 Code ³⁷ .
NESO Performance Panel	A mix of independent experts and industry representatives that are responsible for reviewing NESO's plans and performance, as well as performing an End of Scheme evaluation of NESO's performance.
NESO Roles Guidance	Sets out our expectations for how NESO 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 Code ³⁸ .
Optional Downward Flexibility Management (ODFM)	An NESO balancing service, as approved into the terms and conditions related to balancing by Ofgem ³⁹ .
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 NESO's performance, including performance metrics, stakeholder satisfaction and other regularly reported evidence.

³⁷ <https://www.elexon.co.uk/glossary/initial-national-demand-out-turn/#:~:text=The%20half%2Dhour%20average%20MW,of%20the%20effective%20Settlement%20Period.>

³⁸ <https://www.elexon.co.uk/glossary/national-demand-forecast/>

³⁹ <https://www.ofgem.gov.uk/publications/decision-odfm-relation-tc-related-balancing>

Performance metric	A numerical measure of NESO 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 NESO under its Electricity System Operator Licence Condition C9.
Regularly reported evidence	Evidence that should be regularly reported by NESO 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.
Short-Term Operating Reserve (STOR)	An NESO balancing service, as approved into the terms and conditions related to balancing by Ofgem ⁴⁰ .
Transmission Network Use of System (TNUoS) Charges	Has the meaning given in NESO’s Electricity System Operator licence.
Triad	Has the meaning given in the Balancing Settlement Code ⁴¹ .

⁴⁰ <https://www.ofgem.gov.uk/publications/decision-short-term-operating-reserve-relation-update-terms-and-conditions-related-balancing>

⁴¹ <https://www.elexon.co.uk/glossary/triad/>