

# Call for input

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## Call for input: ESO incentives BP2 – Mid-scheme assessment

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We're approaching the mid-scheme point of the Electricity System Operator's ("ESO") Business Plan 2 (BP2) period of the RIIO-2 price control. This document outlines our<sup>1</sup> call for input on the ESO's performance between April 2023 and April 2024.

We are seeking views from any stakeholders who have evidence and positions to share on how well the ESO are performing against their stated BP2 aims.

Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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<sup>1</sup> The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

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## Background

Under the RIIO-2 framework, we evaluate the ESO's performance in delivering its two-year business plan to determine an overall financial reward or penalty. We consider whether the ESO has achieved our expectations under the ESO Roles Guidance,<sup>2</sup> and the extent to which it has delivered value for money for consumers. Our assessment examines whether the ESO has delivered its key business plan commitments on time and within budget and how well it has delivered these commitments. This is supported by several numeric measures of performance and evidence collected from the ESO and stakeholders throughout the two-year period.

The assessment is performed by both Ofgem and the independent Performance Panel, using The Electricity System Operator Reporting and Incentives Arrangements: Guidance Document (ESORI).<sup>3</sup> The Performance Panel's assessment forms a recommendation we use to make a final decision.

## Stakeholder views

A key component of our assessment is the opinion of the many stakeholders involved in the BP2 process. Stakeholder evidence is one of the five core components of the evaluation criteria<sup>4</sup> we use to assess the ESO's performance for each of the three Roles. We're looking to draw on the knowledge and expertise of a wide range of stakeholders to perform a comprehensive assessment of the ESO's BP1 performance.

We're publishing this call for evidence to request stakeholder feedback on the ESO's performance from April 2023 to date. We welcome feedback on any Roles (see Annex 1 – Summary of ESO Roles) and any deliverables in the ESO's business plan.<sup>5</sup> This includes areas where you believe the ESO is below, meeting, or exceeding expectations.

We'd appreciate feedback categorised into each of the Roles, and particularly welcome feedback on the key themes raised in our BP1 end-scheme review,<sup>6</sup> such as:

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<sup>2</sup> The ESO Roles Guidance can be found at: <https://www.ofgem.gov.uk/sites/default/files/2023-03/ESO%20Roles%20Guidance%202023-2025.pdf>

<sup>3</sup> The ESORI guidance can be found at: <https://www.ofgem.gov.uk/sites/default/files/2023-03/ESORI%20Guidance%20Document%202023-2025.pdf>

<sup>4</sup> The five components of the evaluation criteria are: Plan delivery, Stakeholder evidence, Value for money, Metric performance, and Quality of outputs

<sup>5</sup> The latest ESO RIIO-2 Delivery Schedule can be found at: <https://www.nationalgrideso.com/document/189126/download>

<sup>6</sup> Ofgem's end-scheme decision can be found at: <https://www.ofgem.gov.uk/sites/default/files/2023-08/End-Scheme%20decision%20on%20the%20Electricity%20System%20Operator%27s%20performance%202021-2023.pdf>

- Role 1 – The ESO’s delivery of benefits and value for money from its priority IT projects, its operational decision making, and its steps to tackle increased balancing costs in the short term.
- Role 2 – Delivery and implementation of the various balancing products and markets the ESO has developed (including delivery of the EMR portal), and experience of the ESO as a manager of code change.
- Role 3 – The ESO’s performance on improving the connections process, and its leadership on strategic network planning.

## **How to respond**

We want to hear from anyone interested in this call for input. Please send your responses to [ESOPerformance@ofgem.gov.uk](mailto:ESOPerformance@ofgem.gov.uk) before midnight on the date stated at the top of this letter.

We will publish non-confidential responses on our website.

## **Your response, data and confidentiality**

You can ask us to keep your response, or parts of your response, confidential. We’ll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you wish to be kept confidential and those you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we’ll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK’s withdrawal from the European Union (“UK GDPR”), the Gas and Electricity Markets Authority will be the data controller for GDPR. Ofgem uses the information in consultation responses to perform its statutory functions in accordance with section 105 of the Utilities Act 2000.

## **Decision** –Call for input: ESO incentives BP2 – Mid-scheme assessment

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If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## **Next steps**

The ESO will publish its mid-scheme report in May 2024. This will be followed by a stakeholder event in June, a chance for verbal feedback and engagement with the ESO on its performance during BP2.

The Panel will assess the ESO's performance and publish a report following this. We will also be assessing the ESO's performance, considering the Panel's recommendations to us, and we will publish a report with our final decisions later this summer.

If you have any questions on the contents of this letter, please contact us on [ESOPerformance@ofgem.gov.uk](mailto:ESOPerformance@ofgem.gov.uk).

We look forward to hearing from you.

Yours sincerely,

**Adam Gilham**

**Head of ESO Regulation**

## **Annex 1 – Summary of ESO Roles**

<b>Role</b>	<b>Activities and outputs</b>
<b>Role 1 – Control centre operations</b>	<p><b>Activity 1a: System operation</b></p> <ul style="list-style-type: none"><li>• Balancing efficiently</li><li>• Maintaining security of supply</li><li>• Making trade-offs across time horizons</li><li>• Ensuring future operability</li><li>• Coordinating with other network operators</li><li>• Minimising outage changes caused by error</li><li>• Oversight of balancing services markets</li><li>• Maintaining effective and reliable IT systems</li><li>• Operating the network carbon free</li></ul> <p><b>Activity 1b: System restoration</b></p> <ul style="list-style-type: none"><li>• Restoration plans and tools</li><li>• Restoration policy</li><li>• Restoration services procurement</li></ul> <p><b>Activity 1c: Transparency, data and forecasting</b></p> <ul style="list-style-type: none"><li>• Provision of market information</li><li>• Driving the energy sector digitalisation</li><li>• Using and exchanging data</li><li>• Forecasting</li><li>• Data use and exchange</li></ul>

<b>Role 2 – Market development and transactions</b>	<p><b>Activity 2a: Market design</b></p> <ul style="list-style-type: none"><li>• Competitive market-based procurement</li><li>• Close to real time procurement</li><li>• Delivering accessible markets</li><li>• Signalling procurement needs</li><li>• Coordinated procurement across the whole system</li></ul> <p><b>Activity 2b: Electricity market reform</b></p> <ul style="list-style-type: none"><li>• User experience with the EMR portal</li><li>• Implementation of policy and rule changes</li><li>• Providing support to EMR parties</li><li>• Making accurate prequalification decisions</li><li>• Improving EMR processes</li><li>• Monitoring compliance with rules</li><li>• Security of supply modelling</li></ul> <p><b>Activity 2c: Industry codes and charging</b></p> <ul style="list-style-type: none"><li>• Managing code changes</li><li>• Improving GB rules and standards</li><li>• Influencing, implementing and administering European rules</li><li>• Promoting efficient charging and access arrangements</li></ul>
<b>Role 3 – System insight, planning and network development</b>	<p><b>Activity 3a: Connections and network access</b></p> <ul style="list-style-type: none"><li>• Managing connections</li><li>• Outage and medium-term access planning</li></ul> <p><b>Activity 3b: Operational strategy and insights</b></p>



	<ul style="list-style-type: none"><li>• Providing energy insights</li><li>• Producing analytically robust scenarios and long-term forecasts</li><li>• Ensuring coordinated scenario development</li></ul> <p><b>Activity 3c: Optimal network investment</b></p> <ul style="list-style-type: none"><li>• Identifying network needs and solutions</li><li>• Coordination between network assessments</li><li>• Procurement of network solutions</li><li>• Consistency with distribution network planning</li></ul>
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