

ESO RIIO-2 outcomes, our commitments and the new framework



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Welcome to this ESO RIIO-2 webinar

Agenda

- What the final determinations mean for the ESO
- What we have committed to deliver in RIIO-2
- How our regulatory and incentives framework will support the delivery of our ambitions
- Ongoing engagement
- Q&As

Housekeeping requests:

- This session will be recorded
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What the RIIO-2 final determinations mean for the ESO

Gareth Davies, Head of Regulation and RIIO-2



Thank you for your
ongoing support and
engagement



Speaker: Gareth Davies
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Ofgem want the ESO to be proactive, ambitious and agile

The key outcomes for RII0-2 are:

- All efficient costs will be recovered through a **pass-through funding model**, giving us greater flexibility to adjust our spending in order to deliver our ambitious business plan and maximise consumer benefit.
- Of our £514 million proposed business plan costs, Ofgem have included **£504 million in the efficient baseline**, with the remaining £10 million to be assessed later.
- The **evaluative incentive scheme** (+£15 million/-£6 million per year) will assess our performance across five areas.
- The ESO will have access to a pot of **innovation funding of £20.7 million over a five-year period**, with an option to request more as part of our business plan for April 2023 onwards.
- Ofgem have recognised the **complexity of the ESO moving to a fully independent IT model by 2023**, so are now considering this as part of the wider review of the ESO.

What we have committed to deliver in RIIO-2

Joseph Donohoe, ESO RIIO Manager



Final determinations delivery schedule grading

Role and overall grading (1-5) 5 being high ambition	Delivery schedule area	Ofgem Ambition grading
Role 1 – Control centre operations (Ambition 5/5)	1a System operation	Exceeds
	1b System restoration	Exceeds
	1c Transparency, data and forecasting	Exceeds
Role 2 – Market development and transactions (Ambition 4/5)	2a Market Design	Exceeds
	2b EMR	Exceeds
	2c Industry codes and charging	Meets
Role 3 – System insight, planning and network development (Ambition 4/5)	3a Connections and access	Exceeds
	3b Strategy and insights	Exceeds
	3c Long term network planning	Meets

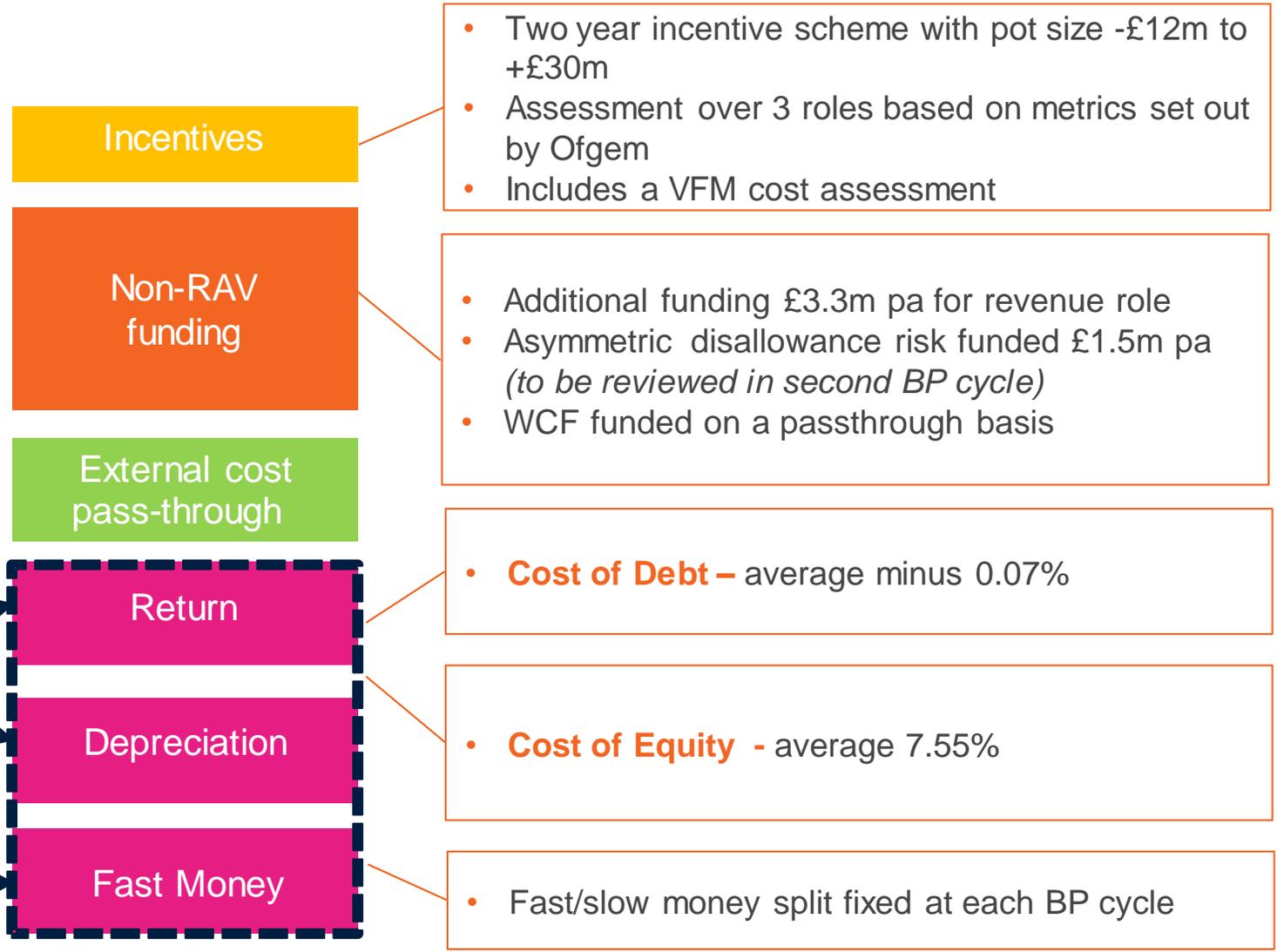
Our regulatory and incentives framework

Jane West, Finance Business Partner
Jenny Mills, ESO Incentives Manager



The RIIO-2 regulatory framework will help us to transform the ESO and deliver our ambitious plans, unlocking huge value for consumers

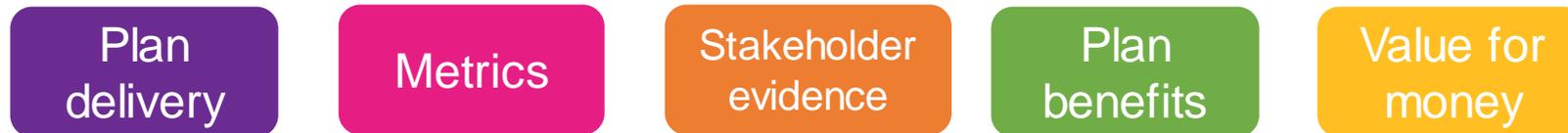
- Ofgem's final determinations**
- 2-year business planning cycle within a longer price control framework
 - Totex funding approach – opex via fast money, capex via slow money
 - Additional non- RAV funding for revenue role, disallowance risk and WCF costs
 - Pass through of efficient costs with no sharing factor – i.e. ex ante allowance trued to actual (*trued to forecast in Y+1 and actuals in Y+2*)
 - Disallowance for demonstrably inefficient spend
 - Asymmetric evaluative incentive scheme (*i.e. greater upside reward than downside penalty*)



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The ESO's performance will be assessed via an evaluative incentive scheme

- There will still be three role areas, worth an equal amount, with similar evaluation criteria and reporting requirements to today's incentive scheme.
- For RII0-2, the scheme will newly incorporate **EMR delivery body performance** and **restoration costs**.
- Ofgem will **assess our performance across five areas**:



- Delivery schedules for each role have been graded- this will be factored into Ofgem's assessment of Plan delivery.
- Ofgem has set out proposals (in the ESORI guidance and Roles document) for what we will need to report and what would constitute the ESO's performance exceeding, meeting or being below expectations.
- The Performance Panel, including the newly introduced independent chair, will **score the ESO's performance every six months**, giving us a clear idea of how we're performing. Six-monthly feedback from Ofgem and the Performance Panel will guide the ESO's performance for the rest of the period.
- Ofgem's final incentive decision will cover the **entire two-year period**, with no interim banking of outcomes.

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Metrics and Regularly Reported Evidence (RRE)

Role 1

Metrics

- Balancing Costs
- Demand Forecasting
- Wind Generation Forecasting
- Short Notice Changes to Planned Outages

RRE

- Transparency of Operational Decision Making
- System Zero Carbon Penetration
- Carbon intensity of ESO actions
- Constraints cost savings from collaboration with TOs
- Security of Supply reporting
- CNI Outages

Role 2

Metrics

- Competitive Procurement

RRE

- Diversity of Service Providers
- EMR Decision Quality
- EMR Demand Forecasting Accuracy
- Accuracy of Forecasts for Charge setting

Role 3

RRE

- Future Savings from Operability Solutions
- Consumer Value from the NOA
- Diversity of Technologies Considered in NOA processes

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Co-creating with our stakeholders

Speaker: Gareth Davies
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The final determinations are not the end of the process. We will continue to work with you as we set ourselves up to deliver from April 2021 and beyond. We will enhance how we engage with you, including:

- A commitment to increase transparency;
- Being more proactive and co-creating, in a way that works for you;
- Improving our website and digital capabilities;
- Improving our publications and making it clear how they fit together;
- Reviewing our forums and consolidating them where possible, and
- Making better use of Trade Associations to engage further.

Question time

Please 'raise your hand' MS Teams to ask in person or head to www.slido.com and use the event code **#riio2**

If you wish to email your question or comments after this webinar, please use

Box.ESO.RIIO2@Nationalgrideso.com