Technical annex: Evaluative performance framework

Draft Determination
Annex 4
About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland’s electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our mission
To protect the short- and long-term interests of consumers of electricity, gas and water.

Our vision
To ensure value and sustainability in energy and water.

Our values
- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.
Abstract

This sets out more detailed work on the design and guidance for our proposals for an annual evaluative framework to incentivise SONI TSO performance. It expands further on our main body section 5 and relevant analysis in business plan assessment annex 2.

Audience

This document will be of interest to SONI, its customers and other stakeholders.

Consumer impact

SONI’s TSO costs of running its business which we price control are typically around 2% of the NI consumers electricity bill. How it chooses to deploy the costs of running its business and performs its role has a larger impact on outcomes such decarbonisation, grid security and wider system costs (for example, system service, wholesale and transmission investment costs which make up part of the electricity bill for NI consumers); given the influence it has across the system. We incentivise SONI through the price control to deliver high quality service to contribute to these good outcomes.
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1. **Overview of evaluative performance framework**

**Introduction**

1.1 As explained in Annex 3, Delivering services and outcomes, and in line with our March 2019 regulatory approach decision, we have developed a new evaluative performance framework for the 2020-25 SONI price control.

1.2 Our proposed evaluative performance framework would involve an annual review process governed by upfront regulatory guidance. In this section we provide an overview of the main elements of the framework and how they fit together. We start with a summary of the key elements of regulatory guidance to support the framework and of the annual performance process. We then set out how we plan to establish and develop the framework.

1.3 The remaining sections of this annex describe in more detail each of the main elements of the framework and how we propose to implement it.

**Developing guidance for the performance framework**

1.4 We propose to develop a suite of regulatory guidance documents that underpins the new performance framework. These are illustrated in figure 1 and summarised in table 1.

*Figure 1: Key areas of guidance for the performance framework*
Table 1: Description and role of guidance within the framework

<table>
<thead>
<tr>
<th>Area of guidance</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>SONI service outcomes</td>
<td>These reflect the desired outcomes from SONI and provide a basis on which to assess SONI performance. We have proposed draft outcomes for SONI that draw heavily on the key benefit areas identified in SONI’s proposed benefits sharing framework.</td>
</tr>
<tr>
<td>SONI service areas</td>
<td>These are categories which provide a breakdown of the different types of service that SONI provides to customers (or to the system as whole).</td>
</tr>
<tr>
<td>Mapping of service areas to outcomes</td>
<td>This provides a mapping between SONI’s TSO service areas and SONI’s TSO service outcomes, which identifies which services areas affect which outcomes and indicates the relative degree of influence that each service area has on each of the outcomes. This plays an important role in the evaluative framework by setting out expectations of which areas of SONI TSO activity we should be looking at for evidence of potential good or bad performance against each of the outcomes and is relevant to the determination of the scoring weights as part of the evaluation methodology.</td>
</tr>
<tr>
<td>Upfront service expectations</td>
<td>Sets out our position on what a good TSO would do and/or achieve in relation to specific aspects of the TSO’s activity under each service area, taking account of each area’s influence on, and contribution to, SONI outcomes. Separate specification for each of the 11 service areas. Not intended to be a comprehensive description of the SONI’s TSO role and requirement in each service area or as a replacement for licence obligations; focus is on issues and aspects identified for purposes of the TSO performance framework within the TSO revenue control. Should be revised over time in light of learning from experience, and adaption to new developments.</td>
</tr>
<tr>
<td>Required performance evidence</td>
<td>This is an upfront specification of performance metrics, and other relevant evidence, that is expected to be informative on the SONI’s performance in relation to the outcomes. The metrics would not be used mechanistically to determine any financial rewards or penalty. They would be part of the overall evidence base for the evaluation of performance, taken into account alongside other information. The required evidence would apply two main levels: (i) evidence relating to SONI service outcomes that is relevant across service areas; and (ii) evidence that is particularly relevant to performance in specific SONI service areas. The requirements would include evidence on the SONIs costs incurred in relation to each service area.</td>
</tr>
<tr>
<td>Evaluation methodology</td>
<td>The evaluation methodology sets out the approach to assessment of the SONI’s performance and the determination of any financial reward or penalty. This includes the approach to scoring performance; the role for an evaluation panel, and the elements feeding into annual evaluations.</td>
</tr>
</tbody>
</table>
The evaluation methodology would also specify the timetable for the annual performance cycle, including when key documents are required from the SONI, and other aspects of the administrative process.

1.5 We would not expect the regulatory guidance documents to vary substantially from one year to the next, but we would expect them to be further developed and improved on over time, with potential revisions during the price control period to build on experiences from the application of the approach. Any material revisions would be subject to stakeholder consultation.

1.6 Key aspects of the framework would be fixed for the duration of the five-year price control period and specified in our final determinations. These include the overall approach, the desired outcomes from SONI, and the maximum financial rewards and penalties. These are highlighted in Table 2 below.

**Overview of the annual performance review process**

1.7 The annual performance review process would be governed by the regulatory guidance set out in advance. In broad terms, we envisage that, for each price control financial year (i.e. running 1 October to 30 September), the process would work through the key steps illustrated in Figure 2.

**Figure 2: Overview of annual performance process**

1.8 A key aspect of this process is an annual forward plan produced by SONI. SONI would provide a strategy and plans for each service area explaining how it will meet expectations and contribute to desired outcomes.

1.9 Following the end of the financial year, SONI would produce its annual performance assessment for the UR and other stakeholders. This would set out SONI's assessment of outturn performance in each service area, covering performance in relation to:

- Delivery against the strategy and plans contained in its forward plan.
- Reporting against the required performance evidence from the UR’s guidance documents.

- Other evidence and analysis of performance that SONI considers relevant.

1.10 We would establish an evaluation panel comprising stakeholders who would produce an evaluation of the SONI’s performance in a number of different areas, based on an evaluation approach specified in our evaluation methodology guidance document. The panel would draw on SONI’s performance assessment, opinions and evidence from stakeholders, and input from the UR.

1.11 We would take account of the panel’s scoring of SONI’s performance when determining any applicable financial reward or penalty, in accordance with the approach specified in our evaluation methodology guidance document. Our draft determination of any reward or penalty would be subject to stakeholder consultation before finalisation. To be clear, the final decision would rest with the UR.

1.12 We provide a more detailed timetable in Section 6.

Establishing and developing the new framework

1.13 A key feature of the new evaluative performance framework is that it can developed over time, allowing adaptation in light of growing experience and emerging issues.

1.14 As part of our SONI price control final determinations, we plan to determine the overall structure and approach, including key financial aspects (e.g. maximum financial reward or penalty). These would be set in our final determinations and reproduced in the guidance documents.

1.15 We are also sharing preliminary material for the guidance documents in this appendix. Some of the guidance documents will need to be developed further through a separate process, drawing on stakeholder input. The guidance documents could be updated during the price control period.

1.16 The annual process of performance evaluation and stakeholder review of SONI allows for ongoing iteration and improvement in the framework (subject to respecting the structure and approach from our final determinations).

1.17 In Table 2 we highlight which aspects of the framework we would set through our final determinations and which would be subject to further processes.

Table 2: Plan for development of elements of the framework

<table>
<thead>
<tr>
<th>Element of framework</th>
<th>Proposed plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>SONI service outcomes</td>
<td>Set at final determinations; proposals for consultation included in draft determinations. Would not change during price control period.</td>
</tr>
<tr>
<td>SONI service areas</td>
<td>Set at final determinations; proposals for consultation included in draft determinations.</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Mapping of service areas to outcomes</td>
<td>Initial position to be set at final determinations; proposals for consultation included in draft determinations. Potential to refine over price control period if necessary.</td>
</tr>
<tr>
<td>Upfront service expectations</td>
<td>Initial outline draft of service expectation provided with draft determinations, for stakeholder feedback. Upfront service expectations to be included as part of regulatory guidance material that would be updated and refined during price control period (subject to stakeholder consultation).</td>
</tr>
<tr>
<td>Required performance evidence</td>
<td>Initial outline draft of required performance evidence provided with draft determinations, for stakeholder feedback. Required performance evidence to be included as part of regulatory guidance material that would be updated and refined during price control period (subject to stakeholder consultation).</td>
</tr>
<tr>
<td>Evaluation methodology</td>
<td>Set some key aspects at final determinations (proposals for consultation included in draft determinations) in relation to:</td>
</tr>
<tr>
<td></td>
<td>• Maximum financial reward or penalty;</td>
</tr>
<tr>
<td></td>
<td>• Role of UR, SONI and stakeholders in the evaluation process;</td>
</tr>
<tr>
<td></td>
<td>• High-level approach to scoring and weights. These would not change during price control period. Other more detailed guidance on aspects of the methodology, including the timetable for annual process, to be included as part of regulatory guidance material that would be updated and refined during price control period (subject to stakeholder consultation).</td>
</tr>
</tbody>
</table>

1.18 The remaining sections of this appendix provide more information on the various elements of the framework introduced in this section:

- Section 2 concerns SONI service outcomes, SONI service areas, and the mapping of service areas to outcomes.
- Section 3 concerns the upfront service expectations to be set as part of the UR’s guidance documents.
- Section 4 concerns the required performance evidence to be set as part of the UR’s guidance documents.
- Section 5 concerns the SONI’s forward plan and its annual assessment of its performance.
• Section 6 concerns the evaluation methodology to be included in the UR’s guidance documents.

1.19 In addition, section 7 addresses two specific implementation issues, which relate to when the financial incentives under the framework would apply from and to the appeal route in relation to the UR’s decisions on any financial reward or penalty.
2. **SONI service outcomes and service areas**

2.1 This section presents our proposals on the SONI service outcomes and the categorisation of SONI's TSO service areas. It also provides our initial view on the mapping between the various service areas and outcomes in terms of the relative scale of SONI influence.

**Proposed SONI service outcomes**

2.2 We consider that, as part of the introduction of a new evaluative performance framework for SONI, it will be useful to establish a set of outcomes from the regulation of SONI (and from SONI itself) that we want to influence through the performance framework.

2.3 There is increasing attention amongst UK regulators to the specification of the "outcomes" that regulatory action is intended to achieve. The UR’s *Corporate Strategy 2019-2024* identifies a series of "key outcomes" that flow from the strategic objectives.

2.4 In thinking about potential outcomes for the SONI price control, we have drawn on a good practice guide produced by the NAO on performance measurement by regulators. This guide provides the following brief definition of an outcome, which it distinguishes from inputs and outputs: "*Outcomes: The impacts or consequences (for consumers, the community or the environment) of the activities undertaken*."

The guide also recognises some of the challenges that arise in practice for performance measurement against intended outcomes, such as:¹

- "Generally more than one regulatory action has an influence on any particular outcome, and an individual action can affect more than one intended outcome."

- *There are external influences on outcomes including, in the regulatory context, external influences on the actions of regulated providers.*

- *There can be a time gap, sometimes very substantial, between regulatory actions and the associated outcomes becoming visible."

2.5 Despite these challenges, the NAO guide takes a clear position that it is desirable for a regulator to define the outcomes it is seeking to influence (or achieve) through regulatory action. Much of the guide then concerns how regulators can make use of outcomes in performance monitoring.

2.6 As explained in Annex 3, Delivering service and outcomes SONI's business plan did not provide clarity on its view of desired outcomes.

2.7 Nonetheless, we identified that for the specification of outcomes we can build on some of the work that SONI carried out for the preparation of its business plan,

¹ NAO (2016) *Performance measurement by regulators*, pages 14-15 [see link].
relating to its proposed benefits sharing framework. SONI’s proposed benefits sharing mechanism involves the assessment of its performance in four separate “benefit areas”. These are described as follows (SONI business plan, Appendix N, page 52):

- **Decarbonisation.** The decarbonisation of the electricity system is of great importance to customers and something SONI’s activities can contribute towards.

- **Grid Security.** A secure and reliable electricity network that is fit for the future of the electricity systems needs is vital to customers and market participants and SONI should be incentivised to push and maintain the quality of the system to the highest standards.

- **Costs.** Ensuring customers get value for money and cost efficiency and benefit from a greener and more secure grid the costs should be looked at holistically.

- **Performance.** Whilst delivering on decarbonisation, grid security and cost, SONI will also need to meet the expectations of its stakeholders."

2.8 The four benefit areas above were not drafted in a way that enables them to be taken directly as desired outcomes. Nonetheless, we consider that they can be adapted for use as outcomes.

2.9 Drawing on SONI’s four benefit areas above, we propose to define four high-level outcomes that we are seeking to influence through the regulation of the TSO:

- **Decarbonisation.** Northern Ireland electricity system supports government decarbonisation policy and targets.

- **Grid security.** Northern Ireland electricity customers receive secure and reliable electricity supplies.

- **System-wide costs.** Northern Ireland electricity consumers get good value for money which reflects efficiency within, and across, different parts of the Northern Ireland electricity system, over the short term and the longer term.

- **SONI service quality.** SONI provides an appropriate range and quality of services to participants in the Northern Ireland electricity system and other stakeholders.

2.10 The first three outcomes above relate to system-wide matters that are not unique to SONI. These outcomes reflect SONI’s broad influence across the electricity system. The fourth outcome is more focused on SONI’s actions.

2.11 The drafting of the first three outcomes above involve quite limited modification to that used by SONI for its benefit areas. In relation to decarbonisation, we consider that it would be better to refer explicitly to government decarbonisation policy and targets, given their role and importance, than to retain SONI’s more general
reference to decarbonisation being of great importance to customers.

2.12 The fourth outcome above involves more significant change to SONI’s fourth benefit area. This is explained as follows.

- We agreed with SONI’s proposal of an additional category beyond decarbonisation, grid security and costs. However, we found SONI’s “performance” category confusing and under-developed. The first three categories of decarbonisation, grid security and costs are themselves aspects of performance, so it was difficult to understand the rationale defining an additional “performance” category. We also found SONI’s reference to the expectations of stakeholder insufficiently clear.

- The gap we identified concerned SONI’s performance in terms of service quality, across the various different services and customers, which might be missed by a focus on system-wide outcomes relating to decarbonisation, grid security and system costs. Our fourth outcome concerns the experience of individual SONI customers, which may have overlap with what SONI envisaged in terms of stakeholder expectations.

- As part of its role, SONI provides a diverse set of services to market participants (or TSO customers) within the electricity system. The range and quality of these services is something that SONI has a relatively high degree of control over, and is likely to influence decarbonisation, grid security and system-wide costs; but this influence might be overlooked if the focus is solely on these system-wide outcomes. Furthermore, the range and quality of SONI’s services may affect the competitive and commercial position of individual market participants within different parts of the electricity system.

2.13 The four high-level outcomes suggested above are not intended to be an exhaustive list of intended outcomes from SONI actions or behaviour. In particular, there may be benefit in either us or SONI specifying some further intended outcomes that sit below the high-level outcomes. For instance, these might capture the intended benefit from a specific initiative that contributes to one or more of the high-level outcomes.

2.14 In relation to SONI service quality outcome above, it may be possible to draw out a series of intended outcomes that concern outcomes desired from SONI in relation to different aspects of its services. As an example, Ofgem identified the possibility of an intended outcome for the GB ESO of it being “a trusted, thought leader”.

2.15 We propose that any intended outcomes that help towards the four high-level outcomes suggested above are included in the upfront service expectations and/or the TSO forward plan. More generally the upfront service expectations, and the TSO forward plan, provide a place to set out in more detailed and concrete terms how the TSO can and should achieve good performance in relation to the service

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2 Ofgem (2019), *RIIO-2 methodology for the Electricity System Operator: Decision and further consultation* [see link].
outcomes.

2.16 Given the role that the SONI service outcomes would play in the evaluative framework we are keen to receive stakeholder feedback on our proposals.

**Draft categorisation of SONI’s TSO roles and service areas**

2.17 As discussed in Annex 3, Delivering service and outcomes annex, we have made some minor changes to SONI's description of services work from its Appendix A. The rationale for changes we have made are set out in service and outcomes annex.

**Table 3: Mapping SONI roles and service areas**

<table>
<thead>
<tr>
<th>SONI Role</th>
<th>SONI Service</th>
<th>Existing Activities (taken from SONI BP Appendix A³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>System operation and adequacy</td>
<td>Scheduling &amp; dispatch</td>
<td>Least cost deviation; Priority dispatch; System security; Forecasting demand and intermittent generation; Common grid model; Cyber security; IT/Telecoms for forecasting.</td>
</tr>
<tr>
<td></td>
<td>Ensuring system adequacy</td>
<td>Capacity: Capacity market delivery. System services: Facilitation of renewable generation (increase SNSP &amp; EUsysFlex); System services market design, procurement and delivery; Performance monitoring of system services Wider systems operations activities: Outage planning; Emergency preparedness &amp; black start; Protection policy and ops; TSSPS operating security standards.</td>
</tr>
<tr>
<td></td>
<td>Expert voice</td>
<td>NI voice (dealing with requests and invitations from decision makers UR and DfE and informing stakeholders of SONI issues that impact them); Representation in Europe (ENTSOE, access to expertise in other TSOs, ITC mechanism); Transparency information (REMIT and provides data to European transparency platform).</td>
</tr>
<tr>
<td></td>
<td>Industry governance</td>
<td>Grid code management; EU network code implementation, Capacity market code;</td>
</tr>
<tr>
<td></td>
<td>Regulatory engagement</td>
<td>Transparency for regulatory purposes, quality of information provision to regulator, especially in relation to TSO service quality outcome.</td>
</tr>
</tbody>
</table>

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³ The exception is the 'regulatory engagement' service which is a service area that we have added upon review of the business plan.
## Transmission network development and system planning

| **Assess & communicate system needs** | Identify future needs (Future energy scenarios); Determining transmission investment plan (TDPNI and TYTFS); Energy system analysis (modelling of system needs and input to capacity auctions); Generation capacity forecast statement. |
| **Project scoping & feasibility** | Project definition; Long list of options; Shortlisting and identify option; Determine stakeholder engagement process; Funding approval from UR; TIA is a key source/enabler/link with NIEN. |
| **Outline design & consenting** | Route and technology selection; Environmental studies; Planning app and engagement; Project analysis; Acquisition and landowner consents and engagement. |
| **Handover & commissioning** | Issue functional spec to NIEN; Review and accept design specification; TPI prep for NIEN; Review need case, support NIE D5 app, enter into TPA; Agree easement compensation; Project commissioning and closure. |

## Commercial interface

| **Connection and access rights** | Enquiries, feasibility assessment; Connection offers; Access rights; TUoS Contracting. |
| **Contractual interface** | Moyle interconnector services; SSS tariffing and settlement; System services settlement; Industry back-up CRM & Balancing market; ENTSO-E ITC mechanism. |

### Draft mapping of service areas to outcomes

2.18 One aspect of the material that SONI provided in relation to its benefit sharing framework that we found particularly useful was the “heat map” of SONI influence (Appendix N, page 44). The development of the heat map is described as follows by SONI’s consultants KPMG:

> "The analysis starts by looking at SONI activities at the highest level and for each considers the degree of influence, and hence, the impact that can be made at the output stage (as perceived by the end-customer) by making changes at the input level, holding all else constant, i.e. looking at SONI actions and their downstream impacts only."

2.19 SONI’s heat map showed the impact/influence of a number of TSO services on three of the four key dimensions of performance (or “benefit levers” in KPMG’s terminology) summarised in the subsection above (decarbonisation, grid security, costs). The services are the 11 services (or service areas) that are explained in more detail in Appendix A to SONI's business plan. The heat map breaks down the
costs dimension into four sub-categories: internal costs; wholesale costs; balancing costs; and network costs. Within the analysis the heat map indicates a score (0-5) for each activity in each dimension/sub-category, with 5 being the greater impact and influence.

2.20 We consider that a modified version of the SONI influence heat map provides a useful input to the evaluative performance framework. Table 4 provides a version of SONI’s heat map which we modified as follows (further to some formatting/presentational changes):

- We revised the list of SONI service areas to reflect the refinements discussed in the previous section. We used judgement to complete scores for the “Regulatory engagement” service area, which we propose to introduce in addition to those service areas proposed by SONI.

- We added a “Customer service quality” outcome, and, based on our judgement, attributed a score in respect of this against each SONI service area.

2.21 Table 4 presents our modified heat map, in draft form. This would benefit from review by stakeholders to see if there is a case for making significant changes to any of the scores to capture a different perspective on SONI’s influence. This may be especially relevant for performance evaluation purposes in areas where the heat map indicates a low score (i.e. relatively low SONI influence) but stakeholders think otherwise.

### Table 1: Modified version of SONI influence heat map

<table>
<thead>
<tr>
<th>Service area</th>
<th>Decarbonisation</th>
<th>Grid security</th>
<th>System-wide costs</th>
<th>SONI service quality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Internal</td>
<td>Wholesale</td>
</tr>
<tr>
<td>1) Scheduling &amp; dispatch</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>2) Ensuring system adequacy and market development</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>3) Expert voice</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4) Industry governance</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>5) Regulatory engagement</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>6) Assess &amp; communicate system needs</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Service area</td>
<td>Decarbonisation</td>
<td>Grid security</td>
<td>System-wide costs</td>
<td>SONI service quality</td>
</tr>
<tr>
<td>------------------------------------</td>
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<td>---------------</td>
<td>-------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Internal</td>
<td>Wholesale</td>
</tr>
<tr>
<td>7) Project scoping &amp; feasibility</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>8) Outline design &amp; consenting</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9) Handover &amp; commissioning</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10) Connection &amp; access rights</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>11) Contractual interface</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

2.22 By setting out an upfront view of how different SONI services can contribute across different dimensions of performance (and desired outcomes), the heat map provides a form of safeguard that the evaluative assessment of the SONI’s performance is sufficiently comprehensive.

2.23 Furthermore, in a context where SONI possesses a considerable amount of relevant information and expertise that is not directly available to other stakeholders, it helps guard against a cherry picking approach where SONI provides information on those areas and aspects of performance that it has performed (or expects to perform) well in, and remains silent on areas where it has performed less well.
3. **Upfront service expectations**

3.1 Our guidance documents would specify a set of upfront service expectations. These would set out our position on what a good TSO would do and/or achieve in relation to its activity under each service area, taking account of each service area’s influence on, and contribution to, the SONI outcomes.

3.2 They would play a central role in the annual evaluation of SONI performance, by providing information on the baseline level of performance expected from SONI: i.e. the level of performance that does not qualify for a financial reward or penalty.

3.3 The upfront service expectations are not intended to be a comprehensive description of the role and requirements of SONI in each service area or to act as a replacement for licence obligations (although we anticipate that some expectations may require new licence conditions). The focus is on issues and aspects identified for the purposes of the evaluative performance framework within the SONI price control.

3.4 There would be separate service expectations for each of the service areas, where relevant. The upfront service expectations would be revised over time in light of learning from experience, and adaption to new developments.

3.5 We recognise that there are interactions between the upfront service expectations and the ex-ante cost allowances and caps we are proposing for SONI for the 2020-25 price control. While the upfront service expectations do not fully specify the set of activities that SONI must carry out, or provide a detailed and comprehensive set of required service levels, they do imply targeted requirements on SONI to qualify for baseline performance levels.

3.6 We are keen to receive feedback from stakeholders if there is evidence that those cost allowances and caps are too low, or too high, for the upfront service expectations (within the wider context of our draft determinations).

3.7 We recognise that scoping work to meet some of these service expectations is likely to represent a step change over and beyond TSO activity SONI undertakes today. For example, some of the service expectation examples relate to a whole system way of working and strategy development which SONI does not currently seem to undertake.

3.8 We have, therefore, proposed an uplift to the baseline of allowances (see cost allowances appendix) to support SONI in scoping out such work. We ask for more detailed views from SONI and stakeholders as part of DD response on the level of the uplift required.

3.9 We have drafted the upfront service expectations based on stakeholder views (e.g. SECG), our own experience of issues, and relevant information from other regulators (for example, Ofgem’s ESORI roles and principles in particular where these align with ours and stakeholders’ views). We also asked our consultants GHD to have a look at some international case study practice elsewhere (see annex on
whole system planning), some of which could be described as genuinely innovative. The point of this is not to prescribe deliverables for SONI but to present some innovative practice elsewhere, some of which broadly fits within our service expectation themes below relating to the energy transition.

3.10 We think SONI should be taking a more whole system collaborative and coordinated approach to working with various stakeholders, including NIE Networks. As well as considering how it can improve its tools and techniques, we think it should be taking a broader and deeper perspective by, for example, considering how it can lead wider projects, activities and processes which promote market engagement, development of new markets, and open use of data.

3.11 The expectations below are set out as key themes relating to SONI’s role as part of the energy transition, and which cut across various aspects of the service activity. We set out behaviours that we would expect from SONI and provide illustrative examples and/or required specific activity to help clarify how these may be met. We set out our exhaustive expectations (which are related to but go further than these energy transition related expectations) and our view of how these may map to various services (to support SONI in designing its service level strategies) as part of the Annex: Upfront service expectations, at the end of this Annex. We are keen to get stakeholder views on these expectations.

**Collaborating and coordinating through a robust, transparent and open approach to data**

3.1 We consider that SONI should be taking a lead role in whole system development by openly sharing its relevant data and making its TSO actions transparent to enable market participants make efficient operational and investment decisions; and ensure that its systems and processes are kept up to date.

3.2 Utility companies are beginning the process of digitalisation whereby they improve the way they use data openly and digital technologies to generate value for third party stakeholders. We request that SONI develops a digitalisation strategy which could be submitted as part of its first full draft forward plan and that it should engage and collaborate with a range of stakeholders as part developing this (and specifically and clearly document the learnings from this as part of the piece). We would expect this strategy to be updated annually. Some of the aspects that SONI may want to consider and include as part of this are:

- Set out a clear strategic ambition for how digitalisation across different TSO SONI services is going to benefit consumers and the role that SONI is going to play.

- Considering a wide range of best practice and lessons learned elsewhere that could be relevant to open sharing of data and consider what may work in an NI context (both local issues and NI wide level). For example, considering other highly regarded actions from other utilities and policy vehicles (such as the GB energy data taskforce), and wider research and initiatives.
- Understanding of user needs. For example, new data needs and existing data improvement needs (and clear line of sight of how these flow into proposed actions). We also require SONI to set out how it is going to collaborate with and engage with users.

- People planning: how SONI is going to ensure that its workforce is going to have the right capabilities in areas such as digital, data and technology. This could include but is not limited to upskilling, recruiting skills, diversity and how these will be specifically embedded into its business operating model.

- Governance and corporate interactions and accountability. For example, how exactly senior ownership, accountability and SONI board-level will take responsibility for delivery of the digitalisation strategy and action plan will work.

- How SONI is going to coordinate activities with other organisations, including but not limited to NIE Networks.

- Actions and delivery to meet users’ needs across the services that SONI offers: cost, benefit, options (including those that give 3rd parties direct access to data), validation, prioritisation and how exactly they will lead to the performance framework outcomes. Each planned activity should be demonstrably aligned to and driven by user and stakeholder needs.

- In keeping with themes of our regulatory approach, we expect SONI to take a service based approach. SONI should set out clearly whether and how its work in bullets 3 to 7 is relevant according to different services depending on where most value can be gained for consumers. This element could be included within its individual service level strategies.

3.3 In gathering and providing data to the market we consider that SONI’s data should be user-friendly. To support this SONI should be engaging effectively with market participants to understand their needs, for example, in terms of content, format and frequency. SECG was also concerned about clarity around the actions SONI takes which may influence whole system costs. For example, how specifically its actions influence dispatch balancing costs. We, therefore, also consider that SONI’s data should be comprehensive: gathering as much information as necessary, disclosing information on system and its actions (where safe and reasonable), and ensuring its processes can effectively allow stakeholders to propose changes to the information it shares or publishes transparently, and that it provides sufficient clarity on reasons for withholding information. We consider that SONI should maintain up to date robust IT systems and seek to continuously improve its information. This should be so that information is accurate and unbiased.4 For example, we consider this could be information relating to demand and wind forecasts and balancing costs.

Developing markets through competition and stakeholder

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4 By accurate we mean that information is correct at the time of publication and as close as reasonably possible to the actual value. By unbiased we mean that information is not skewed in any way and is as accurate/close as reasonably possible to its true value.
engagement and collaboration

3.4 The way SONI designs and procures system services and its approach to dispatch and scheduling can affect providers’ ability to compete and revenue available, and affect price signals and cost in wholesale market. SONI should be ensuring the rules and processes for procuring system services (and/or dispatch and scheduling) maximise competition, where possible, and are fair and transparent.

3.5 In terms of competitiveness, we encourage SONI to continue to move to more market based approaches. For example, it could consider and develop commercial framework tenders or make more use of auctions, and transparently consider whether the market may be better placed to provide certain system service. Where it cannot take a more market based approach, SONI should transparently and robustly justify why it is not in the interest of consumers to do so and set out how it may support development of a market.

3.6 In terms of fairness, we would expect SONI to design and procure system services and design control centre tools in a way which facilitates existing and new providers to compete on a level playing irrespective of size or type. SECG had concerns that this could include, for example, ensuring a technology neutral approach to procurement of system services. SECG also had concerns that SONI should ensure that its service and technical requirements for system services and design of dispatch and scheduling tools and processes remain responsive to changing technologies and innovation and do not unduly restrict access to certain market participants. For example, SONI may want to ensure that there is an effective public process that ensures that its system service technical requirements are regularly reviewed by allowing stakeholders to collaborate with SONI and input effectively into their design. We also consider that SONI should be transparent: for example, in communicating and justifying its procurement need.

3.7 SONI should be actively partnering and collaborating with industry in preparing and implementing future programmes of work where it can. For example, it may want to seek a balance of proactively seeking out partners to adopt trial based approaches with partners and other organisations (across the electricity value chain and potentially beyond), as well as using more traditional desk based planning exercises.

Collaboration and coordination with NIE Networks (and other 3rd parties) across its various roles as a TO, DNO and DSO

3.8 SONI should be taking a whole system approach by working across system boundaries with NIE Networks and other 3rd parties.

3.9 We consider that SONI should be participating in and driving forward industry processes, across its system operation and adequacy and network development and system planning roles in particular.

3.10 We consider that SONI should be engaging with stakeholders to understand the long terms needs of the system and ensure that its processes remain fit for purpose
by being responsive to reasonable needs of customers. For example, we understand that SECG seeks clarity on how SONI assesses system needs, and so we consider that SONI should set out clearly for stakeholders its processes and methodologies for forecasting and assessing system needs, including effective opportunities for these to be tested with / challenged by market participants and other stakeholders.

3.11 SONI should be working with NIE Networks and other stakeholders to ensure that its TSO roles and responsibilities are clearly defined and unnecessary overlap and duplication is removed or minimised with respect to the roles NIE Networks undertakes as a TO, DNO and DSO. For example, with respect to the DSO and TSO interaction, SONI may want to develop a whole system strategy, involving NIE Network, via public process, aimed at developing sharing recommendations on common principles and criteria with respect to its TSO role in data management and information exchanges with NIE Networks (with resulting innovative and value for money proposed deliverables and actions to take a whole systems approach in line our regulatory guidance including with reference to paragraph 3.12 to 3.13 below). More generally, we expect it to work with NIE Networks to update the Transmission Interface Agreement (TIA) as swiftly as possible where and when relevant.

3.12 SONI should collaborate, communicate and coordinate with NIE Networks to build a common understanding of whole system requirements and where actions taken by one system/network operator could have cross-network whole system impacts, and then identify and swiftly implement actions that benefit the whole electricity system and that optimise synergies using resources optimally across the network. For example, with respect to its role in network development and system planning, SONI should be developing non-network options which may reduce the need for network reinforcement and work with NIE Networks to develop solutions at distribution network level that relieve transmission network challenges and vice versa. We consider that SONI should, where relevant, deliver its actions appropriately and as swiftly as possible.

3.13 SONI will need to collaborate closely, meaningfully but proportionately with NIE Networks to inform, develop and implement its actions. For example, gathering and sharing information efficiently (for example, possibly by developing sharing protocols or other coordination processes with each other) and co-developing whole system approaches for assessment (for example, by developing common and transparent approaches to modelling).
4. **Required performance evidence**

4.1 This section describes the range of performance evidence that the TSO would be required to collect and provide to the UR and the evaluation panel, and to take account of in preparing its annual performance report. This section is organised as follows:

- Performance against upfront service expectations.
- Price control deliverables.
- Evidence on performance against forward plan.
- Stakeholder engagement on performance.
- Performance metrics.
- Cost information.

4.2 We would expect to develop more detailed regulatory reporting arrangements as part of the implementation of our final determinations (e.g. guidance on cost reporting and calculation of performance metrics).

**Performance against upfront service expectations**

4.3 SONI would be required to provide evidence on its performance in relation to the upfront service expectations. This is likely to involve a mix of qualitative and quantitative information and to require input from stakeholders.

**Price control deliverables**

4.4 As part of the price control determination, and further decisions under price control uncertainty mechanisms, we expect to provide funding for specific projects or initiatives. We would generally expect to specify deliverables and target delivery dates in these cases. SONI would provide annual updates on all price control deliverables, including progress against applicable target delivery dates; any instances of non-delivery or under-delivery; outturn spend versus any budget or ex-ante allowance; and information on benefits derived from the projects or initiatives.

**Evidence on performance against forward plan**

4.5 SONI should provide evidence on its performance in relation to its forward plan, including where it has achieved in line with its plan and where it has not.

4.6 It is important that SONI is not held firmly to its plan. In some cases, it may be beneficial to depart from the plan to reflect changing circumstances or new ideas and opportunities. So departure from the plan should not be seen as evidence of poor performance by itself, and might represent excellent performance in some circumstances. In this context, SONI would be required to explain any significant
departures from its plan.

Stakeholder views on performance

4.7 SONI would be required to engage with a range of different stakeholders to gain insight on stakeholders’ views on its performance in relation to each of the service areas. SONI would organise the findings from stakeholder engagement in a way that helps inform the evaluation panel’s evaluation (e.g. structuring findings across the four SONI roles and four outcomes used for scoring; see section 6 below).

Performance metrics

4.8 We received SONI’s performance metrics on 25 February 2020 four months after receiving the rest of the submission. Nonetheless, we have reviewed the performance metric submission to provide some clarity on our view.

4.9 Our overall view is that the metrics may not flow into the services expectations we are providing and so may not measure the things that we and SONI’s customers expect relate to baseline expectations and beyond.

4.10 So while we are content for SONI to report on its performance against a range of these performance metrics (in addition to information on the costs incurred by SONI which we discuss separately below); as it stands, we do not view SONI’s proposed metrics as part of our baseline concept of what a good TSO should be doing. The choice of what SONI decides to measure its performance against will largely be determined by the deliverables it proposes as part of its performance incentives annual forward work plan.

4.11 This means that it proposed metrics would not be used mechanistically to determine any financial rewards or penalty. For instance, we do not propose to determine any quantitative performance baselines for specific metrics, above which SONI would automatically earn a financial reward and below which SONI would automatically face a financial penalty. That type of approach is not in keeping with the evaluative performance framework that we propose to introduce. Nonetheless, these performance metrics may play a role in the evaluative performance framework. For example, they would be part of the overall evidence base for the evaluation of performance, taken into account alongside other information.

4.12 We consider it important that the evaluation of the SONI’s performance is based on an understanding of the relationship between the SONI’s actions and observed performance against performance metrics. So the quantitative information on performance metrics should be combined with information to help understand the implications for the assessment of SONI performance. For instance, SONI could explain how its performance in a specific service area, rather than external factors, contributed to a positive position on performance metrics.

4.13 SONI’s original business plan provided limited information on proposed performance metrics, but it provided more detailed proposals in late February 2020. We reviewed SONI’s proposed performance metrics in order to identify which
seemed helpful to the assessment of SONI’s performance. On the basis of this review we would make the following comments:

**Table 5: Thoughts on SONI performance metrics**

<table>
<thead>
<tr>
<th>Metric</th>
<th>UR view on SONI proposal</th>
<th>Inclusion as a KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>RES-E (%)</td>
<td>RES-E % may be a metric of choice for reporting. We make no comment on the target levels as proposed by SONI. However, we do recognise that improvements will also be dependent upon external factors outside of SONI control i.e. generators who wish to connect to the system and where they wish to connect. For SONI to present this metric as evidence of good performance, it would need to demonstrate how its actions have impacted on the level of renewable energy.</td>
<td>Yes</td>
</tr>
<tr>
<td>SNSP (%)</td>
<td>SNSP % may be a metric of choice for SONI for reporting. It is closely correlated with RES-E % and improvements would also need to be considered alongside the level of internal and external costs of delivery.</td>
<td>Yes</td>
</tr>
</tbody>
</table>
| Renewable Dispatch Down (%)           | The dispatch down % is potentially a useful indicator and highly relevant to generators. It is our view that SONI should report against absolute levels and provide commentary on:  
  - High impact events outside of the TSO control which has impacted on performance (both positively and negatively).  
  - Actions which SONI has taken to affect the level of renewable energy subject to dispatch down. | Yes                |
| System Minutes Lost (SML)             | Whilst SML is an potentially an indicator of grid security, current performance for the first three years of this price control stands at 0.0 SML for each year.  
Our view is that this is a BAU activity so we do not think that it will be an indicator which should be used to evidence ‘stretch performance’. However, the metric is worthwhile reporting upon as a KPI. | Yes                |
| System Frequency (%)                  | Frequency is another potential indicator but SONI’s target of 96% is well below reported levels of actual performance i.e. 99.6% in 2017 and 99.65% in 2018.  
Frequency control may become more challenging in the future but this doesn’t seem like a stretch target. Like SML, this is a core function of the TSO which should not be used to evidence ‘stretch performance’. However, the metric is worthwhile reporting upon as a KPI. | Yes                |
| Cyber Security (Maturity Score)       | Cyber security maturity scores has the potential to be a reasonable indicator of service level improvements in this area. However, as we have not seen the original maturity assessment, we do not know what the gaps are and how | Possibly           |
difficult it is to improve scores as required.

We would welcome further detail on this metric, including:
   a) Original maturity assessment;
   b) Basis of SONI targets; and
   c) Estimated cost of annual audit.

| Network Project Handover (£) | The network project handover KPI is a rather uncertain metric. Whilst understanding the rationale for inclusion, this seems like a difficult metric to either reward or penalise given the uncertainty of spend and activity. | No |
| Imperfections (£) | Like dispatch down, we would expect SONI to report against targets and provide commentary on:
   - High impact events outside of the TSO control which has impacted on performance (both positively and negatively).
   - Actions which SONI has taken to affect the level of imperfection costs.
   Customers are also likely to be interested in reporting against the absolute level of imperfection costs. | Yes |
| Internal Costs (£) | Should be included as a key metric with reporting against opex and capex spend against allowances. Reporting should also include commentary on delivery of projects funded via the price control or uncertainty mechanism. | Yes |
| Stakeholder Engagement | Stakeholder engagement proposals seems reasonable. May need to be further discussion regarding the basis of scoring and the methodology involved. | Yes |
| New Technology Deployment | Deployment of new technology seems like a worthwhile measurement. We may however want a say on both the plan targets and then review of delivery. | Yes |
| Infrastructure Delivery | Like network project handover, this seems like a difficult metric to either reward or penalise given the uncertainty of activity. | No |

4.14 We would expect the set of required performance metrics to improve over the price control period and the development of additional and refined metrics would be part of SONI's role.

4.15 We note that while SONI's performance metrics were proposed for use within a relatively mechanistic financial incentive framework, we envisage that they would instead provide part of the evidence base for an evaluative assessment.

**Cost information**

4.16 The type of cost information that SONI currently reports for regulatory purposes is not sufficiently helpful in understanding the SONI's performance. For example, it does not provide much information on how the SONI's expenditure is distributed across the different activities and services it is engaged in.

4.17 We consider that the annual performance assessment should include:
- Information on costs broken down between separate SONI service areas.
- Information on the costs of specific projects or initiatives that have been funded through hypothetical price control cost allowances.

4.18 We recognise that this type of cost reporting will involve cost attribution and allocation methodologies. For instance the same staff and assets might be used for multiple service areas. SONI should publish the cost attribution and allocation methodologies that it uses.
5. **SONI’s forward plan and self-assessment**

5.1 This section sets out the role of, and our expectations for, SONI’s annual forward plan and its annual assessment of its performance. Our requirements and expectations would part of the guidance documents supporting the framework.

**SONI annual forward plan**

5.2 A key aspect of the framework is an annual forward plan produced by SONI.

5.3 At a TSO-wide level, this would explain the SONI’s long-term strategy in relation to each of the four service outcomes. It will further include its approach to managing potential trade-offs and tensions between outcomes and to managing interactions across different aspects of its business (e.g. service areas).

5.4 The forward plan would also contain a specific strategy and plan for each service area explaining how it will meet expectations and contribute to desired outcomes. This would include:

- How SONI will take action to perform well in relation to each of the four SONI service outcomes.
- How SONI will manage potential trade-off and tensions between different service outcomes that arise in a specific service area.
- How SONI will meet the upfront service expectations set by the UR in the performance framework guidance.
- Proposals for specific new initiatives, including: the needs being met, expected benefits and how these map to the four service outcomes and service expectations; timeframes for delivery of the initiatives and intended benefits; and whole-life costs. The plan should include information on the options development process including the list of alternatives considered, CBA of the options, stakeholder feedback.
- What quantitative and qualitative evidence it will collect to help monitor and review its success, further to the requirement evidence specified in the UR’s performance framework guidance.
- Forecast efficient costs of delivery for the service area, with breakdowns of costs across benefit-generating initiatives.

5.5 The strategy and plans for each service area should be tailored according to the relative influence of that service areas across the service outcomes.

5.6 The forward plan would be developed in a way that involves a substantial amount of stakeholder participation and review. SONI would prepare a draft plan for stakeholder review before finalisation of its plan. We would expect the development of the draft plan to have been heavily influenced by stakeholder engagement.
SONI annual performance assessment

5.7 Following the end of the financial year, SONI would produce its annual performance assessment for the UR and other stakeholders. This would set out the SONI’s assessment of outturn performance in each service area, covering performance in relation to:

- Delivery against the strategy and plans contained in its forward plan.
- Reporting against all of the required performance evidence.
- Other evidence and analysis of performance that SONI considers relevant.

5.8 The performance assessment should primarily be backward-looking to inform the evaluation, but it would also be useful for it to cover lessons learned which can then be taken into account in forward plans for subsequent years.

5.9 We propose that the performance assessment includes a self-assessment by SONI against the scoring and grading system described in section 6 below for use by the evaluation panel. This self-assessment should provide a proposed grade for each of the 16 assessment areas, and explain this grade in relation to the performance information provided.

5.10 We would not expect SONI’s own assessment to necessarily match that of the evaluation panel, but the self-assessment would enable a more targeted review by the evaluation panel. It would also assist stakeholders who are interested in responding to SONI’s performance assessment.

5.11 We would expect SONI to be actively monitoring and reviewing its performance throughout the year. The performance assessment should not be an exercise that only starts after the end of the price control financial year which the assessment concerns.
6. Evaluation methodology

6.1 This section outlines our proposed approach in relation to a number of different aspects of the evaluation of the SONI's performance and the determination of a financial reward or penalty in respect of this performance. It takes the following topics in turn:

- Maximum level of financial reward or penalty.
- Evaluation roles and responsibilities.
- Granularity of scored assessment of SONI performance.
- Scoring grades and assessment considerations.
- Weights to be applied by area of assessment.
- Determination of financial incentive from the scores.
- Worked example of scoring and financial reward/penalty.
- Draft timetable for the annual process.

Maximum level of financial reward or penalty

6.2 We consider that it is desirable to specify upfront the maximum financial rewards and penalties under the evaluative performance framework. This gives SONI some certainty in terms of maximum financial impacts under the new framework. We propose a combined cap that applies across both the evaluative performance framework and our proposed conditional cost sharing incentives (i.e. to the net financial incentives across the two areas).

6.3 Ofgem's evaluative performance framework for the GB ESO was introduced with a maximum financial reward/penalty of +/- £30m per year. In its most recent RIIO-2 methodology decision (July 2019), Ofgem said it would review the financial incentives, and consider whether the financial incentives should be made asymmetric, with a limited scope for penalties. This review would take account of the ESO’s financeability in light of other decisions yet to be made on the price control framework and remuneration structure.

6.4 For its own proposed benefits sharing framework, SONI proposed a maximum financial reward of £3.0m per year and a maximum penalty of -£1.5m.

6.5 We did not see good grounds for an asymmetric financial incentive structure as proposed by SONI for the new performance framework. An asymmetric structure as proposed by SONI would present risks of being (and being perceived as being) unduly generous to SONI at the expense of customers.

6.6 Furthermore, it would create additional complexity for the price control determination, from the need to consider the scale of asymmetric risk from the
asymmetric structure and make financial allowances for this in setting the overall allowed return on RAB for SONI.

6.7 In terms of the level of the reward or penalty, the following considerations are relevant:

- The financial incentives arising from the prospect of financial rewards or penalties should be sufficiently large as to be meaningful and significant in the context of SONI’s business and profits.

- The maximum reward or penalty are by definition extremes and in practice it is probable that rewards for strong performance (but not excellent performance) would be significantly below the maximum reward, while penalties for weak (but not terrible) performance would be significantly below the maximum penalty.

- The imposition of very high penalties could in some circumstances pose risks to the financial resilience of SONI (or a notional efficient TSO), which could ultimately be to the detriment of customers.

- Greater downside (and upside) risk for SONI could lead to increases in the cost of capital that needs to be remunerated through the SONI price control.

6.8 The setting of the maximum reward or penalty is a matter of judgement. Our proposal for draft determinations is +/- £1.0m. This represents a narrower range for rewards and penalties compared to SONI’s proposal. This figure seems meaningful in absolute terms and in terms of potential impacts on RORE, and it seemed compatible with our proposed allowances and approach for the remuneration of the SONI’s cost of capital as set out in Annex 7, Risk and return.

6.9 We carried out some modelling analysis considering RORE (return on regulatory equity) impacts under our proposed maximum reward and penalty, and compared these to the maximum upside and downside scenarios modelled by Ofwat for listed water companies in England and Wales as part of its PR19 Final Determination. This analysis indicated that, under our assumed capital structure for a notional efficient TSO, and forecasts for equity in the notional TSO, the RORE impacts of the maximum reward and penalty scenarios (labelled as cost and performance incentives) lie comfortably within the ranges modelled by Ofwat for comparable incentives. This is presented in the chart below. We provide more information on our RORE analysis of the upside and downside risk under our proposed price control framework in Annex 7, Risk and return.

Figure 3: Comparison of RORE impacts of our proposed financial incentives against listed UK water companies (PR19)
Evaluation roles and responsibilities

6.10 We propose to establish a “SONI evaluation panel” comprising individuals with a range of relevant knowledge and perspectives.

6.11 The SONI evaluation panel would provide its assessment of SONI performance in accordance with the scoring and grading system set out in our evaluation methodology. In particular, we think the panel could help challenge SONI on its performance and support decision making in areas where performance is harder to measure or more subjective.

6.12 It is important to note that the performance panel would not have any decision-making powers. Instead, its evaluation would form a recommendation that goes to the UR Board, who would make the decision on any financial reward or penalty. It is also important to note we do not see the panel as a substitute for wider stakeholder input.

6.13 Our initial view is that the panel would be chaired by an independent individual. A key area we would welcome stakeholder input on is the design of panel membership and the number of members. For example, whether the composition should be fully independent, industry/stakeholder representatives, or a hybrid of both. If it were to include active stakeholders then we may need a larger panel to allow for more balanced and representative view, but a larger panel may be difficult to manage in terms of it producing an agreed set of evaluation scores. Our initial suggestion is for four members of the panel, in addition to the independent chairperson and that this should be a mixture of independents and industry personnel.

6.14 Regardless of the composition of the panel, it is essential that the overall process
allows for substantial stakeholder participation and the panel supports rather than crowds that out.

6.15 The creation of the evaluation panel is not intended to replace other SONI stakeholder engagement initiatives (e.g. SECG) and the panel would need to understand, as part of its evaluation, the views of a range of stakeholders on TSO performance.

6.16 The UR staff team would provide support services to the SONI evaluation panel, including a secretariat/record-keeping role and carry out bespoke pieces of research and analysis that the panel requests.

6.17 In terms of the roles and responsibilities for the review of performance, we propose that it would work as follows:

- SONI would prepare its own assessment of its performance and submit this to the UR and other stakeholders shortly after the end of each price control financial year. This should be published (any redactions would need to be well justified).

- All stakeholders would have an opportunity to provide feedback to the evaluation panel and the UR on SONI's performance, and on SONI's assessment of its performance.

- The UR staff team would be able to make any submissions it considers appropriate for consideration by the evaluation panel.

- The evaluation panel would then produce its evaluation of SONI performance for the previous year, drawing on the submissions from SONI, stakeholders, the UR and any other evidence or analysis it considers appropriate.

- The UR Board would take a decision on any financial reward or penalty, taking account of the UR's upfront guidance, the evaluation of the SONI evaluation panel and any other relevant evidence.

6.18 The members of the evaluation panel would each be asked to make an impartial assessment of the SONI's performance, drawing on their own knowledge, experience, perspective and insight. They would not be acting as a stakeholder representative group and it would be important for individual stakeholders to provide their views on SONI performance to the panel.

6.19 The UR's formal decision would be subject to consultation before finalisation. The consultation period would be short (e.g. three weeks) to reflect the extensive opportunities for stakeholder input at earlier stages of the process. The purpose of the consultation would be to test the way that the information previously made available on the SONI's performance has been used to produce an overall score for the purpose of setting a financial penalty or reward, rather than to obtain new information or perspectives on SONI performance.
The price control financial incentives for the conditional cost sharing incentives detailed in our Annex 6, Cost remuneration and managing uncertainty would not form part of the SONI performance framework evaluation, and would be determined by the UR drawing on stakeholder and evaluation panel input. There is a greater need for detailed technical knowledge and analysis for the conditional cost-sharing incentive, and at least initially this seems a role for the UR rather than the panel.

**Granularity of scored assessment of SONI performance**

We propose to adopt an evaluation approach in which the SONI’s performance is given explicit scores. This helps the transparency of the evaluation.

In terms of the assessment approach, a key question is at what level of assessment an explicit score should be determined for. At one extreme, the evaluation approach could be geared to producing a single overall score based on judgement across different aspects of performance, without any more detailed breakdown. At the other extreme, the overall score could be built up from scores in a large number of individual areas which an explicit approach to weighting across those areas set out.

A balance needs to be struck. A single overall score provides useful scope for regulatory discretion and flexibility, but may provide insufficient predictability for SONI and could be difficult to apply in practice.

We identified a range of options, ranging from the less granular to more granular approaches:

a) Single overall score, without further breakdown.

b) Separate score for each of the four SONI outcomes, with explicit weights to produce an overall score.

c) Separate score for each of the four SONI roles, with explicit weights to produce an overall score.

d) Separate score for each of the SONI service areas, with explicit weights to produce an overall score.

e) Separate score for each of the four SONI roles across each of the four SONI outcomes, with explicit weights to produce an overall score from the 16 components.

f) Separate score for each of the SONI service areas across each of the four SONI outcomes, with explicit weights to produce an overall score from the components.

SONI’s benefit sharing framework is not a direct comparator for this aspect, but SONI suggested that the overall financial incentive was first allocated between four broad benefit areas (which we have mapped to SONI outcomes). So we consider SONI’s proposed approach closest to option (c) above.
6.26 Ofgem’s approach for the GB ESO is closest to option (d) above, but Ofgem’s approach also involves sub-criteria under each role. However, given the emphasis that we want to place on the TSO’s contribution to different outcomes, we felt that something important would be missed.

6.27 Our initial view is that the option (e) provides the best balance overall. This recognises the importance of considering both the SONI’s roles and services and the various SONI service outcomes. This option brings together the roles perspective from Ofgem and the outcomes (benefit areas) perspective suggested by SONI.

6.28 There is a potential case for option (f) which would ensure that there is separate consideration of each SONI service areas. However, we felt that this could be overly complicated and burdensome, at least for the initial version of the evaluative framework.

**Scoring grades and assessment considerations**

6.29 Under the approach above we envisage that, in each of the 16 assessment areas, the SONI evaluation panel would produce a grade or score.

6.30 Ofgem’s approach for the ESO involves a grade of 1 to 5 in each of four assessment areas (organised by SONI role). A grade of three represents a baseline level of performance, with 4 and 5 indicating better performance than the baseline and a grade of 1 or 2 indicating worse performance.

6.31 We considered whether to have the same number, or a different number of assessment grades. We thought that a system involving five grades struck a good balance between a desire to limit complexity and the desire to have sufficient flexibility to take account of different circumstances that may apply in terms of performance.

6.32 Our proposal is that there should be five grades labelled as follows: 1: poor; 2: lagging; 3: baseline; 4: good; and 5: excellent.

6.33 Our proposed grading system builds on the Ofgem concept of a baseline level of performance, which acts as a reference point for the purposes of evaluation. It is the level of performance for which is it appropriate for no financial reward or penalty to apply.

6.34 In broad terms, we propose that the baseline level of performance be defined as that which would be expected from a hypothetical TSO which is reasonably well-run and reasonably efficient. If, as a thought experiment, there was a group of TSOs, with varying levels of competence and performance, the baseline level of performance would represent the average performance across these TSOs.

6.35 To expand on this general definition, we propose that the baseline level of performance is specified and treated as follows:

- The upfront service expectations (see section 3 above and Annex: Upfront
service expectations at end of this Annex) elaborate on what we expect from SONI across its various roles and services. The baseline level of performance would involve SONI performing the functions specified in the upfront service expectations reasonably competently. The upfront service expectations are not intended to be comprehensive and they apply in addition to compliance with licence obligations and the delivery of specified price control deliverables or outputs.

- The position that SONI finds itself in on 1 October 2020 should be taken as a constraint on what level of baseline performance should be expected at a subsequent point in time. The baseline performance level should be compatible with a TSO that has inherited SONI’s performance levels, processes and capabilities at the end of the 2015-20 price control period, and there should be recognition that it may take time to make improvements.

- The baseline level of performance is a dynamic concept. To achieve baseline performance, it is not sufficient for SONI to maintain the activities and performance prevailing on 1 October 2020, because baseline performance would be expected to involve improvements over time. SONI would not receive a grade of 4 or 5 simply from making improvements compared to its own past levels of performance.

- The scale or speed of improvement assumed for the baseline level of performance should not be so great that, in practice, there is limited scope for SONI to earn positive rewards from making improvements (e.g. this could be the case if any improvements made by SONI are treated as improvements that would have been expected from a TSO performing in line with the baseline level of performance). Achieving a position of industry best practice, or demonstration of genuine innovation that brings clear benefits, should be recognised as performance beyond the baseline.

- Some evidence of performance relative to the baseline will come from comparing what SONI did and achieved against its forward plan. But it is necessary to consider not simply how well SONI performed against its plan but how that plan relates to baseline performance. If the plan is unambitious and easy to deliver, delivering the plan may fall short of baseline performance. If the plan is challenging and ambitious, under-delivery of the plan may still qualify for baseline performance.

- It should be recognised that being assessed to be in line with the baseline level of performance would not involve everything going according to plan: even well-run companies will face problems and delays from time to time. And sticking rigidly to the delivery of the forward plan is not necessarily compatible with baseline performance. It will depend on the circumstances. The baseline performance would involve SONI adapting over time as things change.

6.36 To help provide more practical guidance for the assessment of how SONI’s performance compares to the baseline performance reference point described
above, we provide in the table below examples of characteristics that might be found in each of the five grades. We would expect the overall assessment to reflect the balance of evidence for the characteristics across the different grades. It would not be necessary for there to be evidence of all the example characteristics in a specific grade for SONI to be assessed as falling under that grade. In practice, we would not necessarily expect SONI’s actual performance to fit with all characteristics under a single grade. Performance could be mixed across different aspects, and the assessment should be based on a judgement of which grade is most representative given the evidence available.

Table 6: Examples of characteristics for each assessment grade

<table>
<thead>
<tr>
<th>Grade</th>
<th>Example characteristics</th>
</tr>
</thead>
</table>
| 1: poor | • Vast majority to all of the forward plan is unambitious, lacks attention to stakeholder views and concerns, and for which most to all aspects are poorly justified  
         • Extensive under-delivery of forward plan without reasonable explanation  
         • Major missed opportunities for performance improvements  
         • Wide-ranging performance problems and stakeholder concerns  
         • Little or no effective action in response to stakeholder concerns |
| 2: lagging | • Serious shortcomings in parts of forward plan in terms of ambition, stakeholder engagement, or justification for key aspects of plan  
         • Significant under-delivery of forward plan without reasonable explanation  
         • Slow to implement performance improvements  
         • Lack of information to give confidence that SONI has carried out key tasks/role reasonably competently  
         • Slow progress responding to unexpected problems that emerged or to stakeholder concerns |
| 3: baseline | • Reasonably ambitious forward plan that demonstrates attention to stakeholder views and concerns and provides reasonable explanation for key aspects (such a plan may also contain shortcomings and limitations)  
         • SONI has performed key tasks/role reasonably competently, including in relation to upfront service expectations, licence obligations and price control deliverables  
         • Some performance improvements over time, especially on low-hanging fruit/easy wins  
         • Some performance problems and/or under-delivery against forward plan (e.g. deliverables and performance commitments), but reasonable explanation provided for these where they do occur |
| 4: good | • Good forward plan which is well-justified and has some strong elements of ambition and stakeholder participation  
         • Good delivery against forward plan, including for all deliverables and performance commitments.  
         • Performance improvements beyond low-hanging fruit/easy wins  
         • Well-managed mitigation of unexpected problems that emerged  
         • Clear progress in addressing stakeholder concerns and customer priorities |
Within the example above, we have made distinctions between the grades in terms of the extent to which the forward plan is “ambitious” or “unambitious”. We would expect the extent of ambition in the forward plan to concern a number of different aspects, such as the planned performance improvements and planned deliverables, performance commitments and targets for performance metrics, and levels of SONI expenditure.

Within the examples above, we have highlighted the relevance of “performance improvements” as part of the assessment. The nature and speed of improvements is one important factor in differentiating between the five performance grades. We propose that a broad view is taken on what constitutes evidence of performance improvement:

- Direct evidence of benefits or success achieved against SONI outcomes would be highly relevant to assessment of performance improvements.

- However, we recognise that for some aspects of SONI performance, such as system planning, it can be difficult to reliably assess performance in terms of results. This is due to a number of factors including (a): the potential for long periods of time between SONI action intended to bring an improvement and that improvement being fully realised; (b) a large influence of external factors on outcomes that are difficult to disentangle from the SONI's actions; and (c) the sensitivity of the assessment to assumptions about the counterfactual.

- These difficulties do not detract from the potential to make estimates of benefits achieved (or to be achieved) on a hypothetical basis, but caution is needed in the use of such evidence. In some cases a qualitative assessment of the SONI's role in bringing benefits may be more useful than a highly speculative quantitative assessment.

- In this context, it is likely to be important to give attention not only to evidence on outcomes but also to evidence concerning SONI initiatives or actions that can reasonably be expected to bring benefits in terms of SONI outcomes, and to evidence on the mechanisms through which SONI can have a positive impact. These initiatives or actions might include, for example: new processes; new systems; changes to methodologies and
working practices; changes to interactions with other stakeholders, etc.

- As part of the assessment of improvements, it would be relevant to consider evidence on the extent to which SONI action is well-targeted according to issues and areas likely to be of highest potential net benefit and according to customer priorities.

- Where “hard evidence” is lacking, it would be particularly relevant to present evidence from engagement with informed stakeholders to understand how SONI’s strategy and actions fit with what stakeholders see as the key opportunities to bring about improvements.

6.39 We provide some further comments on the role of performance metrics within the assessment:

- SONI would face financial penalties or rewards in response to the evaluation of specific aspects of its performance. That evaluation would be concerned in particular with what actions SONI has taken (e.g. to improve performance or to address problems) or not taken.

- Performance metrics may form part of the evidence base for the evaluation, but they would not be determinative on their own. We would not expect SONI to earn financial rewards, or face financial penalties, simply because its performance exceeds, or falls short of, specified performance metrics.

- It would be particularly relevant to understand the links between SONI’s actions and the performance that is observed, taking account of other factors that may influence observed performance. SONI out-performing its own performance targets would not necessarily provide evidence of exceeding the baseline level of performance, especially in the absence of evidence that SONI’s own targets represent a level that we would have expected from a reasonably well-run TSO. Similarly, SONI under-performing against its own targets would not by itself provide evidence that it had not met the baseline level of performance, because there could be other factors that explain this, such as abnormally difficult operating conditions.

- We do not propose to take a firm and binding ex ante position on the levels for performance metrics which would correspond to the baseline level of performance. To do so would risk turning the evaluative performance framework into a mechanistic performance incentive scheme, which is not our intention from a regulatory policy perspective.

- As part of our formal opinion on the forward plan, we may give our view on baselines or targets proposed by SONI, including in cases where we consider that these are likely to fall short of baseline performance (and our reasons for this view). The evaluation panel would take this into account as part of its overall assessment of performance.

6.40 To inform the evidence base for assessment above, the evaluation panel would draw on the following sources of information:
Key aspects of the UR’s upfront guidance for the performance framework, including the UR’s upfront service expectations, requirements on performance evidence and mapping of service areas to outcomes.

SONI’s forward plan, and feedback on its draft plan from the UR and stakeholders.

SONI’s annual performance assessment report and any clarifications provided at meetings with the panel.

Written input from stakeholders and meetings between the panel and a wider group of stakeholders.

Further research and analysis commissioned by the panel from the UR staff team.

Any submissions from the UR on specific aspects of SONI’s performance.

**Weights to be applied by area of assessment**

6.41 We developed a draft scorecard that allows for a score to be made for each of the four broad SONI roles separately for each of the four SONI service outcomes. This implies that the overall assessment would be built up from scores in 16 individual areas.

6.42 We considered what would be appropriate weights for each of the 16 areas. This is an inherently subjective matter which is likely to have a significant influence on the SONI’s behaviour and where it directs its efforts. We consider that stakeholder input on the weights is particularly important to ensure that the overall assessment is well-balanced. We set out below an initial view as a starting position, which we expect to refine following stakeholder input.

6.43 To produce the initial view, we took the question of weights in two steps. First, how the overall score should be distributed between the four SONI outcomes. Then, how the score for each outcome should be distributed between the four SONI roles.

6.44 For the weighting by outcome, SONI had proposed weights for similar/corresponding “benefit areas” as part of its proposed benefits sharing framework. Specifically (Appendix N, page 71) it proposed weights as follows: decarbonisation 20%; grid security 20%; cost 40%; and performance 20% (SONI’s performance category maps to our SONI service quality category).

6.45 We consider that these provide a good starting point for stakeholder review. KPMG’s report for SONI explained the higher weight attached to its “cost” category (which relates to our outcome of system-wide costs) as follows: “Customer engagement shows that while all factors are important to customers, in terms of incremental value, this is likely to be most valued on costs”. Similarly, we consider that much of what SONI does concerns system-wide cost efficiency and it is reasonable to give this a higher weight in the overall assessment.
We then took each outcome in turn. In each case we considered the relative contribution of each of the four broad roles. Our default position was a similar weight for each role for each output but we then considered whether there were grounds for giving some roles a higher or lower weight for a particular output. We took particular account of SONI's influence heat map which shows how its different service areas affect different outcomes.

This suggested that in most cases at least one element of the role was highly important to each outcome. However, for the system-wide costs aspect, the system operation and adequacy and system planning roles seemed more important than the independent expert voice or commercial interface roles, so we gave them higher weights.

We set out our initial view in the table below.

**Table 7: Initial view on potential weights by SONI role and outcome**

<table>
<thead>
<tr>
<th>SONI service outcomes</th>
<th>Decarbonisation</th>
<th>Grid security</th>
<th>System-wide costs</th>
<th>SONI service quality</th>
<th>Sub-total</th>
</tr>
</thead>
<tbody>
<tr>
<td>System operation and adequacy</td>
<td>5%</td>
<td>5%</td>
<td>12.5%</td>
<td>5%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Independent expert</td>
<td>5%</td>
<td>5%</td>
<td>7.5%</td>
<td>5%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Network development and system planning</td>
<td>5%</td>
<td>5%</td>
<td>12.5%</td>
<td>5%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Commercial interface</td>
<td>5%</td>
<td>5%</td>
<td>7.5%</td>
<td>5%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Sub-total</td>
<td>20%</td>
<td>20%</td>
<td>40%</td>
<td>20%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Determination of financial incentive from the scores

The determination of any financial reward or penalty would be a matter for the UR, following the evaluation of scores provided by the evaluation panel.

As a first step, we would decide whether to accept in full the scoring of the evaluation panel, or to use adjusted scores in specific areas. If we decided to adopt an adjusted score rather than the evaluation panel’s score in a specific area, we would need to explain why we have taken a different view to the evaluation panel.

Regardless of whether the score of the evaluation panel or an adjusted score is used, the score should be determined in accordance with the grading system and principles set out above. We would not be applying a different test to the evaluation panel.

We would expect to use adjusted scores in limited circumstances, and recognise the need to give weight to the scoring provided by the evaluation panel if the panel
is to play an important role in the overall process. However, we consider it appropriate, at least for a new and untested performance framework introduced for the 2020-25 period, to retain scope for regulatory discretion on the financial reward or penalty ultimately applied to SONI.

6.53 For instance, we would consider an adjusted score if we have concerns that the panel has not given sufficient weight to some of the evidence available to the panel and that this would significantly compromise the resulting financial reward or penalty.

6.54 Once the scores for each of the areas of assessment is finalised, we would use the following calculation method:

- For each area of assessment, the incentive amount would be calculated by taking the score, deducting 3 (i.e. the baseline score), and multiplying the result by the weight for that area of assessment multiplied by £1m.

- A provisional financial penalty or reward would be calculated as the aggregate of the incentive amounts from each of the 16 areas of assessment.

- The applicable financial penalty or reward in any financial year would be subject to a cap of £1.0m. This cap would apply to the sum of the provisional financial penalty or reward as calculated above and any financial penalties or rewards arising from the separate conditional cost sharing incentives (which are proposed in Annex 5 – Cost remuneration and managing uncertainty).

6.55 This approach adopts a feature that was proposed by SONI for its benefit sharing framework, which is that the maximum reward or penalty in individual areas of assessment add up to a somewhat higher number (here £2m) than the maximum reward or penalty under the performance framework. This allows for somewhat larger financial incentives within individual assessment areas for a given cap on the overall financial reward or penalty.

**Worked example of scoring and financial reward/penalty**

6.56 We provide in this section a worked example to show how the scoring approach from the section above would work, for the proposing weightings shown in Table 7. We provide in Table 8 a set of entirely hypothetical scores for each of the 16 areas of assessment.

**Table 8: Initial view on potential weights by SONI role and outcome**

<table>
<thead>
<tr>
<th>SONI service outcomes</th>
<th>Decarbonisation</th>
<th>Grid security</th>
<th>System-wide costs</th>
<th>SONI service quality</th>
</tr>
</thead>
</table>


We show in Table 9 the incentive amount calculated for each area of assessment, based on the calculated method set out in the previous subsection and the weightings from Table 7. For instance, the table shows that the score of 4 out of 5 for the decarbonisation outcome under the system operation and adequacy role translates into an incentive amount of +£50,000 (i.e. a reward).

Table 9: Calculation of incentive amount under worked example

<table>
<thead>
<tr>
<th>SONI service outcomes</th>
<th>Decarbonisation</th>
<th>Grid security</th>
<th>System-wide costs</th>
<th>SONI service quality</th>
<th>Total across outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>System operation and adequacy</td>
<td>+£50k</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>+£50k</td>
</tr>
<tr>
<td>Independent expert</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>£0</td>
</tr>
<tr>
<td>Network development and system planning</td>
<td>+£50k</td>
<td>-</td>
<td>+£250k</td>
<td>-</td>
<td>+£300k</td>
</tr>
<tr>
<td>Commercial interface</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-£100k</td>
<td>-£100k</td>
</tr>
<tr>
<td>Total (before cap)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>- £100k</td>
<td>£250k</td>
</tr>
</tbody>
</table>

From the figures in Table 9 the provisional financial penalty would be +£250,000. This would be subject to the broader cap that applies across the evaluative performance framework and the conditional cost sharing incentives.

Draft timetable for the annual process

Figure 4 below is a draft timetable for the performance evaluation process. This timetable concerns the performance of the TSO in price control financial year t, and shows the preparatory activity needed in the preceding year (year t-1) in relation to the forward plan, the activity during year t, and the evaluative work in the following year (year t+1).

5 Calculated as: [4 - 3] * 5% * £1m.
Figure 4: Draft timetable for performance evaluation process

<table>
<thead>
<tr>
<th>Year</th>
<th>Indicative date</th>
<th>SONI actions</th>
<th>Panel actions</th>
<th>UR actions</th>
<th>Panel meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>t-1</td>
<td>15-May</td>
<td>Publish draft plan for year t and detailed supporting information for any proposed uncertainty mechanism adjustments to ex ante baseline allowances</td>
<td>Feedback to SONI and the UR on draft plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t-1</td>
<td>31-May</td>
<td></td>
<td>Draft plan review meeting(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t-1</td>
<td>30-Jun</td>
<td></td>
<td></td>
<td>Feedback to SONI on draft plan and decision on adjustments to ex ante baseline allowances (UM)</td>
<td></td>
</tr>
<tr>
<td>t-1</td>
<td>15-Aug</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t-1</td>
<td>30-Sep</td>
<td>Publish final plan for year t including detailed expenditure forecasts</td>
<td>Feedback to SONI on draft plan and decision on adjustments to ex ante baseline allowances (UM)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>01-Oct</td>
<td>Start of regulatory year t</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>30-Nov</td>
<td>Formal opinion on plan for year t</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>01-May</td>
<td>Half year performance report</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>15-May</td>
<td></td>
<td>Half year performance review meeting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>22-May</td>
<td>Provide informal feedback to SONI on half year performance (if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>30-Sep</td>
<td>End of regulatory year t</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t+1</td>
<td>30-Nov</td>
<td>Publish full year report for year t</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t+1</td>
<td>15-Dec</td>
<td></td>
<td>Full year performance review meeting(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>t+1</td>
<td>31-Jan</td>
<td>Panel report on year t performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t+1</td>
<td>28-Feb</td>
<td>Consult on incentive decision for year t</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t+1</td>
<td>31-Mar</td>
<td>Formal decision on incentives for year t</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7. Implementation and appeal route

7.1 This final section sets out our proposed approach to two issues concerning the implementation of the evaluative performance framework as part of our final determinations to the 2020-25 SONI price control.

Start date for evaluative performance framework

7.2 We propose that the evaluative performance framework is introduced as part of the 2020-25 SONI price control, but that the financial incentives would only be available for price control financial years from 1 October 2021 onwards. This is for two main reasons:

- The timing of our final determination means that there will not be time for the SONI to consult on and finalise its forward plan for the price control financial year running from 1 October 2020 to 30 September 2021.

- The evaluative performance framework will involve quite a different type of approach to regulation of the performance of the electricity system operator in Northern Ireland and there is merit in a trial run of some aspects of the framework before financial incentives start to apply under the framework.

7.3 We propose that the performance framework and evaluation process (including performance panel evaluation) are applied as far as possible for the price control financial year running from 1 October 2020 to 30 September 2021, but that no financial reward or penalty is set in light of the scores produced for this year. This is likely to provide a useful learning opportunity for all parties.

7.1 In particular, we propose that for the financial year running from 1 October 2020 to 30 September 2021, the following special arrangements would apply:

- SONI would not provide a full forward plan. Instead, as soon as reasonably practical, it would provide an update to the UR and other stakeholders on its key priorities for the financial year, in each of the four SONI roles. This should also explain how its strategy and proposed approach and cost forecast have developed since its price control business plan, in light of final determinations and other factors.

- The UR would provide an opinion on this update, as soon as reasonably practical, for SONI and the evaluation panel to take into account.

- There would be a process of a half-year performance report from the SONI, a panel meeting and feedback.

- The performance review process, including the SONI’s performance report and the panel’s evaluation would apply as for other years. The panel would be expected to take into account constraints on SONI from the timing of the UR’s final determinations (and any guidance published by the UR).
• The evaluation panel would produce a report on the SONI’s performance and an indicative score in each of the 16 areas of assessment.

• There would be no financial penalty or reward, and no formal consultation on the outcome of the panel’s evaluation.

**Licence implementation and appeals of evaluation outcome**

7.2 We propose that the evaluative framework is implemented in the following way through modifications to the TSO licence conditions:

• The licence would place obligations on SONI to participate in the various processes required under the framework.

• The potential financial reward or penalty would be specified in the licence as an adjustment to the calculation of SONI’s maximum regulated revenue in each price control financial year, the value of which is to be determined by the UR with the UR having regard to specified guidance documents.

7.3 Under this approach, SONI or other parties would be able to seek judicial review of the UR’s decision on the financial reward or penalty to apply in a given year. The suite of guidance material that we propose to provide for the purposes of the evaluative framework would be relevant to any judicial review of the outcome of the evaluative process.

7.4 We do not consider it necessary or proportionate for the decision on the level of financial reward or penalty in a specific year to be a matter that would be implemented through licence modification and, in turn, potentially subject to CMA appeal. We note that the CMA in 2017 rejected SONI’s claim that the UR had erred by failing to provide a suitable right of appeal concerning decisions regarding cost recovery for “significant projects”.

---

<table>
<thead>
<tr>
<th>Role</th>
<th>Upfront service expectations</th>
<th>Relationship to service areas</th>
</tr>
</thead>
</table>
| **System operation and adequacy** | A. Collaborating and coordinating through a more robust, transparent and open approach to data (see further description of this in section 3 above).  
B. Developing markets through competition and stakeholder engagement and collaboration (see further description of this in section 3 above). In terms of capacity market delivery, SONI should co-ordinate with EirGrid in delivering the CRM and the Capacity Auctions, to ensure that all milestones and associated processes are met on time in keeping with published and approved timetables. SONI should also continuously improve quality control checks related to the CRM, to ensure the avoidance of errors that could negatively impact market participants. For example, errors in the qualification processes, auction processes and in the other processes contained in the Capacity Market Code. SONI should strive to support market participants with regard to facilitating the entry of new capacity within the market and should be proactive in its engagement with market participants and ensure that any administrative barriers to the entry of new capacity are minimised to ensure that the CRM is as simple as possible for market participants to navigate. For example, this could include ensuring that SONI has a formal process which reviews CRM processes, and considers customer feedback, to ensure that on-boarding / registration / qualification are not more detailed/complex than is necessary; and that SONI works pragmatically and responsively to help its diverse base of market participants by proactively providing them with the information they need.  
C. Collaboration and coordination with NIE Networks (and other 3rd parties) across its various roles as a TO, DNO and DSO (see further description of this in section 3 above)  
D. SONI should seek to minimise the imposition of constraint groups in dispatch to that extent only necessary for system security and safety in line with its obligations. Constraint groups should be continually tested for necessity and SONI should seek to find higher degrees of granularity within the groups so as to avoid unnecessary divorcing of the dispatch instructions sent to generators from the optimal economic schedules and Physical Notifications produced by the scheduling software and markets respectively. SONI should proactively test their assumptions around the limits of equipment that might otherwise be ‘taken as read’ as inputs to the formulation of the constraint groups. Powerflow, transient stability and other appropriate studies should be regularly and actively reviewed to challenge the necessity of the imposition of the constraint groups, and to find opportunities to relax any components that can be relaxed without compromising prudent system operation. SONI should also regularly engage with NIE Networks, Moyle and with generators in the pursuit of constraint group optimisation. While we expect close co-operation with the EirGrid TSO, SONI should not | A, B, C are particularly relevant to both Dispatch and scheduling and Ensuring system adequacy and market development  
D is particularly relevant to dispatch and scheduling |
necessarily be bound by decisions or assumptions made by EirGrid TSO on the constraint groups imposed in the Republic of Ireland and should also demonstrably and actively challenge constraints imposed or proposed to be imposed in the Republic of Ireland.

**Independent Expert**

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| E. | To support its general capability as an expert and innovator, SONI should be proactively and effectively engaging and collaborating with a diverse set of stakeholders across its TSO service portfolio on an on-going basis. We consider that one activity SONI could undertake to inform its approach, and could be provided as part of its performance framework forward work plan, is it to develop an updated stakeholder strategy which takes account of the business plan quality guidance, views from stakeholders and of relevant best practice elsewhere (including the feedback from SECG and our views of where we consider SONI could develop further with respect to the ‘engaging customers, consumers and other stakeholders’ test area).

F. | SONI should be proactively and continuously considering and demonstrating learning from innovative best practice, new solutions and lessons learned (at home and elsewhere) to develop innovative value for money service for NI consumers. SONI should ensure that the way it innovates strikes an appropriate balance between practice and planning. For example, SONI should demonstrate that is learning lessons from real projects as well a desk based research and planning. In balancing what can be tailored from practice elsewhere, SONI should take account of and demonstrate that it is learning about and solving bespoke local issues appropriately: bearing in mind that approaches elsewhere may not be appropriate to solve that issues which are unique to a local issue in question.

G. | We expect SONI to work effectively with the regulator to assist it in carrying out its regulatory duties. For example, as part of UR regulatory information requests, SONI should be clearly providing accurate information which the regulator requires, as is proportionate and appropriate, within the timescales agreed, to support the regulator in undertaking its work to further the interest of consumers.

H. | SONI's should be using its perspective of a well-informed TSO to contribute to public consultations and governance processes concerning the TSO’s role, the development of the electricity system and regulatory framework in NI.

I. | SONI should ensure that the rules and processes associated with Capacity Market Code Modifications are adhered to. This includes meeting milestones in regards to reporting and ensuring that change records are updated as and when required following the implementation of a modification to the code. As experience is gained in operating the CRM, SONI should propose novel Code modifications to improve the transparency and efficiency of the processes within it.

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| E, F, G are likely to feed into and cut across many of SONI services and support the respective service expectations. | E is likely to inform and cut across many service and roles. However, feedback from stakeholders suggests service areas that may need particular focus are Ensuring system adequacy and market development, Dispatching and scheduling, Assessing communication and system needs, Project scoping and feasibility.

I is particularly relevant to Industry Governance |
| **Transmission network development and system planning** | **J.** Collaborating and coordinating through a more robust, transparent and open approach to data (see further description of this in section 3 above: we consider that paragraphs on digitalisation strategy are likely to be relevant to this role area).  
**K.** Collaboration and coordination with NIE Networks (and other 3rd parties) across its various roles as a TO, DNO and DSO (see further description of this in section 3 above).  
**L.** We seek greater transparency in the SONI's assessments and decisions for system planning / network planning purposes (e.g. options considered, rationale for proposed approach) and (ii) greater transparency and continued improvements in the methodologies and tools used for system planning / network planning purposes.  
**M.** SONI's system planning functions should be directly responsive to the objective of constraint group minimisation, so that new network elements or other build-outs are contemplated and assessed for the relief of constraints on the basis of economic merit, notwithstanding the additional objective of efficient facilitation of new connections. |
| J may cut across all transmission network development and system planning role to some extent, but is likely to be most relevant to Assessing and communication of system needs, and to some extent to Project scoping and feasibility.  
K will cut across all of transmission network development and system planning role to some extent, but is likely to be most relevant to Assessing and communication of system needs and to some extent Project scoping and feasibility.  
M is relevant to Assessing and communication of system needs. |
| Commercial interface | N. Collaborating and coordinating through a more robust, transparent and open approach to data (see further description of this in section 3 above).  
O. Collaboration and coordination with NIE Networks (and other 3\textsuperscript{rd} parties) across its various roles as a TO, DNO and DSO (see further description of this in section 3 above)  
P. We expect that its IT systems are kept up to date to meet any reasonable needs of its customers. For example, SONI should ensure the maximum available capacity available under the Moyle interconnector can be met and is not unduly restricted.  
Q. SONI should be engaging with customers to ensure connections are timely and efficient, in a way which makes the best use of existing system capacity. | system needs and links to Dispatch and balancing |  
| | | N and O are likely to be most relevant to connection and access rights.  
P is likely to be most relevant to both Connection and Access rights and Contractual interface (Moyle interconnector element)  
Q is directly relevant to connection and access rights. |