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# ADE Response | Ofgem RIIO-2 Business Plan 2 - ESO Draft Determinations | 17 January 2023

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## Context

The ADE welcomes the opportunity to respond to Ofgem's RIIO-2 Business Plan 2 - ESO Draft Determinations.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, low-carbon and user-led energy system. The ADE has more than 150 members active across a range of technologies, including both the providers and the users of energy equipment and services. Our members have particular expertise in demand side energy services including demand response and storage, combined heat and power, heat networks and energy efficiency.

## Overall Evaluation

The ADE largely supports Ofgem's Draft Determinations with caveats below. At the outset, however, we would like to make a few comments on the conclusions of the report, 'Independent Review of the GB National Grid Electricity System Operator £556M Enterprise IT Investment Plan' by Zuhlke Engineering Ltd. This is an illuminating report that hopefully confirms what most of industry have been saying throughout the RIIO-2 Period and previously.

The lack of transparency, of adequate answers beyond the perfunctory 'we have a better understanding now than we did in 2019', the employment of security as seemingly a means to end any debate – it is extremely positive this is being highlighted by an independent source. Given the seriousness of the findings, with over a billion pounds of investment raising concerns and £307m of that raising 'serious' concerns, the question must be asked whether more action needs to be taken by Ofgem, beyond what is already set out in the draft determinations. These costs, compared to the mere £0.8m Ofgem considered ESO to be on track to be penalised for IT delays in the BP1 Review is quite stark. Furthermore, we are seeing the real-world implications of these deficiencies already – the introduction of Balancing Reserve, only open to large generators owing to the inability of the control room IT systems to effectively dispatch smaller MW assets, is a stark realisation of how IT systems are creating market distortions and dampening investment signals for new technologies.

We suggest a dedicated stakeholder session is held on the findings of this report with further time being given to decide on the implications. Appraisals of BP2 and ESO RIIO-2 performance to date have not had the benefit of the concerns raised being proven by an independent review and therefore warrants a reconsideration of the issues raised.

## Consultation Questions

### Chapter 2

**ESOQ1. Do you agree with our proposed approach to within-scheme feedback, including the timings and approach to performance panel sessions?**

We agree with this approach and believe it will allow for more targeted reviews.

**ESOQ2. Do you agree with our proposed changes to the evaluation criteria for BP2?**

We strongly support the proposal to add more emphasis on exactly how ESO is delivering its objectives as opposed to merely what has been done.

**ESOQ3. Do you agree with our overall approach to cost regulation for the ESO?**

The ADE agrees.

### **Chapter 3**

#### **ESOQ4. Do you agree with our proposed changes to the ESO Roles Guidance? Are there any areas we have not captured in our expectations?**

The ADE agrees. However, on the update of security of supply guidance, we do not believe that this preparedness should in anyway include allowing ESO to design and propose anti-competitive products with little or no industry engagement under the guise of risk preparedness. Although Balancing Reserve is explicitly not a security of supply product, it is foreseeable that a similar kind of product could be developed unless the scope of this updated Role guidance is kept extremely limited.

#### **ESOQ5. Do you agree with our grading of the ESO's Delivery Schedule for 2023- 25?**

The ADE agrees. As we will discuss further below however, we are not confident, given their performance to date, of these milestones being achieved. We agree with Ofgem that BP2 displays an ambitious vision. Unfortunately, and in complete alignment with Zuhlke's conclusion, we consider that in other areas, ESO broadcast their intentions well but fail to deliver, or even adequately explain how it will be delivered, without continued delays and reprioritisation.

#### **ESOQ6. Do you agree with our proposed changes to the performance metrics for BP2?**

The ADE agrees.

#### **ESOQ7. Do you agree that the full suite of metrics provide a comprehensive view of measurable ESO performance? If not, what is missing?**

Provisionally, the ADE agrees. However, given the results of the independent review on IT investment and the changes to the RRE, it would be helpful to be provided a clearer roadmap on how this will be incorporated into the measurable performance of the ESO.

Furthermore, it would be useful to better understand the rationale behind removing RRE 2C and why such a requirement is no longer useful.

#### **ESOQ8. Do you agree with our proposed changes to the performance benchmarks for measuring stakeholder satisfaction?**

The ADE agrees.

#### **ESOQ9. Do you agree with our proposed changes to the regularly reported evidence for BP2?**

The ADE strongly supports the introduction of 1E. As Ofgem is aware, we have long raised concerns about the efficacy of the Dispatch Transparency Tool and the persistence of skip rates for smaller volume assets. Apart from the results of the independent review, discussed above, the ESO has essentially confirmed that the tool is unfit for purpose. At a 5 December Stakeholder Meeting at the Wokingham Control Centre, ESO stated that when control room conditions are busy and operators take out-of-merit actions because they do not have the time to manually dispatch smaller volume assets, these actions are not entered into the Dispatch Transparency Tool as a 'skip' but rather they look to what made control room conditions tight (eg frequency, constraint, plant outage) and this is entered as the reason code. This is wholly unacceptable and completely undermines the entire ethos of the dispatch transparency tool. Furthermore, it shows that despite being aware of the nature of industry concerns since the first publications of the tool, ESO did not publicise this fact until explicitly asked at an in-person event.

Also confirmed at this event was the reality that because it is easier for operators to quickly recall the operational parameters of larger assets this can influence what decisions are made when considering whether an action may possibly be needed over a longer duration. Therefore, because

it is impossible to remember the parameters of numerous smaller volume assets at any given time these assets are implicitly disadvantaged.

On risk management, although control room acknowledge that deviation from submitted parameters can affect any BOA, they consider that because it is easier to telephone one operator of a 50MW asset rather than multiple operators of lower MW assets (including aggregated portfolios), this is therefore a justifiable reason to give preference to the larger asset under the heading of risk management.

Finally, it was made clear that the MEL/SEL/MIL/SIL of larger assets heavily influence control room decision-making so that more volume is contracted to meet forecasts than may be necessary. Therefore, assets that need shorter lead times are disadvantaged when fewer closer to real time actions are taken.

All of the above demonstrates that dispatch inefficiency is a multifaceted problem that the current Dispatch Transparency Tool is wholly unsuited to adequately addressing. This event demonstrated a fundamental disconnect between what ESO and industry consider the purpose of transparency to be. In the short term, and beyond what is proposed in the Draft Determinations, Ofgem should consider tightening the penalty/incentive regime relating to dispatch efficiency and improved ENCC decision making. Otherwise, we would suggest changes to the reason code, or at least further explication on the proposed change. In the longer term, and as per our above introduction, firmer action needs to be taken on IT inadequacies.

## **Chapter 7**

**ESOQ18. Do you agree with our intention to fund the ESO's efficient FSO transition costs through a mechanism set out in the ESO's licence, and that this should not be classed as totex and therefore not added to RAV? If not, please detail why.**

The ADE agrees.

**ESOQ19. Do you agree with our proposals for a regulatory and incentive framework for FSO delivery? If not, please outline why.**

The ADE agrees.

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### **For further information please contact:**

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