

Energy UK response to Ofgem consultation on RIIO-2 Business Plan 2 - ESO Draft Determinations

January 2023

Energy UK welcomes this consultation from Ofgem and the opportunity to respond. Please note that we have not answered every question and provided only answers to questions which members felt

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

As Energy UK has a seat on the Performance Panel, we understand that the 6-monthly reviews in BP1 were demanding and resource-intensive and agree that the proposed approach for BP2 strikes a good balance providing feedback while not creating undue administrative burden.

Nevertheless, we have some concerns that the proposed approach is not sufficiently clear about what regular opportunities will exist for stakeholders to engage with Ofgem on ESO performance. We would ask that Ofgem set out its thinking in relation to its statement “we... will not issue a call for evidence or hold a stakeholder event every 6 months, but will continue to engage widely with stakeholders throughout the scheme” (p13, paragraph 2.7) and how Ofgem anticipates to ensure that it effectively engages with industry stakeholders. We would caution against a streamlined process which reduces opportunities for market participants to share feedback.

A number of Energy UK members raised concerns that Ofgem had not clearly communicated that there would be no Call for Evidence at the most recent 6-monthly review point for BP1. If Ofgem’s stakeholder engagement is to be done in a more agile and ad-hoc basis going forward, it is essential that opportunities to engage are clearly communicated with industry.

We also note that one of the suggested benefits of the proposed approach is that the ESO would be able to quickly action and respond to feedback received. This is a welcomed change as Energy UK members feel concerned about how feedback has been acknowledged at previous review cycles and would like to see a more effective and joined up approach taken going forward. For example, in June 2022, the Performance Panel gave feedback on the considerable delays to the launch of the new EMR Portal. Following a number of delays on the releases of parts of the Portal, the Panel was reassured by the Delivery Body on 8 June 2022 that that delivery of was on track. However, on 29 June 2022, the ESO announced that the launch of the Portal would be pushed back and market participants would not be able to use the Portal for prequalification in 2022. While we understand that Ofgem is looking to make the assessment process more efficient, there is also a need to ensure that the assessment process is effective and joined up so that actions taken on the basis of feedback is communicated clearly with stakeholders.

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

Energy UK welcomes this approach and supports the change to measuring *how* the ESO has delivered its Delivery Schedule. We hope this will bring greater transparency on reasons behind delays to the Delivery Schedule, which has not always been well communicated to

market participants. To that end, we would ask Ofgem to provide additional information on how the quality of outputs and value for money criteria will be used and assessed.

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

Energy UK members felt that this question needed to be clearer about what it is referring to before being to provide an answer.

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

Energy UK members felt that the information necessary to provide an answer to this question was not easily accessible and that the consultation document should provide greater detail on the proposed changes to the ESO's Roles Guidance. Overall, we believe that Ofgem should provide more information across the metrics for each of the three roles so that stakeholders have a comprehensive understanding of the expectations of the ESO.

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

Energy UK members feel that this consultation document should be clearer about how Ofgem grades the ESO's Delivery Schedule for 2023-25 for industry to share a view on the specific grades awarded.

Delays to IT upgrades have an important operational impact on Energy UK members as adequate time is needed to test, feedback, familiarise and integrate their processes with what the ESO is implementing. Therefore, members agreed with Ofgem's decision to reduce its grading of the ambition of the Delivery Schedule from BP1 to a 4 for Role 1. We note that issues below also speak to the ESO's Role 2 activity.

Balancing Reserve – In Energy UK's recent response to the ESO's EBR Article 18 consultation on Balancing Reserve, we emphasised that while there was mixed views in our membership on whether this service should be implemented as currently, there was strong consensus that the ESO's Control Room systems must be urgently improved to allow wider access to the Balancing Mechanism in general. The Balancing Reserve service excludes smaller assets and those that cannot provide Mandatory Frequency Response (MFR). This exemplifies that current dispatch processes in the Balancing Mechanism are highly discriminatory. It is essential that the ESO renews its focus on carrying out an urgent update of the Control Room's IT and process capabilities and communicates regular updates to industry participants (e.g. through more regular and publicly accessible updates on the ESO's Balancing Capability Strategic Review programme). This should follow a clear, published roadmap with dates at which improvements will be made to enable broader access to the Balancing Mechanism to ensure fair and competitive markets.

Skip rates – Energy UK has previously raised concerns with Ofgem (in our consultation response to the Call for Input on addressing high balancing costs) about the ESO's lack of transparency and communication in relation to running decisions for balancing services. In particular, our members feel that the lack of information from the ESO on, for example, not knowing where assets will fall in merit order or what volumes will be offered, implies that the Control Room continues to struggle to effectively call on assets in merit order. Energy UK members with smaller, more flexible BMUs have expressed concerns that they are consistently being overlooked by the ESO despite being the cheapest option available to the Control Room. Whilst members appreciate the ESO providing updates via the Operational

Transparency Forums and the recent skip rate event in Wokingham, this area still requires urgent improvement to ensure that markets are competitive and to lower system costs.

EMR Delivery Body Portal – as outlined in our answer to ESOQ1, delays to the new portal have been significant. Energy UK members feel that the ESO has not engaged effectively with affected stakeholders or provided sufficient explanation for the delays. Due to this, Energy UK members are concerned that the Portal will not be available by April 2023. Delays to the Portal have also caused knock-on delays in implementing overdue improvements to the CM, including those which Ofgem consulted on in November 2021 and amended the CM Rules for in February 2022 (e.g. evergreen prequalification, improvements to the CM registers and Applicant Notice).

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

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

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

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

ESOQ10. Do you agree with our proposal to approve the ESO recovering its full BP2 funding request of £671m?

Yes, Energy UK welcomes this proposal and strongly agrees that the ESO should recover the full funding required for activities and investments in BP2.

ESOQ11. Do you agree that the activities and investments proposed by the ESO are necessary and should proceed?

Yes, Energy UK strongly believes that the activities and investments proposed by the ESO are necessary and should proceed.

In reference to paragraph 1.8, page 37 of the consultation document which states “it is our view that there are activities and ESO IT investments that, based on the evidence provided, currently lack the evidence for us to conclude that the ESO proposes to deliver them efficiently”, Energy UK would strongly urge Ofgem to encourage the ESO to give further detail on how it plans to deliver its IT activities. As outlined in our answer to ESOQ5, delays to IT improvements have a significant impact on market participants and need to be addressed urgently.

ESOQ12. Do you agree with the proposed Value for Money scoring?

ESOQ13. Do you agree with our proposed approach to monitoring the ESO's costs?

ESOQ14. Do you agree with our proposal to not change the disallowance cap value for BP2?

ESOQ15. Do you agree with our proposal to not increase additional funding for BP2 based on the current information available?

ESOQ16. Do you agree with our proposal to set annual capitalisation rates in keeping with the previous methodology for BP1?

ESOQ17. Do you agree with the level of proposed NIA funding for the ESO? If not please outline why. FSO consultation questions

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.

Energy UK supports the transition to the FSO and welcomes Ofgem's intention to fund the ESO's efficient FSO transition costs. Stakeholders would benefit from further detail on how Ofgem will do this through the ESO's licence and on its plans to introduce an FSO monitoring framework.

We agree that the ESO should report on key milestones and costs related to the transition to the FSO. The development of the FSO is hugely important and the transition should face appropriate scrutiny from Ofgem and industry stakeholders.

Members are mindful that the ESO is planning to deliver a number of upgrades, in particular to the balancing mechanism, and shared concerns about the ESO's capacity to deliver key activity while it transitions to the FSO.

We would also welcome further detail on these milestones and associated timelines as well as assessment criteria, and we look forward to responding to a more detailed consultation on this area.

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