

Centrica response to Ofgem's Call for Information – ESO performance.

May 2024

Overview

Centrica welcomes the progress made by the National Grid Electricity System Operator (NGESO) across several key areas in relation to improving market access and participation for small scale, aggregated Demand Side Response (DSR) during the April 2023 and March 2024 regulatory period. We support the overall objectives set out by NGESO in its RIIO-2 Business Plan 2 (BP2), whilst we appreciate that they are both ambitious and challenging in nature, we remain disappointed that BP2 is less ambitious compared to BP1.

The work being done under NGESO's Power Responsive programme has already started to remove some of the barriers to participation in the national flexibility markets. We will continue to work with NGESO under this programme to help it address the remaining issues set out in this response to Ofgem's Call for Input on its mid-term assessment of the ESO incentives for BP2.

We also note the rapid development and delivery of improvements to the Demand Flexibility Service (DFS) during the period. Along with its success in raising awareness of the role that small scale, aggregated DSR can play across the energy industry and with the wider public. The DFS has operated well as an enhanced service, and we look forward to engaging with NGESO on its future role and development.

However, we consider that NGESO could improve the frequency and quality of engagement with market participants, along with taking a more consistent approach to working with industry in product design and market reform. The importance of this was demonstrated during the development of the Balancing Reserve (BR) product, when NGESO failed to sufficiently engage with industry and respond to concerns raised around some of the key features. This resulted in Ofgem withholding approval for a new product until the concerns raised were addressed, which delayed implementation. It is critical that this type of delay is avoided with the suite of new products NGESO is planning to bring to market, including the forthcoming Quick Reserve (QR) and Slow Reserve (SR) services, which have already been subject to repeated delays.

Improving the frequency and quality of engagement with market participants will become increasingly important as NGESO transitions into the NESO. The NESO will then become a public body with requirements around engagements with stakeholders in addition to its relationship with its customers i.e., system users.

We also feel NGESO must improve its transparency with forecasting assumptions and related communications. This relates to both TNUoS and BSUoS forecasting. As we have fed back previously that forecast inputs and assumptions must be more transparent, and more thoroughly explained when queried. Opportunities to engage online should be advertised earlier and with greater clarity on content and who will be interested to attend. Overall, we expect webinars and materials to be more professional, accurate and helpful.

Role 1 – Control Centre Operations Activity

1a: System operation - Balancing efficiently; Oversight of balancing services markets.

Wider Access

Centrica supports NGESO's stated ambition for wider access to balancing and wholesale markets, including for small scale, aggregated DSR provided by electricity suppliers and independent aggregators acting as Virtual Lead Parties (VLPs).

A significant area of progress in opening the balancing markets to domestic-scale DSR is the work being done by NGESO in collaboration with industry participants, under the Power Responsive Operational Metering Working Group, to develop and trial more relaxed operational metering standards for domestic Electricity Smart Appliances (ESAs), such as Electric Vehicles (EVs) and smart electric heating systems participating in the Balancing Mechanism (BM). By working with NGESO under this programme we have recently been able to gain access to the BM as a VLP using EVs and are currently participating in a trial using 1 MW of aggregated domestic DSR assets.

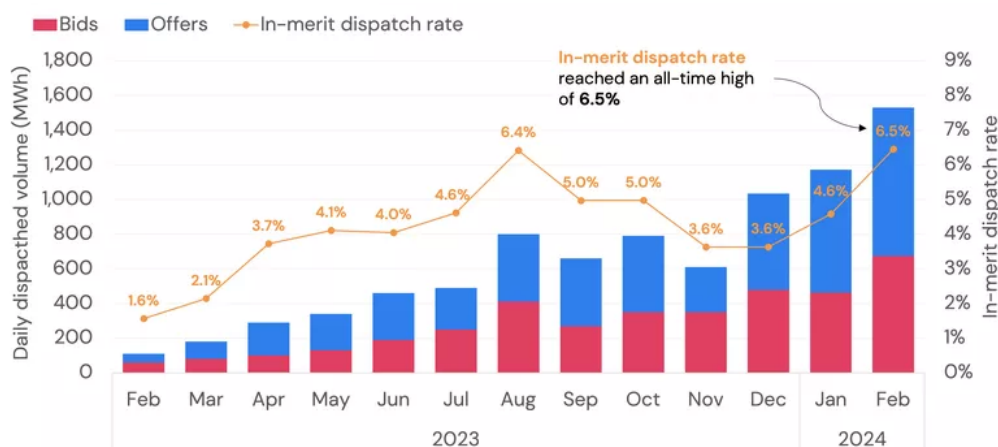
We consider the implementation of relaxed operational metering standards on a market-wide and enduring basis to be key to unlocking the full potential of small scale, aggregated DSR to support the electricity system as it makes the transition to Net Zero, and it should remain a high priority for NGESO during the remaining BP2 period.

The success of the Demand Flexibility Service (DFS) has demonstrated that domestic scale Demand Side Response (DSR) can make a significant contribution to the running of the electricity system. Applying the relaxed metering standards being trialled under the Power Responsive programme could help consumers participating in the DFS as an enhanced service to transition to within-market services on an enduring basis.

Skip rates and the Balancing Capability Strategic Review

Centrica is concerned with the number of economically out-of-merit actions being taken by NGESO in the BM, known as 'skip rates', along with the reporting of skip rates and the reasons why some assets are dispatched when cheaper alternatives are available to the NGESO control room.

We support the work being undertaken by NGESO to address this issue. Monitoring of the rates of dispatch for dedicated, commercially operated batteries carried out by Modo Energy indicates that the implementation of the first phase of the Open Balancing Platform (OBP) has started to improve levels of dispatch for small flexibility assets:



This should also have a correspondingly beneficial impact on skip rates. We do not have any evidence of whether a similar improvement will apply to small scale, aggregated DSR yet, but we will monitor dispatch and skip rates and with the intention to provide evidence during the next BP assessment.

However, we remain concerned that the Open Balancing Platform (OBP) is not yet fully operational, and that the Dispatch Transparency Tool (DTT) has not delivered the level of transparency around asset dispatch and skip rates that was promised.

We consider that the categorisation of some balancing actions reported by the DTT as 'operational' may be due to ongoing limitations of NGESO control room systems, which may result in an incomplete and misleading view of the reasons for skip rates. We suggest that the reason codes used by control room engineers are reviewed and amended to take account of the limitations of manual dispatch so that Ofgem, NGESO, and industry are provided with a metric to show how effective the control room IT reforms being implemented during the BP2 period are.

Activity 1c – Transparency, data, and forecasting of charges.

We have seen improvements in the volatility of BSUoS forecasts, which are mainly driven by reduced wholesale market volatility. However, we observe that the transition between forecast methodologies, between the short-term and longer-term approaches within the overall forecast, can lead to a step change in outputs. This causes volatility for specific periods in the forecast that is not necessarily explained. The approach to carrying forward over or under-recovery of costs is causing volatility in the fixed rate itself. The gap between the fixed rate for 6 months, followed by the draft rate for 6 months adds risk to our forward pricing.

Whilst the BSUoS webinars are useful, the information shared needs improvement, both in terms of accuracy and depth. For example, the webinars have lacked information provided elsewhere on FSO calls and the team has been unable to answer what should be simple points on which costs are included as forecast inputs (e.g., FSO costs), reducing transparency. Slides often contain material errors to forecast outputs and dates, which are pointed out by audience members to be corrected when republished on the website. Questions taken away from the online chat or Slido are not transparently resolved to the webinar audience and other stakeholders. Presenters do not always add value with their voiceover, simply reading aloud. We would welcome greater notice of planned webinars with clearer indications of content and who should attend so that we can ensure the correct experts are present.

For TNUoS, it is disappointing that NGESO continues to make forecasts based on poor input data. The revenue forecast information from the Transmission Owners is often clearly inadequate and later revised without full explanation. We expect NGESO to take steps to ensure inputs to its network charging projections are justified and represent a best view, as well as providing clear explanation to stakeholders.

In summary, we expect improvements on:

- transparency of forecasting approaches and their impacts on results.
- quality of webinars and communications, including greater accuracy of presentation materials, and ensuring follow up actions have been taken.
- notification of event content and timing.
- justification of inputs to forecasting, including seeking accountability of Transmission Owners for allowed revenue projections.
- use of relevant, up to date inflation rates and other inputs.

- clear explanation of inputs and, should inputs such as Transmission Owner allowed revenues subsequently change, clear explanation of why they have changed.

On administrative matters, we continue to struggle with the inconsistency and management of distribution lists. We often find important emails do not reach those who need them, despite having requested additions to what seemed to be the relevant distribution list. We would like greater clarity of the distribution lists, potentially being able to nominate and remove colleagues ourselves. We would also welcome a regular summary of what has been circulated to ensure that nothing is missed.

Role 2 – Market development and transactions

Activity 2a: Market design – Balancing and ancillary service market design

Centrica welcomes the NGESO's ongoing reform of balancing and ancillary service markets, and we support the key drivers for market reform identified by NGESO, including increased competition, zero-carbon operation, changing system conditions and increased transparency.

We have experienced an improvement in engagement with NGESO on product design during BP2. However, the designs of some of the new products have presented significant barriers to market participation for small scale, aggregated DSR. Further reform is required to achieve sufficiently liquid balancing service markets, with the new Balancing Reserve product providing a significant example.

More recently, we have observed some positive developments in terms of engagement with market participants to improve the dispatch of batteries, for example. However, we believe the vision should be more joined up, we are seeing individual teams developing diverging approaches and feel the NGESO could benefit of increased efficiency by improving communication and collaboration between teams.

Balancing Reserve (BR)

We welcome the recent introduction of the BR product but would highlight that NGESO failed to sufficiently engage with industry and respond to concerns raised around some of the key features such as the 50 MW minimum threshold for participation, along with the need for participants to provide Mandatory Frequency Response (MFR).

This resulted in NGESO seeking Ofgem approval for a new product which contained significant barriers to entry and participation for small scale, aggregated DSR. These elements of the design were changed following Ofgem's instruction to do so, which resulted in a significantly improved product. However, we are concerned that NGESO allowed the product to progress to such an advanced stage of development without sufficiently accommodating feedback from industry. It is important to understand the process for developing BR and avoid this situation arising again, which will be particularly important as the forthcoming QR and SR services, which have been repeatedly delayed, are being developed.

Activity 2b – Administration of Market Design Elements

New Electricity Market Reform Portal testing for the capacity mechanism is going well, and we are actively supporting. We are reasonably comfortable with the functionality we have seen to date. We are also pleased with the level of engagement from the development team, who are quickly answering written and verbal questions.

Activity 2c – Industry codes & charging

Please see our points for role 1c above.

In addition to these, whilst the management of CUSC is viewed as among the more effective of the current code bodies, certain modifications have been advanced regardless of lack of support from industry stakeholders. Examples of this are CMP 408 and CMP 415 connected with BSUoS notice and fixed tariff period amendments. Neither modification received supporting votes from workgroup members. Lack of support should remove the modification from the development process, freeing resource time and cost. We will be providing further input on this topic in response to the Code Governance consultations.

Role 3 – System insight, planning and network development.

Activity 3a – Connections and network access

We support the aims of NGESO in seeking to address the challenge of the growing connections queue and shorten connection times for viable projects. We feel NGESO performed well in proposing and implementing code changes to introduce queue management milestones to the transmission queue (CMP 376) and a Letter of Authority requirement for transmission applications (CMP 427).

We welcomed the introduction of NGESO's five-point plan of tactical initiatives, but we remain disappointed that the original timeline for the Two Step Process was not met and had to be extended beyond the original end of March 2024. None of our readier-to-connect projects being offered earlier connection dates to-date, as we are still waiting for NGESO to deliver the relevant Two Step Offers to the DNO. Implementation arrangements for some other parts of the five-point plan remain unclear – such as the Interim offer for BESS, where the last update on NGESO's website was 2 June 2023¹.

NGESO should implement lessons learnt from the Connections Process Advisory Group (CPAG) process. Only a limited number of customer representatives were allowed to participate, and the published minutes were sometimes difficult to decipher because the rest of the documentation is unpublished. It was difficult to feed in our views to our CPAG representatives, as NGESO papers were sent to them at the last minute, and they were unsure if they could share the contents. If repeating a similar process in the future, we suggest NGESO follows the approach of the CUSC Panel and makes all materials available online to all stakeholders at the same time.

¹ <https://www.nationalgrideso.com/document/281171/download>