

Decision

Annex 1: Mid-scheme review of the ESO's Electricity Market Reform Delivery Body Performance in relation to the Capacity Market over Year 1 of BP2

Publication date:	30 August 2024
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Contents

Annex 1: Mid-scheme review of the ESO’s EMR Delivery Body Performance in relation to the Capacity Market over Year 1 of BP2	1
Introduction.....	4
Overview.....	4
1. Plan Delivery	4
2. Stakeholder Evidence	5
3. Quality of Outputs	6
4. EMR Demand Forecasting	6
5. Value for Money	6

Introduction

Regulation 83(a)(ii) of The Electricity Capacity Regulations 2014 requires Ofgem¹ to provide the Secretary of State with an annual report on the Electricity Market Reform (“EMR”) Delivery Body’s (“DB”) (National Grid Electricity System Operator Limited, “NGESO”) performance of its functions in relation to the Capacity Market (“CM”). During the RIIO-1 period we published dedicated annual reports covering the DB’s performance against the EMR incentives. However, in RIIO-2, EMR DB performance is now included within the ESO’s wider incentive scheme within Role 2.² Therefore, this section of the report covers the DB’s performance during the period from 1 April 2023 to 31 March 2024, which includes the Capacity Auctions held in February 2024. We have used the guidance set out in the ESORI Guidance Document³ to assess the performance of the EMR DB.

Overview

Considering all criteria, we feel that the ESO’s EMR DB’s performance was slightly above expectations for this period. The EMR DB progressed delivery of the new EMR portal in line with revised milestone deadlines and performed extensive end-to-end testing of and familiarisation with the new portal to derisk the launch of the new system. The EMR DB clearly demonstrated the value of its demand forecasting and resource adequacy modelling and provided extensive contributions to both the Capacity Market Advisory Group and to the Review of Electricity Market Arrangements policy development work that go beyond the expectations set out in BP2.

1. Plan Delivery

Of the 24 planned milestones for BP2, 11 have been completed and the remaining 13 are on track for completion by their milestone due dates.

One of our major critiques in our review of the ESO’s performance for BP1 was the slow progress on the new EMR portal. The new portal was expected to be delivered by the end of BP1, but due to a number of internal issues, the EMR DB was unable to deliver this milestone and committed instead to delivering it by Q1 2024/25. We note that the EMR DB made significant progress toward delivery by this date during the first year of

¹ The terms “we”, “us”, “our”, “Ofgem”, and “the Authority” are used interchangeably within this document to refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² We assess the ESO’s performance in accordance with its RIIO-2 incentive scheme across three ESO roles. Role 2 covers the ESO’s activities relevant to Market Development and Transactions, with EMR DB activity as one aspect of that.

³ The current version of which is available at: <https://www.ofgem.gov.uk/decision/decision-electricity-system-operator-reporting-and-incentives-arrangements-guidance-document-2023-2025>

BP2 (for example, the January 2024 opening of the new portal for company registration to allow the migration of existing system data), and understand that the EMR portal will be delivered in time for the 2024 prequalification round.⁴ We have seen significant evidence of the EMR DB engaging with future portal users, identifying issues and concerns and making significant efforts to resolve these issues before the release of the new portal. They have regularly updated the other EMR delivery partners on the progress of the portal and shared user feedback.

The EMR DB received a total of 1,180 Prequalification Applications for the 2023/24 T-4 and T-1 Capacity Market Auctions and prequalified 951 Capacity Market Units. The EMR DB reviewed 269 requests for a reconsidered decision and approved 251 of these. Of the remaining 18, eight submitted an appeal to the Authority of which four of the EMR DB’s decisions were upheld by the Authority and four were overturned. While we overturned the EMR DB’s decision for four Capacity Market Units, this was felt to be due to an ambiguity within the Capacity Market rules rather than a failure of the EMR DB’s decision-making process.⁵

The EMR DB contributed to develop and improve Capacity Market policy, engaging actively in the Capacity Market Advisory Group (“CMAG”) and working with Elexon and CMAG members to develop rule changes that effectively resolve problems. The EMR DB also collaborated with the Capacity Market Settlement Body in a review of data management processes which resulted in a Capacity Market change proposal to improve the way that the Delivery Body and Settlement Body collect and process specific pieces of data to maximise efficiency. We note that the EMR DB also engaged significantly with the government’s Review of Electricity Market Arrangements and has managed multiple priorities to contribute effectively on the future design of the capacity market.

2.Stakeholder Evidence

The EMR DB’s Customer Satisfaction score increased by 6.6%, from 6.98/10 in 2023 to 7.43/10 in 2024. Individual scores improved on its performance, engagement and ability to resolve queries, and a new category, guidance, scored 7.71/10. Customers appreciated the EMR DB’s quick and informative responses to queries and the improved system of email reminders for upcoming deadlines. Customers highlighted that they would like to see more targeted and relevant communications and more involvement

⁴ We note that an operational version of the EMR portal ready for Capacity Market prequalification has since been delivered in May 2024. This lies outside of the performance window report on in this report, and the quality of its delivery will be captured in a subsequent annual assessment, which will include assessment based on stakeholder views on the user experience with the new portal.

⁵ This ambiguity in the rules has been highlighted in the Capacity Market Advisory Group to be reviewed and resolved.

from operations teams in developing rule clarifications and changes. Customers had concerns about the previous EMR portal, but reactions to the familiarisation sessions for the new portal were generally positive.

3.Quality of Outputs

We were satisfied with the quality of outputs for the EMR Delivery Body for this period. There has been considerable progress in keeping with the revised deadlines for the new EMR portal, which was identified as a key concern by a number of customers and has been a major blocker in improving the experience of EMR participants. Progress with the portal made over this period means that the EMR DB was on track to deliver the new portal by May 2024 (in line with its Q1 2023/24 milestone commitment),⁶ with expected benefits of around £3m per annum.

4.EMR Demand Forecasting

The EMR DB produced a 2035 resource adequacy study and engaged extensively with stakeholders to gather their input and feedback. Further improvements on security of supply modelling have been undertaken and are expected to be included in the 2024 Electricity Capacity Report. The gross benefits associated with this modelling work have increased from £68m to £187m, but this is mostly due to the considerable increase in auction clearing prices.

5.Value for Money

The spend for “A5 – Transform access to the capacity markets”⁷ is in line with the BP2 business plan. The spend for “320 – EMR and CfD Improvements”⁸ is £6.5m higher than forecast in the BP2 business plan, as a rebaselining plan agreed in 2023 required additional time and resource to be directed towards development resource for the new portal and to the maintenance of the legacy portal. The new portal is set to have extensive stakeholder engagement and familiarisation work to derisk go live and is due to be launched in Q1 2024/25 in line with the rebaselined plan.

⁶ We note that the portal being delivered at this point means it falls outside of the assessment period covered by this report.

⁷ See <https://www.nationalgrideso.com/document/318496/download> for further information on this ESO activity.

⁸ See <https://www.nationalgrideso.com/document/318496/download> for further information on this ESO investment.
