

## **Future SO Regulatory Framework**

Workshop 1: Ofgem's working paper and measuring  
SO performance

**03/10/17**

ofgem

**These slides are shared with stakeholders to facilitate working-level policy development. The content should not be considered as the views of the Authority.**

## Workshop 1: Ofgem's Working Paper and measuring SO performance

13.00 – 13.30	Registration and tea/coffee
13.30 – 13.45	<b>1. Welcome and introduction</b>
13.45 – 15.00	<b>2a. Our working paper: Framework, roles, principles</b> <ul style="list-style-type: none"><li>i. Overview of Regulatory Model</li><li>ii. Roles and Principles</li></ul>
	<b>2b. SO principles table discussions</b>
	Coffee break
15.30 – 16.15	<b>3. How to measure SO performance (SO Business Plan &amp; KPIs)</b>
16.15 – 16.30	<b>4. Wrap up and close</b>

# 1. Welcome and introduction

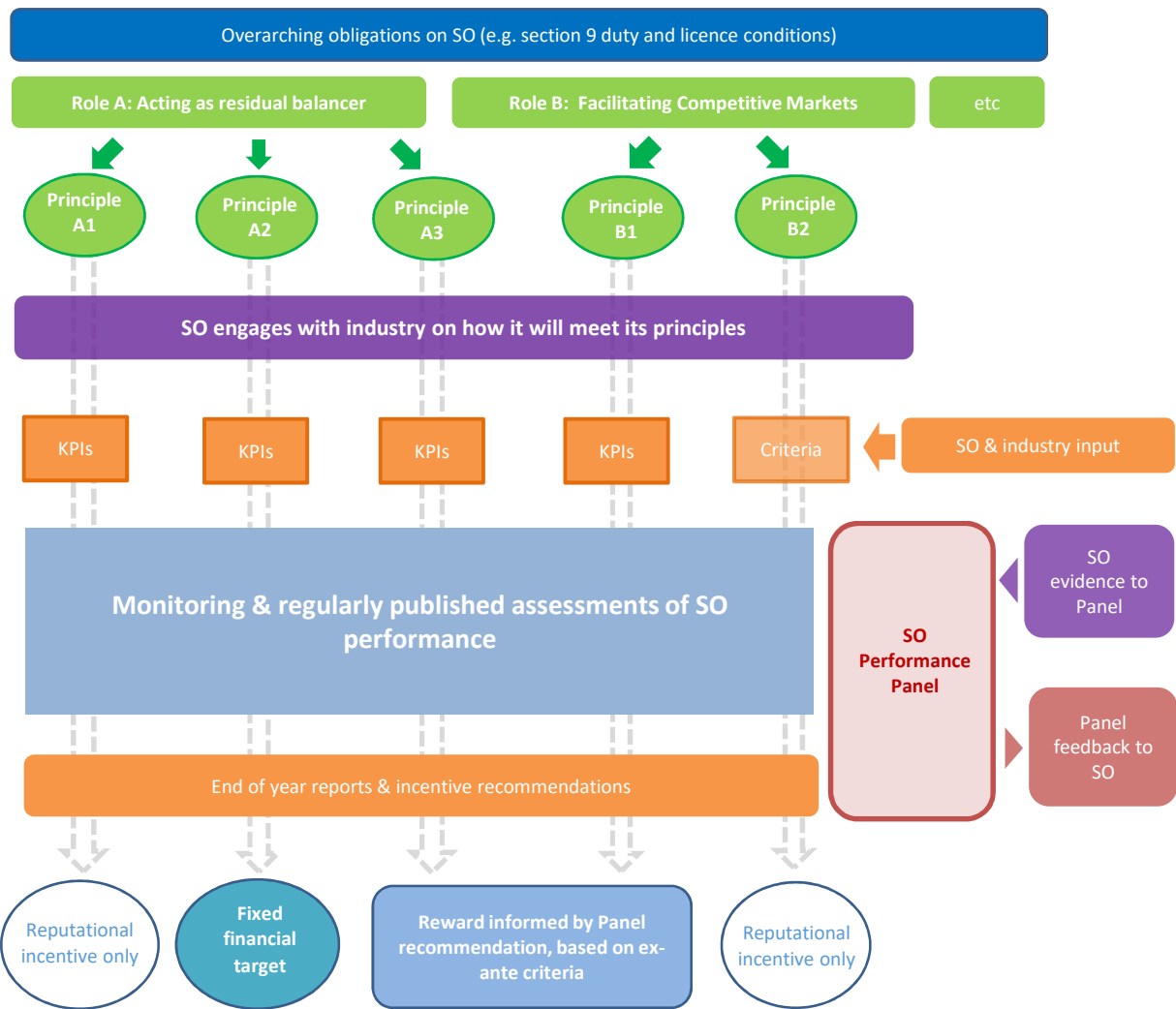
## 2. Our working paper: New regulatory framework and SO roles and principles

Focus of Today's workshop

- A) SO roles and principles
- B) Setting Performance metrics

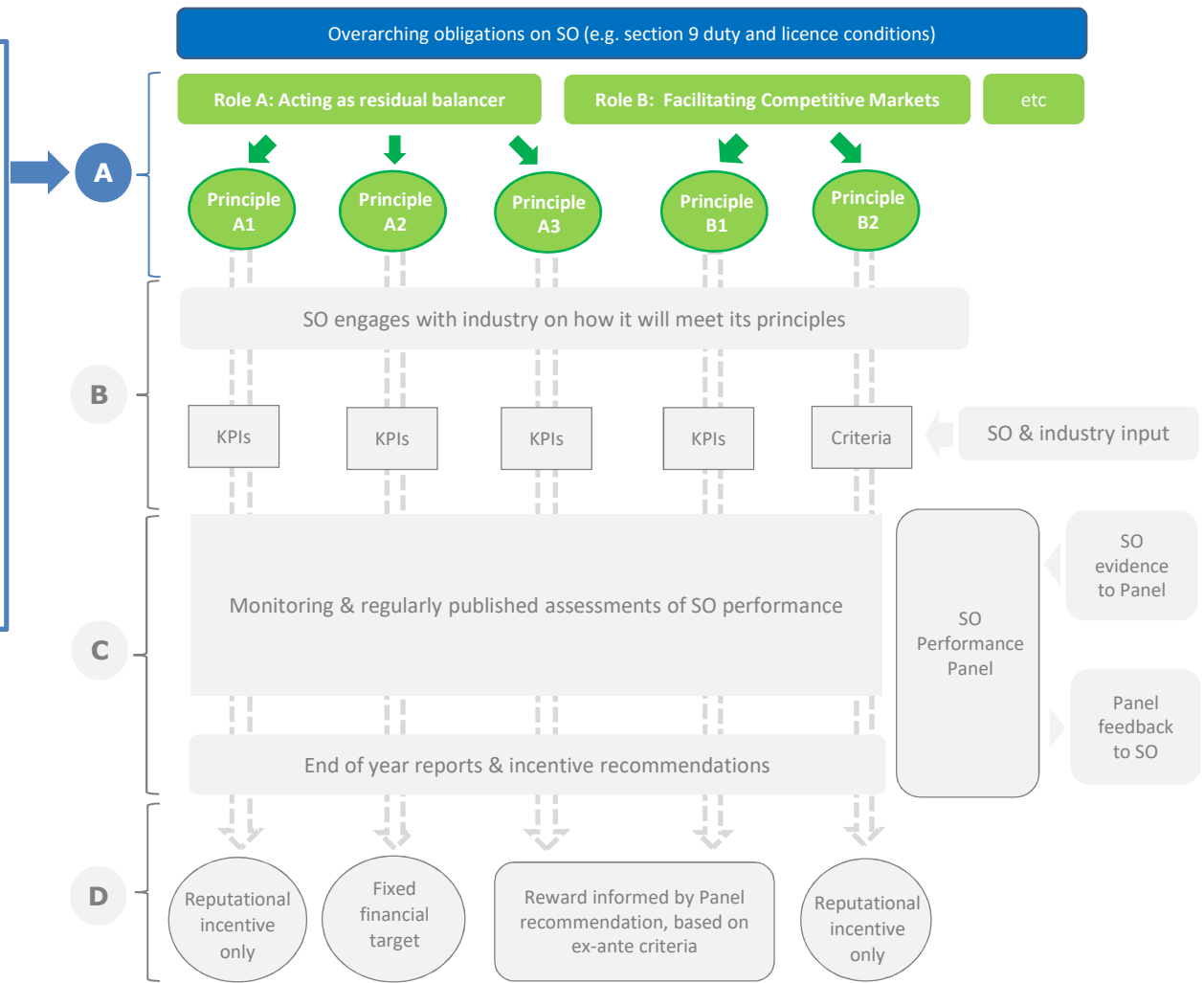
Workshop on 11<sup>th</sup> October

- C) Monitoring, reporting and external involvement
- D) Financial incentives



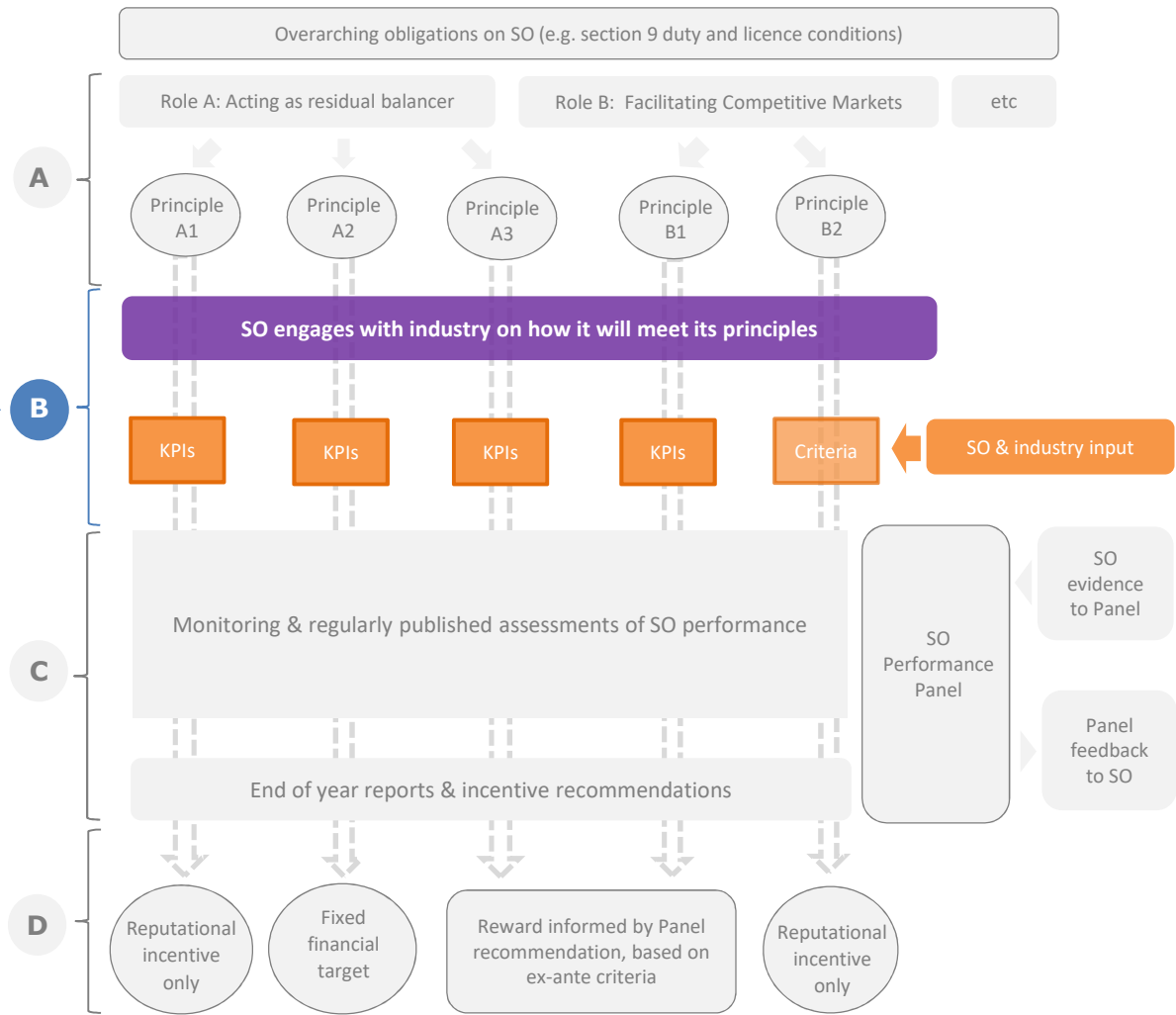
### SO roles and principles

- Set clearer expectations around the behaviours expected for the SO to fulfil its licence obligations
- Principles-based approach – help support a more proactive SO which has the flexibility to find the best solutions to future system challenges



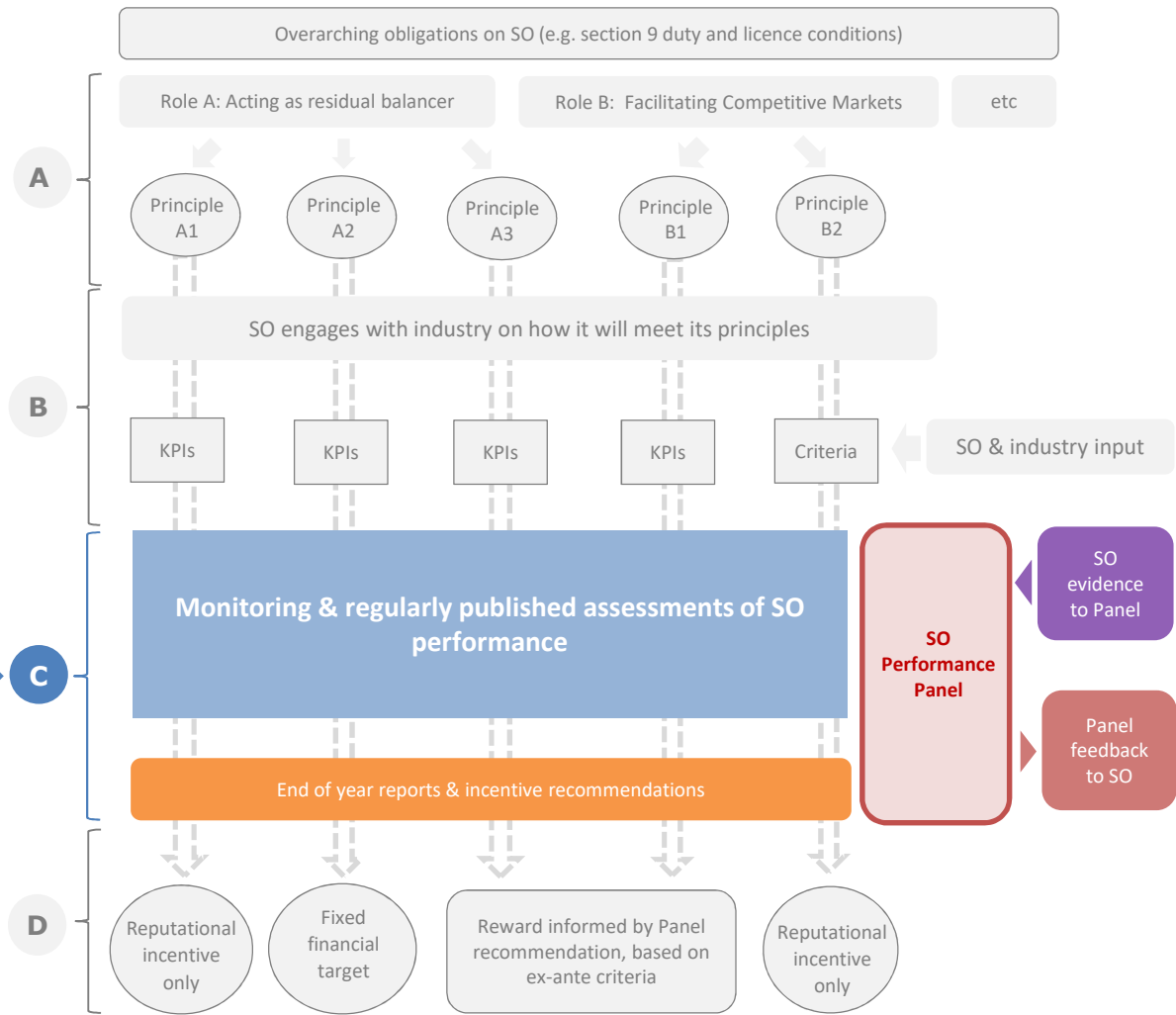
**Setting performance metrics**

- Onus on SO to engage with industry around how it will deliver against its principles, over short and long term
- SO publishes forward plan each year, consulted on with industry
- Set of KPIs developed to help transparently measure SO performance – proposed by SO, validated by industry and Ofgem



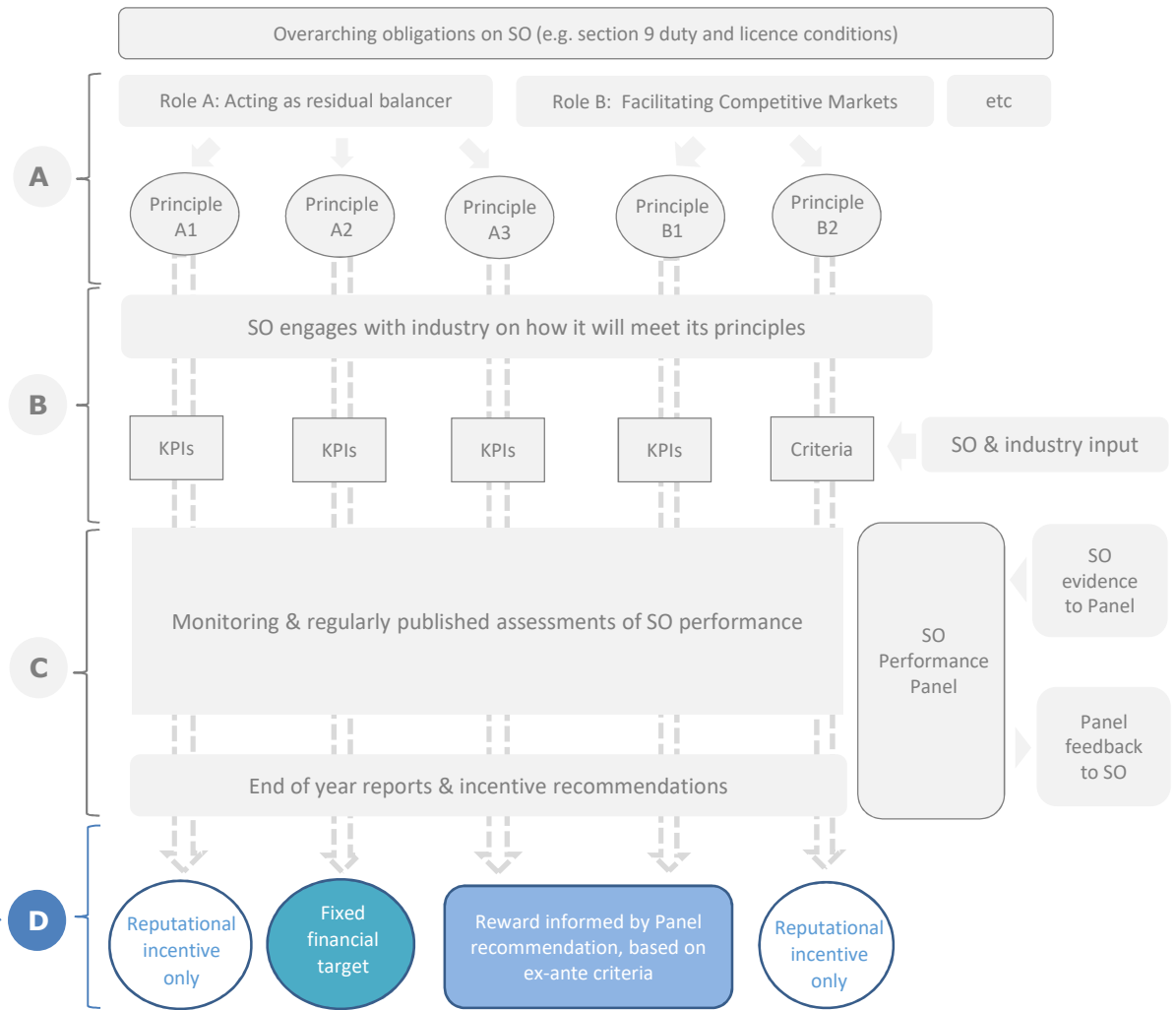
**Monitoring, reporting and external involvement**

- Streamlined monitoring processes and more transparent and coordinated reporting
- Greater role for industry and stakeholders
- New SO Performance Panel, responsible for challenging SO on performance and potentially making recommendations

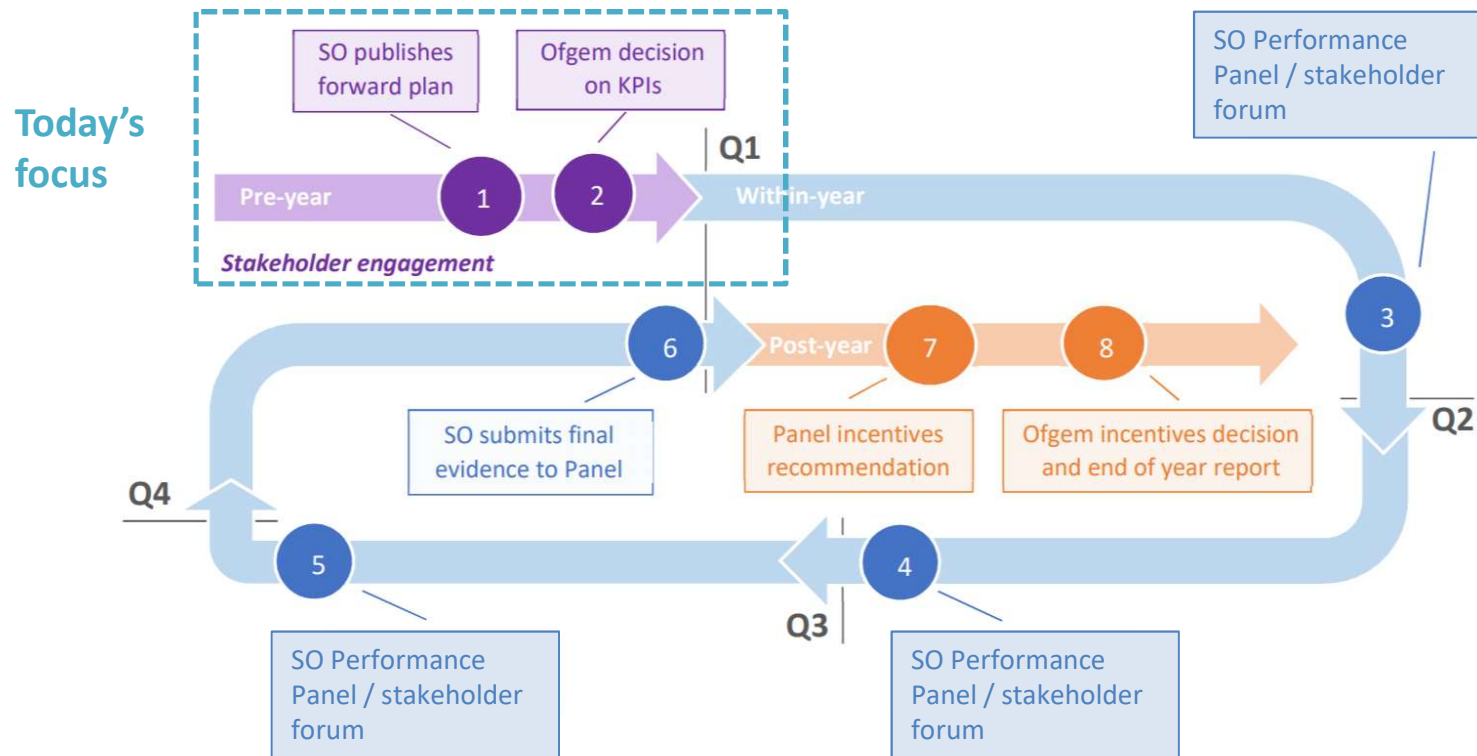




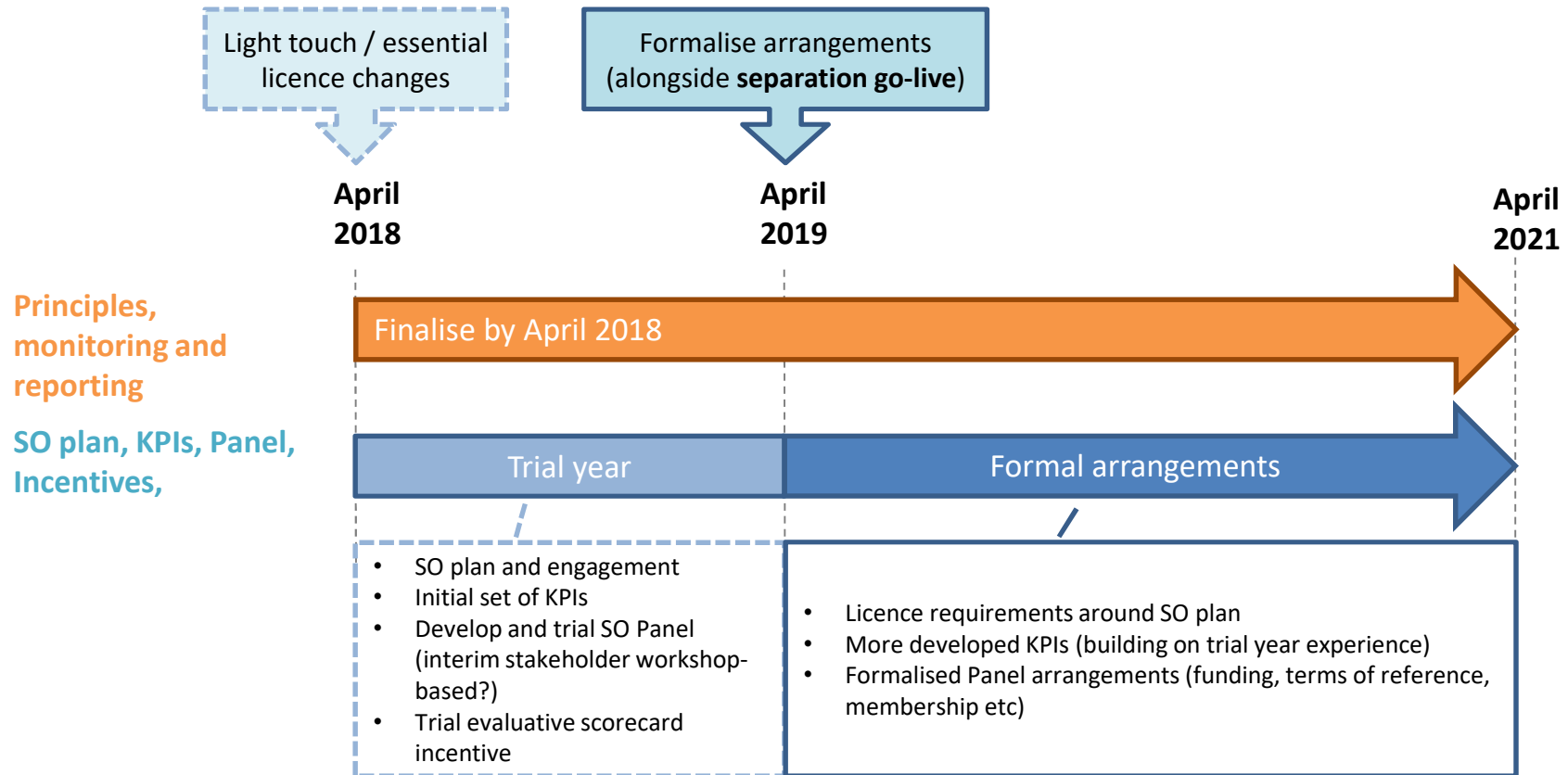
- Financial incentives**
- Transparent financial incentives to encourage innovation & continuous improvement
  - Clear links back to principles
  - Designed to encourage better balance between short term and long term outcomes
  - Designed to drive more holistic and proactive thinking from the SO



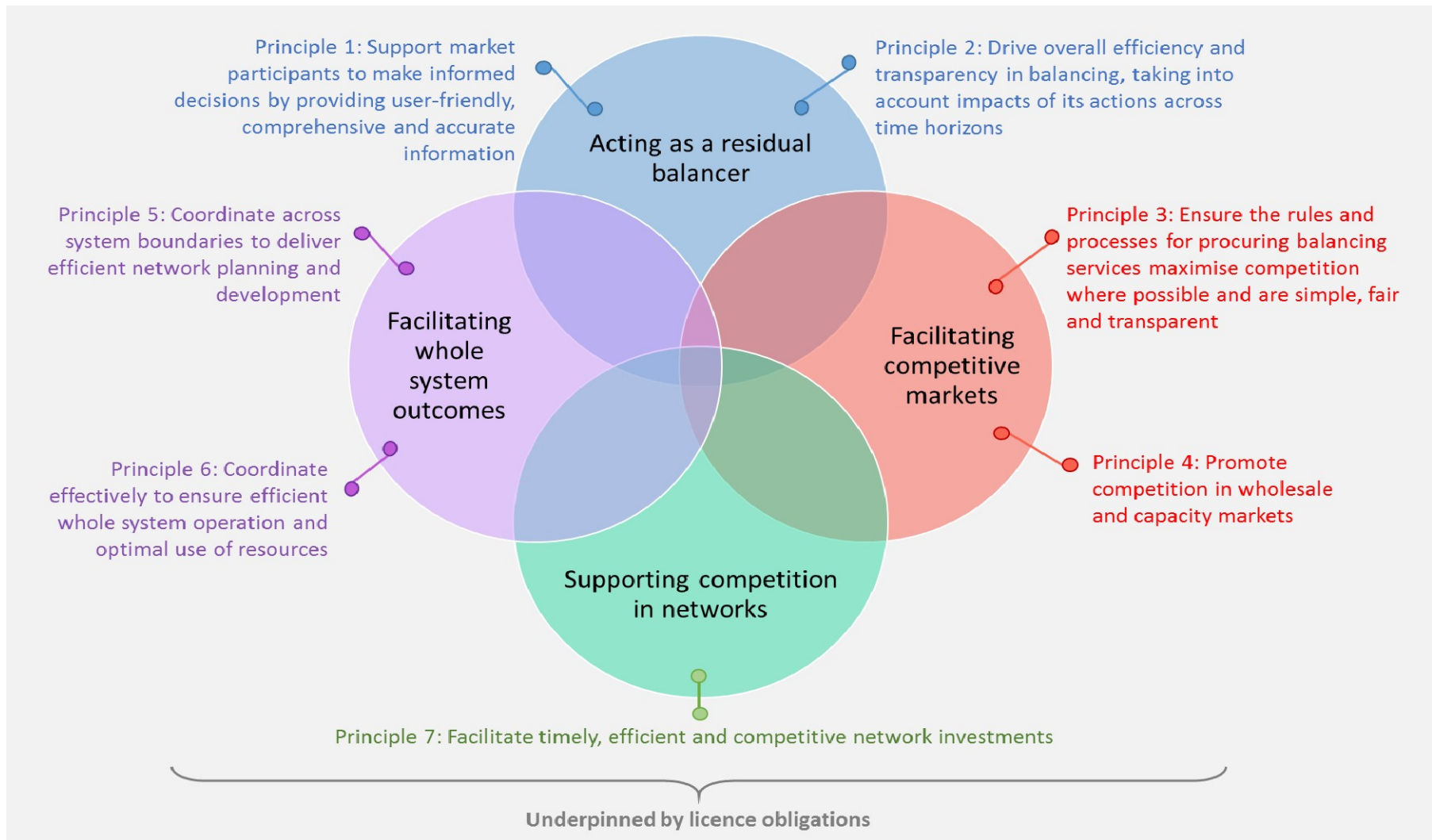
**Illustrative annual process – views welcome on how best to implement and streamline this process later today and at the 11<sup>th</sup> October workshop**



# Phased implementation of new framework



# SO roles and principles – our expectations



## Role 1: Acting as a residual balancer

### Principle 1: Support market participants to make informed decisions by providing user-friendly, comprehensive, and accurate information

- Provide information to market participants that is **user friendly** (engage with market participants to understand what they need, the preferred format and frequency, tailoring this accordingly), **comprehensive** (publish as much info as possible) and **accurate**.

### Principle 2: Drive overall efficiency and transparency in balancing, taking into account impacts of its actions across time horizons

- Take into account the **impact its balancing actions have on the market** (in particular, the possible impacts on market participants' behaviour and decision making) and wholesale costs in the medium to longer term.
- Plan to **mitigate against any adverse market conditions** that might be expected to arise in the future
- **Consider the evolution of the system** when undertaking any balancing actions in the present

### Principle 3: Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.

- Procure ancillary services competitively (eg through tenders or auctions)
- Rationalise its product offering, ensuring products are aggregated wherever there is overlap
- Limit, exclusivity requirements wherever possible, so providers of balancing services can stack revenue streams
- Communicate its expected procurement needs to the market, giving the market as much notice as possible

### Principle 4: Promote competition in wholesale and capacity markets

- Actively drive forward competitive solutions and approaches wherever competition would drive efficiency and lead to consumer benefits.
- Engaging more actively with industry to understand the nature of the challenges and distortions to competition in code arrangements
- Proposing and supporting pro-competitive modifications to industry codes where these are in the interests of current or future consumers.
- Justify any decision to take non-competitive routes with code arrangements

## Role 3: Facilitating whole system outcomes

### Principle 5: Coordinate across system boundaries to deliver efficient network planning and development

- Engage with other network operators in developing plans that present a coordinated view of whole system's network development needs
- Ensure appropriate frameworks and contractual arrangements exist to optimise investments across the transmission-distribution boundary
- Work with other network operators to deliver efficient constraint management processes and connection arrangements
- Develop processes to support timely resolution and avoidance of system issues

### Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources

- Coordinate with other network operators to optimise synergies
- Develop processes with other network operators that ensure optimal resource utilisation across the network

### Principle 7: Facilitate timely, efficient and competitive network investments

- The SO should **use the Network Options Assessment (NOA) to identify long-term electricity system needs**
- Develop and assess options to meet these needs
- Assess whether projects meet the criteria **for competitive delivery.**
- Undertake a **thorough assessment of possible options** eg proposing innovative solutions not brought forward by TOs, proposing alternative build solutions, and coordinating cross-regional solutions.



# Any further questions?

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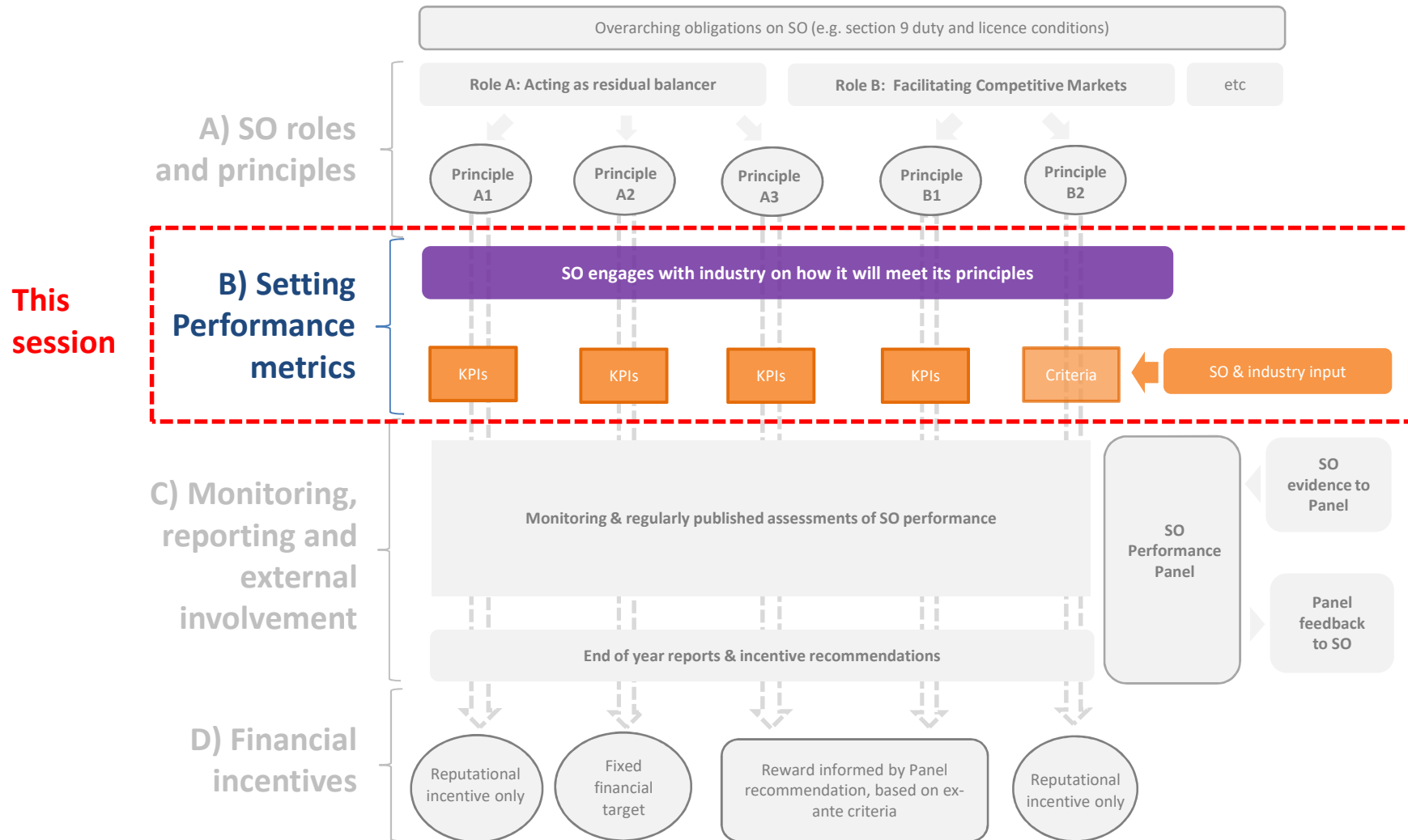


## 2b. Table discussions on SO principles

# Coffee break



# 3. KPIs – how to measure SO performance



## Electricity SO regulation

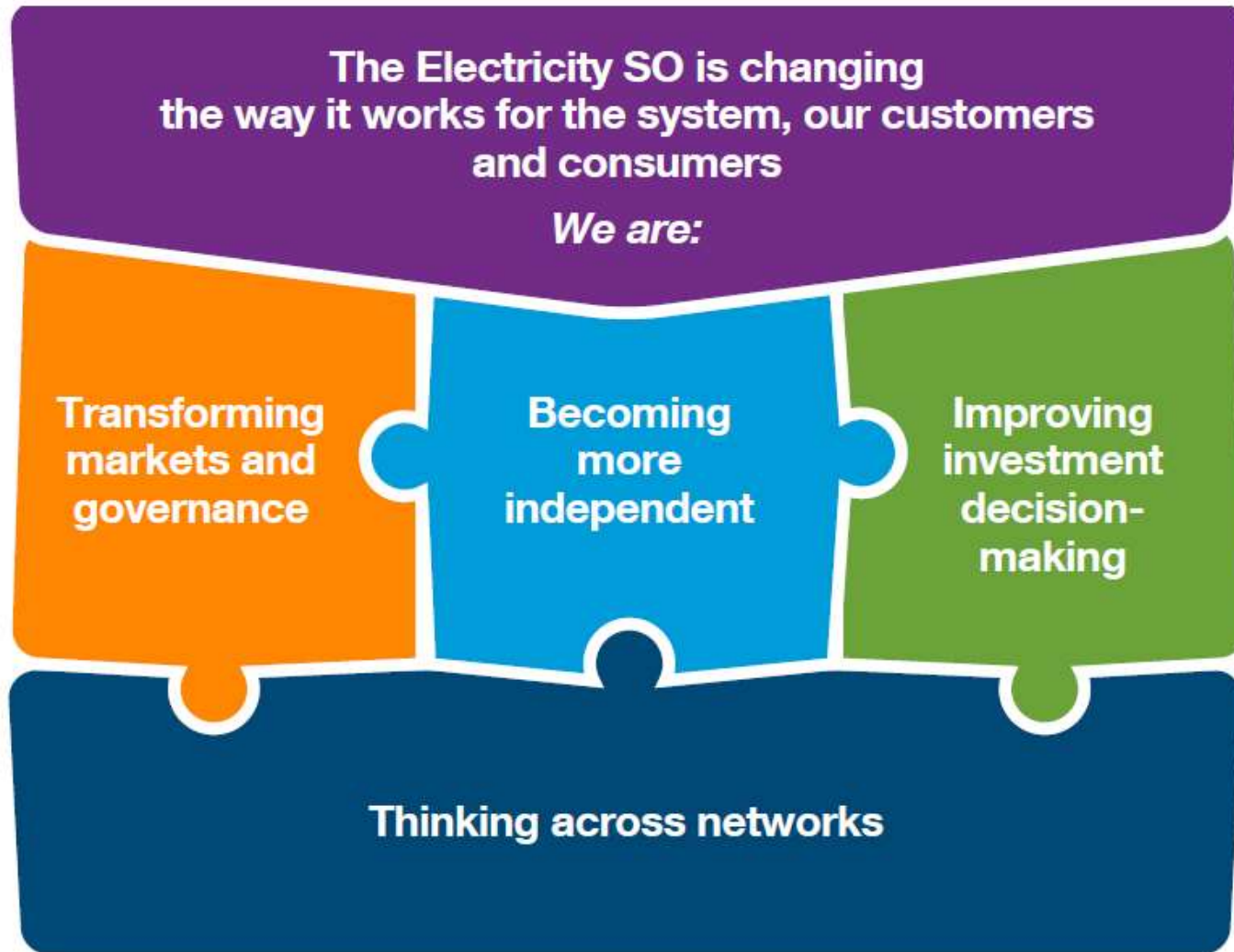


Developing the ESO's draft business plan

The 2018-21 period is an opportunity for the SO to transform and deliver significant benefits for consumers

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nationalgrid



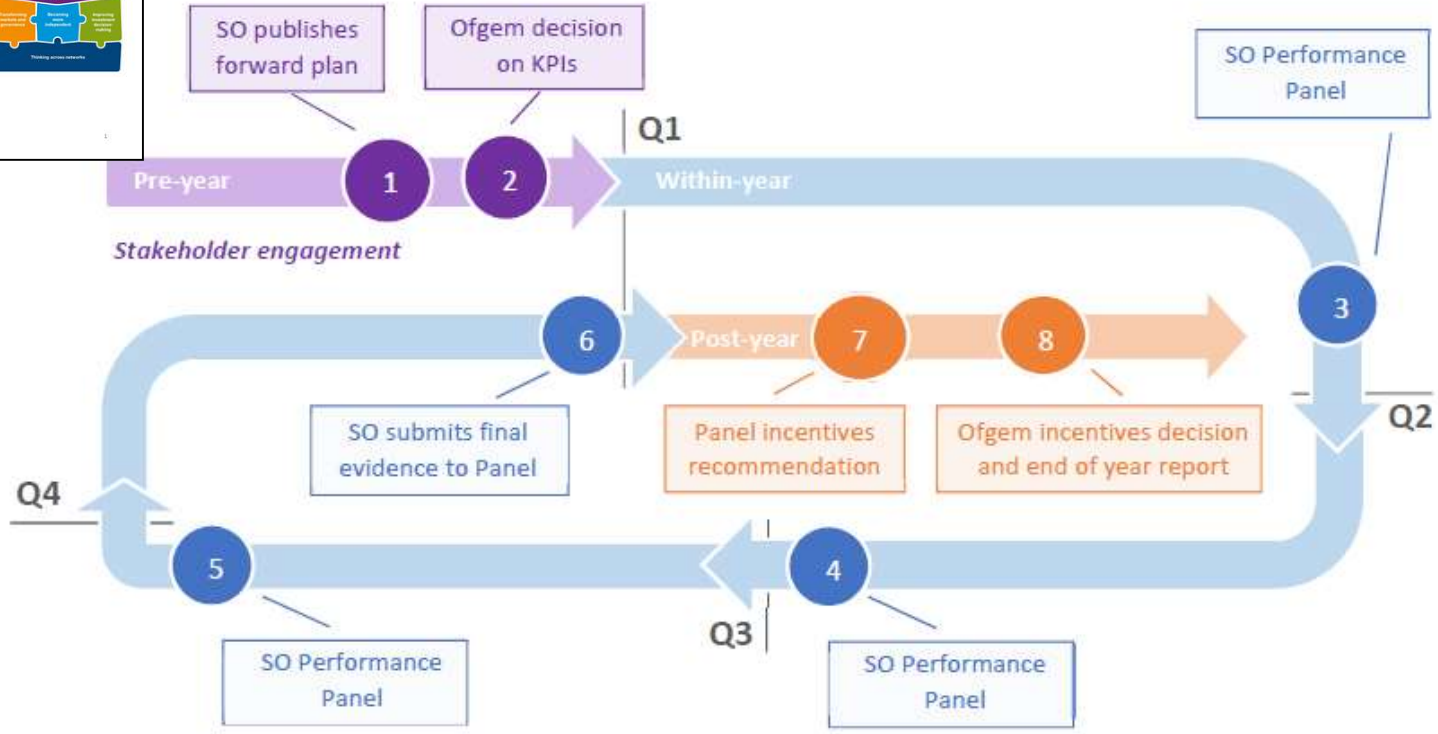
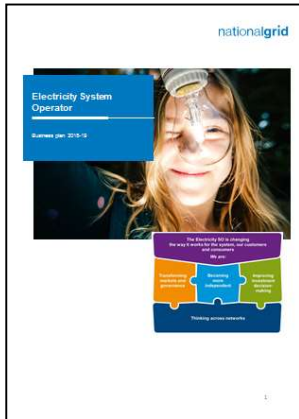
## What we will cover today

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- What we want to achieve through publishing a business plan for the ESO
- Summary of proposed content
- Using the regulatory framework to drive consumer benefits
- Your feedback on the proposed plan



# We welcome the opportunity to engage customers and stakeholders on what we should deliver in the coming year



# We welcome your views on the proposed content of the business plan **nationalgrid**

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## Why is the business plan important?

- Provides transparency of what we want to achieve and how
- Creates a clear link between the principles, conversations with customers and stakeholders on their priorities for 2018-21, and the specific activities we intend to undertake to achieve these
- Provides a shared understanding of priorities
- Plays a key role in the regulatory assessment cycle
  - What we said we will deliver will provide context for evaluation of our performance at the end of the year
- Engages National Grid staff on how their work aligns with customer and consumer interests
- Informs stakeholders of how we are set up internally

### We want your views:

- Is this the type of content you would like to see in our plan?
- Do you feel the plan is structured logically or could a different layout allow for easier engagement?
- How would you like to be engaged in our development of the plan?

# We welcome your views on the proposed content of the business plan

nationalgrid

## Contents page

1. Introduction and context
2. What have we achieved over the RIIO-T1 period?
3. Our strategy and 2018-19 annual plan

Reflecting on changing environment and previous performance to inform annual, and longer term planning

4. Our over-arching responsibilities
5. Value stream – Deliver Energy
6. Value stream – Network Capability
7. Value stream – Market Change
8. Cross-cutting delivery function – SO Strategy
9. Cross-cutting delivery function – Business Change

The detailed plan, laid out according to internal SO organisational structure

10. Mapping of our objectives against the principles
11. How we will deliver transformational change
12. Setting up for delivery
13. Next steps

Placing our plan within the regulatory context and setting ourselves up to deliver the plan

Annex 1: Summary of deliverables, proposed KPIs and incentives

# We welcome your views on the proposed content of the business plan

nationalgrid

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## **Setting context for the plan**

- Provides a summary of the SO (elec and gas)
  - What's important to us
  - Our organisational set-up
  - How we are adapting to unprecedented industry change
- Reflects on previous performance
  - What we wanted to achieve over RIIO-T1 period (and annual incentives)
  - What we have and haven't been able to achieve...and why
  - What's changed that informs our plan going forward
- Highlights key areas of our plan
- Outlines how we have engaged stakeholders
- Sets out how this is aligned to longer term objectives

# We welcome your views on the proposed **nationalgrid** content of the business plan

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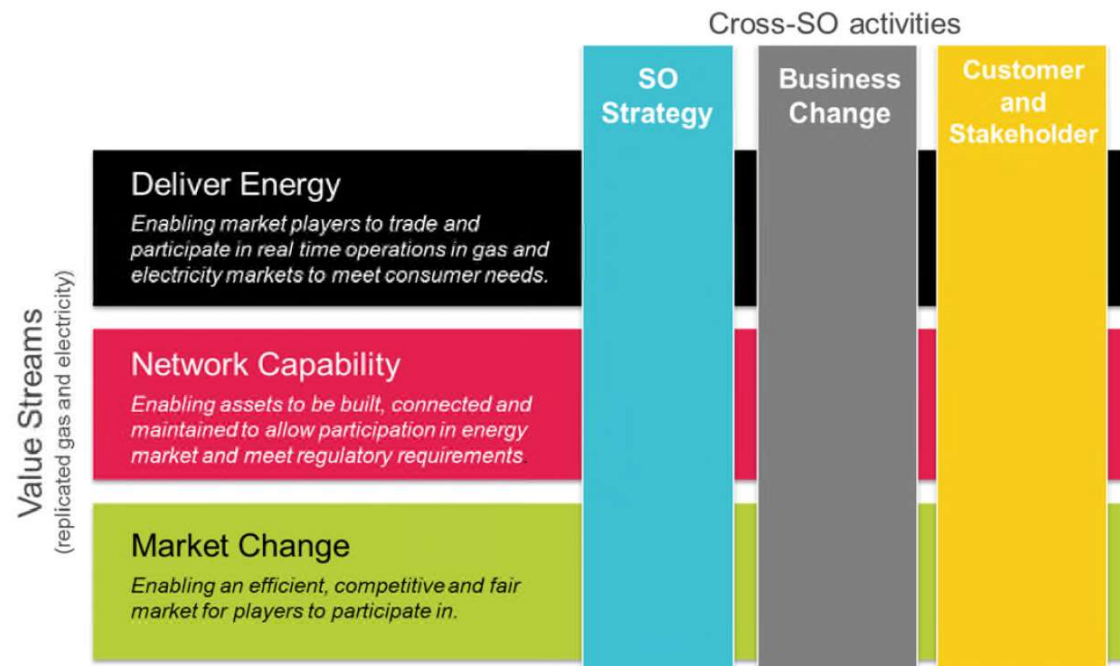
## **Content of the plan**

- For each of our value streams/deliver functions, the plan sets out:
  - What we want to achieve
  - Alignment to our longer term objectives
  - Core activities and deliverables
  - Our proposed key performance indicators

# We welcome your views on the proposed content of the business plan **nationalgrid**

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## Regulatory context and delivery

- Maps our objectives against Ofgem's principles
  - Sets out how our plan delivers against regulatory expectations
  - Informs performance evaluation
- Outlines how key performance indicators and incentive package will support effective delivery
- Sets out how we are internally set up to deliver
- Summarises next steps in the regulatory process and our own stakeholder engagement

# We welcome your views on the proposed content of the business plan nationalgrid

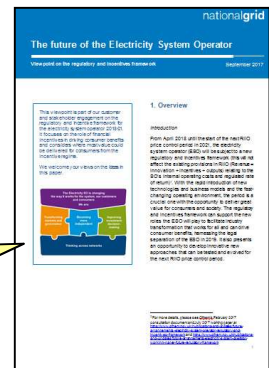
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- KPIs will aid transparency and provide context for performance evaluation and delivery accountability
- For a regulated monopoly, financial incentives are used to align shareholder value with consumer value. Incentives can also simulate competition and reward innovation or transformational activity that delivers a step-change in consumer value
- We have consulted customers and developed a range of ideas for areas where incentives could help to drive performance

We'd welcome your views by 16 October  
<http://www2.nationalgrid.com/UK/Industry-information/Future-of-Energy/The-changing-Role-of-the-electricity-System-Operator/>





# We welcome your views on the proposed **nationalgrid** content of the business plan

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## We would particularly appreciate your views on the following:

- Do you agree with our rationale for setting out our plan in line with our internal organisational structure? Or would you prefer to see the plan laid out according to Ofgem's principles?
- Is there any other information you would like/expect to see that hasn't been included?
- Is there any information that you **don't** think is helpful and that we shouldn't include in the plan?
- How would you like to be included in the development of the plan itself?
- Will the plan help you to better understand how we work and are structured? How important is this for you?

## 4. Final wrap-up and close

**Workshop 2: Wednesday 11<sup>th</sup> October, 13.00-16.30, Church House, Westminster**

Agenda to focus on:

- Options for incentives design
- Ofgem's minded-to approach
- SO Performance Panel design and ways of working

**>>> Registration open until Thursday 5<sup>th</sup> October**

**Additional half day condensed workshop: Friday 27<sup>th</sup> October, in Glasgow covering both London-based workshops.** Please let us know if you would like to attend.

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**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**