



Making a positive difference
for energy consumers

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Dear Stakeholders,

Call for evidence on ESO performance

Background

In April 2018, we introduced a new regulatory and incentives framework for the Electricity System Operator (ESO) in order to encourage the ESO to proactively identify how it can maximise consumer benefits across the full range of its activities.¹ The new arrangements include a final set of principles for the ESO; a requirement to develop forward plans with industry; the publication of regular performance reports; the introduction of a new Performance Panel; and a move towards a broader, evaluative performance assessment (with associated financial incentives).

A central part of the new scheme is an independent Panel of experts², who will play a key role in challenging and assessing the ESO's performance. The Panel will meet twice a year over the 2018/19 regulatory period; for the mid-year review (MYR) and for the end of year review (EYR). The MYR will assess performance over the previous six months, identifying areas where the ESO is performing in line with baseline expectations, where it is exceeding baseline expectations and where it is not meeting baseline expectations. This will give the ESO the opportunity to make the necessary improvements in the remaining months of the year. The EYR will assess performance across the whole regulatory year and the Performance Panel will consider all evidence to score the ESO's performance against each Principle. The Performance Panel will use the following criteria when assessing the ESO's performance: (1) evidence of delivered benefits; (2) evidence of future benefits / progress against longer term initiatives; (3) stakeholder views; (4) plan delivery and (5) outturn performance metrics and justifications. The Gas and Electricity Markets Authority (the Authority) will consider the Panel's recommendation when making a decision to financially reward or penalise the ESO up to a maximum cap/floor of $\pm\text{£}30\text{m}$.³

Stakeholder views

Stakeholder views are a key component of the criteria the Panel will use to assess the ESO's performance. We want to pool the knowledge and experience of a wide array of industry parties and independent experts in order to gain a comprehensive picture of the

¹ Our decision on the new ESO reporting and incentives arrangements from April 2018: <https://www.ofgem.gov.uk/publications-and-updates/decision-modify-nget-s-licence-introduce-new-eso-reporting-and-incentives-arrangements-april-2018>

² We have published a working paper which provides more detail on the setup of the Performance Panel: <https://www.ofgem.gov.uk/publications-and-updates/working-paper-electricity-system-operator-performance-panel>

³ Further detail on the MYR and EYR review process can be found in the ESORI guidance document: https://www.ofgem.gov.uk/system/files/docs/2018/03/esori_arrangements_guidance_document.pdf

ESO's performance. This is vital for tackling the information asymmetry between the ESO and ourselves.

We are publishing this call for evidence to request stakeholders' feedback on the ESO's performance across all of its regulatory Principles⁴ from April 2018 to date.

We'd like feedback on areas where you believe the ESO has met or exceeded baseline expectations in relation to a Principle and/or feedback on the areas where you may have concerns that baseline expectations are not being met. This feedback can be formal evidence or less formal views/opinions. We have highlighted our key areas of interest, (based on the ESO's proposals in its forward plan⁵ and its ongoing monthly performance reports⁶) in the table in the Annex. However, we welcome all feedback, even if you think it doesn't relate directly to the deliverables in the ESO's Forward Plan.

We would appreciate feedback and evidence by **17 October**. We do not intend to publish the feedback and evidence we receive. However all feedback will be shared with the panel and the ESO as part of the MYR process. Please clearly indicate in your submission if you would prefer for your feedback to be shared in an anonymised and/or summarised form. In addition, please contact us at esoperformance@ofgem.gov.uk if you would prefer to discuss your feedback and evidence with the Ofgem team rather than submit documentation.

Next steps - Update on the MYR and Performance Panel membership

We are currently finalising the membership of the Performance Panel and the precise format and dates for the MYR process. As set out in more detail in our July working paper⁷, the Performance Panel will be made up of a mix of independent experts and industry representatives. We are seeking to appoint up to a maximum of four independent experts for the Panel (the application process for these posts closes on 17 September⁸). We are also currently reviewing nominations put forward by trade associations for voluntary industry representatives. Our key consideration in finalising the membership of the Panel is that it is well balanced, has the appropriate knowledge and experience to challenge the ESO's evidence and is able to effectively represent the wide spectrum of stakeholder views.

We are planning to hold the MYR Performance Panel meeting in w/c 19 November in London. The day itself will consist of an open morning session for the ESO to provide its own evidence and views on its performance to date. Stakeholders are invited to this morning session and there will be opportunity for stakeholders to raise questions and provide direct feedback to the ESO in the presence of the Panel. The afternoon session will be an opportunity for the Panel to directly question or seek clarification with the ESO before then beginning its internal deliberations on all of the evidence gathered and presented. Afterwards, the Panel will convene again to make its final assessment of the ESO's performance against the predefined criteria. A report will be published detailing the Panel's assessment and recommendation for Ofgem.

We intend to confirm Panel members and the date of the Performance Panel meeting by mid-October, before the submission of the ESO's mid-year report. If you would like to

⁴ The ESO's Roles and Principles:

https://www.ofgem.gov.uk/system/files/docs/2018/02/eso_roles_and_principles.pdf

⁵ The ESO's forward plan documents can be found here: https://www.nationalgrid.com/uk/about-grid/our-role-industry/future-electricity-system-operator?utm_source=ESO+Workshops&utm_campaign=03a6bf3b2d-EMAIL_CAMPAIGN_2018_01_22&utm_medium=email&utm_term=0_6313a83fea-03a6bf3b2d-57934021&mc_cid=03a6bf3b2d&mc_eid=b2259a11f0

⁶ The ESO's incentive performance and monthly reporting can be found here:

<https://www.nationalgrid.com/uk/electricity/system-operator-incentives/eso-incentive-performance-and-reporting>

⁷ We have published a working paper which provides more detail on the setup of the Performance Panel: <https://www.ofgem.gov.uk/publications-and-updates/working-paper-electricity-system-operator-performance-panel>

⁸ Our Performance Panel independent expert role is advertised here:

<https://jobs.theguardian.com/job/6777631/performance-panel-members-the-electricity-system-operator-incentive-/>

attend the open morning session, please email us at esoperformance@ofgem.gov.uk, if you haven't don't so already. We will contact all interested attendees once we've confirmed the exact date and location.

If you have any questions on the contents of this letter, please contact us at the email address listed above.

Yours sincerely,

Louise van Rensburg

Interim Deputy Director, SO and Whole Systems

Annex – Areas of interest for call for evidence

Principle	Areas of interest
Principle 1: Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.	General satisfaction with the ESO’s information dissemination and accuracy, the ESO’s data systems and the ESO’s engagement to date. This includes the BSUoS monthly report, Future Energy Scenarios, Market Outlooks, Electricity Capacity report, webinars and events relating to Ancillary and Balancing services tenders, reporting of trades to the market, publication of forecasts of the carbon intensity of the electricity system, Ops Forum events and daily and monthly summaries of balancing costs.
Principle 2: Drive overall efficiency and transparency in balancing, taking into account impacts of ESO actions across time horizons.	Forecasting (demand, wind and solar), the ESO’s Innovation Strategy, the Trades data platform, C16 Procurement Guidelines, SO IT forum, the ESO’s monthly BSUoS report and the Operability Report. General satisfaction with the ESO’s balancing approach, IT systems maintenance and improvements and satisfaction with the level of the ESO’s transparency.
Principle 3: Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	The ESO’s future of balancing services workstream including progress of System Needs and Product Strategy (SNaPs) and product roadmaps, regional development programmes (RDPs), new providers on-boarding experience, TERRE developments, non-BM access and the Power Responsive Campaign.
Principle 4: Promote competition in the wholesale and capacity markets.	TNUoS and BSUoS customer seminar, BSUoS and TNUoS billing and reconciliation, code administration satisfaction, Charging Futures, experience of charging processes and publication of charging data.
Principle 5: Coordinate across system boundaries to deliver efficient network planning and development	Interactions with DNOs and TOs, network development roadmap consultation, NOA Pathfinding Projects, developing new ways of working with DNOs, Regional Development Programmes (RDPs).
Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources	ESO’s engagement on ENA Open Networks including Future DSO arrangements, Power Potential, Enhanced Frequency Control Capability (EFCC), TOGA system.
Principle 7: Facilitate timely, efficient and competitive network investments	Network Options Assessment (NOA) process and engagement, Electricity Ten Year Statement.