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30 November 2018.

Sent by email to: [esoperformance@ofgem.gov.uk](mailto:esoperformance@ofgem.gov.uk)

Dear Louise,

**Call for input on 2019-20 ESO regulatory and incentives framework**

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

We agree fundamental changes are not needed at this stage since the new arrangements are still being 'bedded' in and a full regulatory cycle has not yet been completed. Additionally, the Performance Panel was only recently convened and, as such, did not play a role in the challenge and scrutiny of the 2018/19 Forward Plan. Nevertheless, our experience of the operation of the regime to date has allowed us to identify areas of the framework that can be refined. These are discussed below.

In principle, it is appropriate that financial performance against the evaluative incentive for any scheme year can be reconciled via Settlement Final bills in the following year. This requires a reasonable approach for estimating what level of performance should be accounted for in-year. We note the ESO has estimated it will earn £15m based on its expected performance for the 2018/19 scheme year and has been billing industry participants on that basis. However, we do not consider the ESO has justified why it believes that is a reasonable reflection of out-turn performance. It may not be appropriate that the initial estimate of performance is at the sole discretion of the ESO.

An alternative approach would be for out-turn performance for a given scheme year to be included in entirety in Settlement Final bills in the following year. This would align with the arrangements for network licensees, in which their incentive performance for a given year is reflected in use-of-system charges in future years.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning  
Director - Network Regulation, Forecasting and Settlements  
**Centrica Regulatory Affairs, UK & Ireland**  
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### **The Forward Plan process:**

Given the experience of the process for developing the 2018/19 Forward Plan, requirements relating to aspects such as the submission timings and stakeholder engagement can be improved.

#### *Timing:*

It is necessary to start the process earlier to allow for sufficient scrutiny of the Plan and to allow for stakeholder feedback to be more fully reflected in the final Plan. As of the 2019/20 scheme year, the ESO will be required to present the draft Plan to the Performance Panel in February ahead of the start of a scheme year. It would be beneficial to allow the ESO to receive stakeholders' feedback on the draft Plan ahead of the ESO/Panel meeting and to require the ESO to explain to the Panel how stakeholder feedback will be incorporated. This would allow stakeholder insight to be better captured in the final Plan and could lead to greater value for consumers. We also suggest the Formal Opinion is provided ahead of the scheme year, to allow the ESO to revise the Forward Plan if necessary.

#### *Stakeholder engagement:*

We welcomed the ESO's engagement with stakeholders when developing the 2018/19 Plan. We acknowledge this is the first year of operation of the new regulatory regime and the timetable for producing the Plan was compressed. We also acknowledge the Panel was not convened in time to allow it to comment on the draft Plan. Nevertheless, it may have been possible for the ESO to better reflect stakeholder feedback in the final Plan. We note that, in responses to the consultation on the draft Plan, stakeholders raised concerns including whether the Plan reflected baseline expectations and whether some of the proposed initiatives would deliver value for consumers. Similar concerns were raised in Formal Opinion.

As discussed above, it would be beneficial if a requirement is placed on the ESO to explain to the Panel how stakeholder feedback in the draft Plan will be incorporated. We also suggest the proposals are further improved by placing an obligation on the ESO to review and revise the Plan to address concerns in the Formal Opinion where relevant. It is possible that, without such an obligation, the ESO may undertake a programme of activities within a regulatory year that may not maximise consumer benefits.

The Formal Opinion will form part of the evidence base the Performance Panel should consider when conducting its annual assessment and scores could be moderated because of concerns identified in the Formal Opinion. However, the reduction in the reward or the increase in the penalty to the ESO may not be greater than the consumer benefits not delivered. Therefore, an obligation on the ESO to take account of the Formal Opinion should act as a 'backstop' to protect consumers.

*Other:*

The ESO included broad estimates of consumer value associated with the 2018/19 Forward Plan. The ESO has also published its high-level methodology to estimate the consumer value of its actions. In future Plan consultations, it would be helpful if the ESO provided greater detail on how those estimates are derived and provided separate estimates of short- and long-term consumer value. This would enable stakeholders to better assess the relative merits of the proposed activities. We agree it would be useful for the ESO to outline how it allocates its internal resources according to the activities in the Plan and how this may change in the year ahead.

**The evaluation process and financial incentive parameters**

We agree it is too early to determine whether material changes are needed. Also, it is appropriate to retain the equal weighting of the incentive pot across the principles until there is evidence to support greater weighting on some principles. Greater detail on each activity's short- and long-term consumer value and the allocation of internal resources could be considered.