

Grendon Thompson  
Head of ESO Regulation  
Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

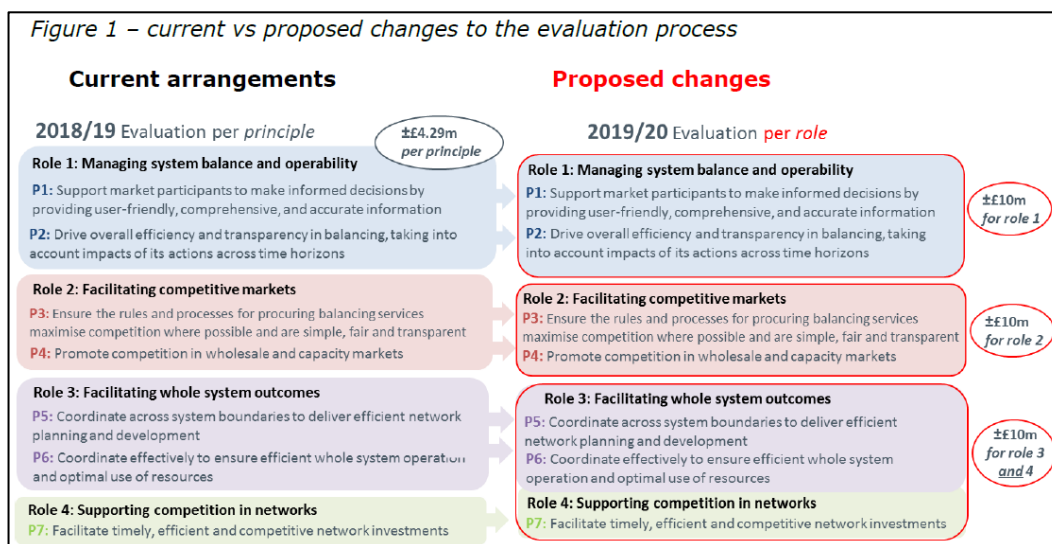
14 March 2019

Dear Grendon,

## Consultation of the evaluation process for the 2019-20 ESO regulatory and incentives framework

Thank you for the opportunity to comment on Ofgem's proposal to streamline the evaluation process for the Electricity System Operator's (ESO).

Ofgem is proposing to carry out the evaluation by role area instead of the seven principles that underpin those roles, as illustrated in Figure 1 of the consultation letter reproduced below.



Ofgem's rationale is that grouping principles together under roles could help address the challenge of evaluating ESO performance where deliverables and consumer benefits overlap between principles. The principles would continue to be a key part of the framework and the ESO would still be expected to demonstrate how it is meeting Ofgem's expectations for each principle.

However, we are concerned that system operation is more complex than ever and there are no benchmarks or counterfactuals readily available to assess the ESO's actions. These factors often limit the independent evaluation of ESO performance to a scrutiny of the body of evidence that National Grid produces for Ofgem and the performance panel. It is therefore important to maintain the robustness of mechanisms that address the information asymmetry in regulatory oversight of the ESO.

Moving to evaluation-per-role has the potential to weaken the ability to scrutinise the ESO's actions to promote each principle despite Ofgem's move to outline its expectations for each principle. This is why we regard Ofgem's current approach of an explicit weighting and incentive range for each principle to be an effective way of regulating ESO performance.

In particular, we have concerns that the ESO lacks urgency and ambition in relation to the procurement of balancing services from Distributed Energy Resources<sup>1</sup> (DER). Principle 3 offers a 'safety net' against this risk and we call on Ofgem and the Performance Panel to reassess whether it is at risk of weakening its ability to scrutinise the ESO's performance by moving to evaluation-per-role.

Based on the examples given in Ofgem's letter, it is not clear to us that the issue of overlaps is sufficiently material to warrant these changes, nor that the issue could not be addressed by further efforts on the part of the ESO.

In summary, we do not agree with the proposals given the lack of a compelling case that this move will not result in a weakening of incentives on the ESO to drive progress under each principle. We would be more receptive to this proposal if a transparent and measurable mechanism (eg Key Performance Indicators for each principle) is in place to ensure the ESO is paying equal attention to each principle.

Please do not hesitate to contact me or James Soundraraju (tel: 0141 614 2421, [jsoundraraju@scottishpower.com](mailto:jsoundraraju@scottishpower.com)) if you have any questions arising from our response.

Yours sincerely,



**Richard Sweet**  
Head of Regulatory Policy

---

<sup>1</sup> We consider DER to include electricity-producing resources such as generating stations and controllable loads (Demand Side Response) regardless of where they are connected (T or D).