

Louise Schmitz
ESO Regulation Senior Manager
National Grid Electricity Transmission plc
1 - 3 Strand
London
WC2N 5EH
Email:
box.soincentives.electricity@nationalgrid.com

Email: ESOperformance@ofgem.gov.uk

Date: 19 February 2019

Dear Louise,

Ofgem response to National Grid Electricity System Operator's consultation on the ESO Forward Plan 2019-21

Introduction

Ofgem's principal aim is to protect the interests of current and future energy consumers. We regulate NGET, as the Electricity System Operator (ESO)¹, to help ensure the actions it takes align with the interests of consumers. We welcome the opportunity to respond to the ESO's consultation on the ESO Forward Plan 2019-21.

The ESO Forward Plan – purpose & our expectations

The ESO's Forward Plan, produced before the start of the regulatory year, should set out the ESO's longer-term vision for how it intends to drive consumer benefits under its different roles and principles. It should also set out the specific steps the ESO intends to take in the year ahead to meet these aims. The final Plan should contain an unambiguous set of deliverables with clear dates and milestones.

As part of this process, the ESO should also propose a set of performance metrics linked to each of the principles. These metrics will create transparency around the ESO's performance by helping stakeholders to track the ESO's progress throughout the year against its Forward Plan. Each performance metric should be supported by performance benchmarks. These should set out and clearly justify performance that is: under expectations; in line with expectations; and exceeding expectations.

The Forward Plan will be a key input into the end of year incentive² decision. Therefore, it is important that the ESO develops a comprehensive and stretching set of deliverables and metrics. Overall, the plan should be ambitious. By that we mean:

- 1) A comprehensive breadth/coverage of tangible steps/activities/deliverables covering all the ESO principles and;
- 2) A sufficient level of stretch in what constitutes expected performance levels.

We want to be as clear as possible to the ESO about the extent to which the vision is appropriate and the deliverables and metrics in the ESO Forward Plan go beyond or fall below baseline expectations. Therefore, we have committed to providing a Formal Opinion by 1 May. In reaching our Formal Opinion,

¹ The ESO role is currently carried out by National Grid Electricity Transmission plc (NGET), which is also the owner of the transmission network in England and Wales. NGET is part of the wider National Grid plc group of companies. The ESO is due to become a legally separate entity within National Grid plc from April 2019.

² The ESO Performance Panel will use five key inputs to evaluate the ESO's performance: ESO evidence of delivered benefits; ESO evidence of future benefits / progress against longer term initiatives; stakeholder views; plan delivery and outturn performance metrics and justifications.

we need to assess the final Forward Plan and be comfortable that the ESO has extensively engaged and responded to stakeholder feedback in order to validate the deliverables and performance metrics. The ESO also needs to evidence clearly how its Forward Plan meets and/or exceeds baseline expectations for each principle and where and how it will drive additional consumer benefits.

General comments on draft ESO Forward Plan

We have reviewed the draft plan and have provided some overall comments for the ESO to consider alongside the responses from stakeholders and the panel. Our Formal Opinion will be informed by our analysis of the ESO's final Forward Plan and a review of the stakeholder feedback received as part of the plan consultation process. We therefore expect to see clearly how the ESO has responded to the feedback it receives and made meaningful changes as a result.

We continue to welcome the ESO's focus on a broader set of outcomes and its increased engagement with stakeholders. There have been some positive examples of new ways of working from the ESO during 2018/19, including a better diagnosis of problems across its activities and the development of transparent plans to deliver improvements to its processes. We believe the ESO has now had extensive opportunity to develop plans and roadmaps and trial new ways of doing things. This year, as it is the second year of the framework, we expect to see further clear and tangible progress by the ESO in achieving its longer-term vision, including clear examples of delivered initiatives that unlock additional value for consumers.

Overall, we appreciate the steps the ESO has taken to improve the accessibility of its plan from last year, and we think there are some examples of positive-sounding deliverables, which build on foundations set in 2018/19. However, we believe the ESO could do more to present a clear picture of how and why these activities have been chosen, how they link to long term vision and the benefits they are expected to unlock. At this point we think the ESO could do a lot more to demonstrate that this is an ambitious plan. In particular, we challenge the ESO to show that it is making clear progress against its stated aims and going beyond last year's plan. We also believe the ESO needs to give further consideration to many of the performance metrics, including their relevance and their level of challenge.

Long term vision:

We welcome the ESO's aim to deliver benefits across the full spectrum of the roles. However, now this is the second year of the incentives framework, we think the ESO could go further with its longer term vision. We encourage the ESO to produce a vision that explains its view of what system operation could look like in 2030, the various pathways that could lead to this, and how the ESO sees its role in supporting/steering the energy system transition. This should build on the engagement carried out on this topic last year. We believe a more tangible long term vision could help add greater clarity to how and why many of plan's deliverables and metrics have been chosen.

Deliverables:

The overall structure of the forward plan is helpful and clear: setting out the ESO's long term vision for each of the principles, the deliverables for 2019/20 and 20/21 and the proposed metrics to measure this performance.

We appreciate the distinction the ESO has made between activities it believes are more in line with 'baseline' expectations, and those activities that are more in line with 'exceeding' expectations. We note that at the end of the year, the evaluation on whether the ESO has exceeded expectations will be a factor of both the 'what' and the 'how'. In particular, performance is judged on several criteria, including plan delivery, stakeholder views and evidence of benefits. It is therefore not the case that simply taking on an activity automatically means the ESO has exceeded expectations. Nevertheless, we do agree that it is useful to facilitate a discussion at this stage on what type of activities – assuming they are successfully delivered – are more likely to be seen as exceeding. To help align expectations in this area, we have therefore provided detailed comments on a number of the deliverables for each principle in the annex.

Ambition of Deliverables

Currently we do not think the plan demonstrates sufficiently ambitious deliverables. We would like to see the ESO **explicitly justify how the deliverables proposed go beyond our baseline**

expectations under the RIIO-T1 price control and as defined in the ESO roles and principles guidance.³ Consumers and industry already expect a high level of service based on funding granted under the RIIO-T1 price control and the ESO's licence obligations. Incentive payments should only be granted for clearly going above and beyond this baseline. We strongly encourage the ESO to take account of previous feedback from ourselves and stakeholders on the types of activities that have more scope to exceed expectations. We note that the draft plan features 71 'exceeding' deliverables compared to 33 'baseline' activities. We challenge the ESO to be rigorous and selective when categorizing its activities in its final plan as 'exceeding'. A more focused selection of 'exceeding' deliverables that are well evidenced could be more persuasive than multiple 'exceeding' deliverables with limited evidence.

For example, in relation to principle 3, a number of the deliverables are listed as exceeding expectations. We believe the auction trial for frequency response is the type of activity that could have a strong case for exceeding expectations at the end of the year. This is because it is a clearer example of an activity that is new and innovative, which could lead to a beneficial step change in competition in balancing. However, in this section, there are also several exceeding deliverables that involve unspecific engagement and communication with industry, as well as deliverables that just commence projects already funded by consumers through innovation schemes. Finally, there are 'exceeding' deliverables that appear to be aimed at correcting process and system deficiencies that restrict intermittent generation from participating in balancing. These are examples of activities that we would expect the ESO to be carrying out as part of baseline expectations.

Overall, it could appear from the draft plan that the ESO has some inconsistent (and potentially unrealistic) views on the type of initiatives that could exceed expectations at the end of year. There is a risk that this could imply that the ESO has not robustly considered where and how it believes it could deliver the most value. As a result, stakeholders may view the plan with more uncertainty, which could undermine the ESO's case that the plan is ambitious overall.

We would like the Forward Plan to provide more explicit information on **how and where the ESO expects to drive consumer benefits**. The ESO should justify why deliverables have been chosen through explaining the anticipated direct or indirect consumer benefits. We appreciate the difficulty in quantifying the precise benefits of certain activities and deliverables, particularly when the benefits are expected to materialise over longer time horizons. Wherever this is not possible, the ESO should include high level estimates or a clear qualitative descriptions instead.

As this is the second year of our new incentives process we would like to see the ESO demonstrate how the activities proposed **make progress to build on and go beyond 2018/19 plan commitments**. As a principle, baseline expectations should evolve to keep driving ESO performance improvements. Any initiatives or performance improvements delivered which exceeded expectations in the last regulatory year, should be 'bankable' for consumers and not rewarded twice.⁴ In addition, where deliverables were originally planned for 2018/19, but are now delayed into 2019, this must be clearly explained by the ESO so it can be accounted for in the 2018/19 end of year review. For example, it is unclear whether the implementation of new commercial contracts for DER under principle 5 builds on what was proposed/delivered in the 2018/19 plan, or whether a decision has been taken to move this initiative to this year.

We also expect the ESO to **be specific and avoid duplication**. Whilst we think that many of deliverables are specific and have clear associated milestones (and that this is a clear area of improvement from last year's plan), this is still not the case for all roles and deliverables. Proposals put forward in the plan should include tangible outputs, wherever possible, as well as expected milestones. Where this is not the case, this limits our ability to judge ambition and provide a steer in our formal opinion. We also encourage the ESO to avoid duplicating deliverables; the ESO should choose one section to list a deliverable. We provide further examples of this in the annex.

We also expect the ESO to clearly identify where deliverables are being taken forward as a result of RIIO **innovation-funding**. The ESO should explain how work in this area delivers against the expectations consumers already have through granting this funding. For instance, it is not clear in principle 3 why 'undertaking' and 'commencing' Network Innovation Allowance (NIA) and Network Innovation Competition (NIC) projects related to Black Start is likely to exceed expectations. Given this

³ ESO Roles and Principles: https://www.ofgem.gov.uk/system/files/docs/2018/02/eso_roles_and_principles.pdf

⁴ As noted in the [ESORI guidance](#) (see para 2.29)

activity has received funding, we would strongly expect this work to be commenced and undertaken even in the absence of this incentive scheme.

Performance metrics:

We have provided individual comments on each performance metric in the appendix below, but our view generally is that many of the metrics need further work in order for them to meet firstly our minimum requirements for the design of a performance metric, as well as our expectations for what a good performance metric should look like.

The ESO should include **more information relating to the detailed design and rationale for a metric** (perhaps in a detailed 'Metrics Appendix'). For instance, where stakeholder surveys are incorporated, we would like to see the ESO setting out transparently in the Forward Plan the survey questions that will be used to gain stakeholders' views. Some of the metrics included in the draft plan had details missing – for example there were no targets or performance benchmarks. As noted in our ESORI guidance (see paras 2.15 and 2.25), it's important that the full details of metrics, including the benchmarks, are consulted on. We would welcome further details on these metrics being shared with us and stakeholders before the plan is finalised. Without this information, it is hard to judge ambition and provide a steer in our formal opinion.

Generally, the metrics proposed should be **more reflective of the activities and deliverables outlined in the Forward Plan**. For instance, the ESO has proposed metrics that measure BSUoS forecast at a yearly and monthly granularity under principle 4. We do not think these metrics are suitable for tracking the ESO's progress against the plan's deliverables under the principle 4. In addition, under principle 1, the ESO proposes a number of improvements in the areas of information provision, accuracy, transparency and engagement. However, the proposed performance metrics have a relatively narrow focus and do not cover sufficiently the areas of improvement identified by the ESO. We believe this is an area where the ESO could draw on a stakeholder surveys to more broadly indicate how it is performing on providing more transparent information to the market.

The metrics should seek to capture progress against the delivery of both outputs *and* outcomes. We recognise that measuring the quality of the ESO's performance can be difficult to capture through ex-ante metrics. We think metrics with a greater coverage will tell us more about the value created for customers (and ultimately consumers). Wherever narrower process focussed metrics are used (for example, metrics measuring the timeliness of publications), this may result in more weight being placed on the supporting evidence collected throughout the year.

We also understand that developing appropriate metrics for longer-term focussed activities and principles is more challenging. If appropriate metrics are difficult to define for a certain role or principle, then this places even greater emphasis on a well evidenced set of deliverables that include clear intermediate outputs, defined dates for delivery of these and detailed descriptions of any anticipated stakeholder engagement.

Performance benchmarks:

At this stage we do not believe that the metrics are ambitious enough and think that a number of the metrics could be **more stretching** (through setting more challenging performance benchmarks). For example, under principle 6, it is unclear how publishing 95% of connection offers right first time would exceed consumer expectations (particularly as current performance is only 1% less than this and there was an aim to deliver 100% of connections offers right first time in the 2018/19 plan).

As mentioned previously, we would like more explanation of why certain performance benchmarks have been set and how they exceed expectations. This could be through providing more evidence of historical and existing performance and/or through a better articulation of the relative consumer benefits associated with exceeding a target (either real or estimated, direct or indirect consumer benefits). We also reiterate that the ESO should strive for continuous improvements each year, so that improvements made during previous years should be "banked" as baseline for subsequent years.

As you are aware, we have particular concerns about the benchmark set for **balancing cost management** (metric 4). This is a key metric for measuring the ESO's performance across the majority of principles. We remain unconvinced that the adjustment factors selected are justified and we believe that this metric needs further evidence and work in general. Given this metric can be impacted by activities across the scope of the ESO's role – we currently find it difficult to reconcile how a £200m

increase in the benchmark can coincide with an ambitious plan. Whilst we acknowledge the difficulties of precise quantification, we believe the ESO could at least provide some high level estimate of the level of short term balancing savings it hopes to achieve through its plan deliverables next year. We welcome the engagement we have had with you on this metric so far and would like the opportunity for further discussions between now and the final plan.

The ESO regulatory and incentives framework from April 2019

As you're aware, in November we published our call for input on the ESO regulatory and incentives framework from 1 April 2019.⁵ Further to this we have now published an additional consultation on the evaluation process for the 2019-20 ESO regulatory and incentives framework.⁶ We expect that any amendments to the scheme would be taken forward through the incentive scheme guidance documents. We expect to publish final versions of these documents in March. We have discussed these possible changes with you over the last few months and hope that this provides you with sufficient opportunity to factor any changes into the final Forward Plan.

Next steps

We look forward to continuing to work with the ESO and stakeholders to refine the Forward Plan to ensure it is fit for purpose for the regulatory year 2019/20. We are happy to engage with individual ESO teams if they would like to further discuss our detailed views on the deliverables/metrics.

Once the ESO Forward Plan consultation closes, we expect the ESO to consider stakeholder responses, review and update its Forward Plan accordingly and publish the final version of the Forward Plan for 2019-20 before 1 April 2019.

We want to be as clear as possible to the ESO about the extent to which the deliverables and metrics are likely to go beyond or fall below baseline expectations. Therefore, we have committed to providing a Formal Opinion on the final version of the ESO's plan by 1 May.

Should you wish to get in touch with us in the meantime, please do so by emailing ESOperformance@ofgem.gov.uk.

Yours sincerely,

Grendon Thompson

Head of ESO Regulation

⁵ https://www.ofgem.gov.uk/system/files/docs/2018/10/call_for_input_on_2019-20_eso_incentives_framework_final.pdf

⁶ <https://www.ofgem.gov.uk/publications-and-updates/consultation-evaluation-process-2019-20-eso-regulatory-and-incentives-framework>

Annex – Feedback by Principle

We have provided more detailed comments on the deliverables and metrics for each principle below.

In general, to reiterate some of our overarching comments, **deliverables** should be:

- Well specified - it should be clear what's being delivered in practice so successful delivery can be measured
- Time bound – it should contain clear dates and milestones
- Relevant – they should be justified against the delivery of the vision
- Beneficial for consumers – they should be intended to deliver consumer benefits and make clear what type of measurable outcome/benefit is associated with its successful delivery
- In line with industry priorities – it should be clear why deliverables have been prioritised and how industry feedback has been responded to

When considered as a whole, as set of deliverables should also be ambitious – it should be clear how the ESO is delivering a set of activities that go above and beyond baseline expectations under RIIO-T1 price control funding (including innovation funding), expectations under the ESO's licence as well as commitments in previous forward plans.

In addition, **performance metrics** must be:

- Well specified – it should be clear how exactly performance will be measured with full details of the metric shared with stakeholders
- Relevant – they should be reflective of performance against the relevant deliverables/role
- Ambitiously benchmarked – benchmarks should be challenging with clear evidence provided around how they are challenging (and deliver above baseline expectations)

We have drawn out some specific examples below to help illustrate our overarching comments.

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

Deliverables

We believe that some deliverables in this area, specifically the Open Data portal, sound promising and have the potential to exceed expectations. However, generally we require more specific information to assess how ambitious the plan in this area is overall. We also believe there is greater scope for the ESO to make meaningful changes to both balancing data transparency and forecasting accuracy than the current commitments in the draft plan.

More specific comments include:

Deliverable	Our comments
Operational insights	<p>This deliverable could be more specific and time bound. The ESO mentions that it will share insight and 'build on the Daily Balancing Costs report and MBSS', but it is not clear what it being delivered in practice and when. A map of outturn costs for voltage and thermal constraints is more specific and time bound, and sounds like a welcome initiative. However, we would like more evidence around why this activity is ambitious (including what is involved to do this in practice).</p> <p>Generally, greater transparency around balancing actions and data is a key area that stakeholders have requested in the past. We challenge to ESO to go as far as possible in this area in 2019/20 and to consider whether any additional relevant deliverables could be included in the final plan following the consultation.</p>
Forecasting	<p>We welcome the ESO's focus on developing more granular and sophisticated forecasts. However, we disagree that that publishing a forecasting roadmap in 2019/20 would exceed expectations. A plan, in and of itself, is unlikely to be considered as exceeding expectations. We also understand, from interactions with the ESO's forecasting team, that these plans have already been developed. We therefore encourage the ESO to specify its additional forecasting plans for 2019/20 within this forward plan.</p>

	<p>We also welcome the proposals to publish more granular forecasting information to the market. However, our understanding is that the majority of work to develop these forecasts was carried out in 2018/19. It is not clear to us that publishing the outputs of this work involves enough of a step from last year for it to be deemed ambitious.</p> <p>The introduction of APIs seems like a beneficial change to make forecast information more user-friendly. However, we encourage the ESO to reconsider whether publishing definitions on a website is realistically an activity that 'exceeds' baseline expectations.</p>
Open data	<p>Whilst we question the extent to which an 'explorer page' ought to be considered as exceeding expectations (as it appears to be a simple website upgrade), we think the 'Open Data' deliverable sounds like a positive initiative that has potential to exceed baseline expectations. We recognise that it may be difficult to be fully specific on the output at this stage. Therefore, the extent to which this initiative will exceed expectations in practice will depend on the quality of the engagement, the scope of the data included, and generally, views on the overall quality of the output based on stakeholder feedback.</p>

Metrics

Metric	Our comments
'Metric 1 - Information provision scorecard'	<p>This metric does not currently meet the requirements for a performance metric as it does not have any benchmarks. It could also be more specific on how the scorecard will work in practice. Whilst the metric appears relevant to demonstrating the ESO is meeting certain baseline obligations, we are unclear on its relevance to the ESO's long term vision and 2019-21 plan deliverables. In general, we expect a competent system operator to publish this data and information to the market on a regular basis so do not consider this to be ambitious.</p> <p>We encourage the ESO to look at the quality and the usefulness of the information it publishes alongside publishing information on time, as this provides a better measure of performance. This would tell us more about the positive outcomes delivered for stakeholders and consumers. For example, the ESO should consider a stakeholder survey on information provision which could track and evidence the quality of delivered improvements.</p>
'Metric 2 - Firm Frequency Response (FFR) information provision'	<p>We welcome the ESO's commitment to improving information to market participants who participate in the long term tender rounds. Whilst the metric is specific and has benchmarks, we question whether the 'exceeding' benchmark is stretching enough. A 10% reduction in the number of tenders received in periods with no requirements does not seem challenging given the ESO was able to reduce this by 20% last year. Further detail around the steps needed to achieve this in practice would help clarify the purpose of this metric and its ambition. We also encourage the ESO to further explain this metric's relevance to the ESO's long term vision and 2019-21 plan.</p>
'Metric 3 - Energy forecasting accuracy'	<p>We believe a suitable forecasting metric is very relevant to include in the plan and it is clear how improved forecasting can benefit consumers. However, this metric is currently incomplete as the full details of the targets and underlying methodologies have not been included. We request more information on how the metric will be calculated in practice and expect the ESO to share these details with industry.</p> <p>The ESO should do more to justify why the methodology chosen is ambitious. The ESO should explain the rationale for targeting 5 months of accurate forecasts, and why this change has been made from the previous plan. Ultimately, we consider that forecasting performance across all periods is relevant to consumer outcomes, and indeed, most value can arguably be derived from making improvements in the most difficult months.</p> <p>Our current view, as discussed with the ESO forecasting team, is that the methodology used could be more transparent. We suggest the ESO consider using</p>

	<p>a monthly percentage error measure (we understand that these are produced internally to help track performance, so it should be easy to publish an external version). We recognise the ESO's concerns that factors outside of its control can impact its forecasting accuracy. However, the framework provides scope for the ESO to explain when performance was impacted by events outside of its control as there is no mechanistic link between metric performance and incentives. We believe the combination of a simple transparent monthly % error measure and narrative to explain forecasting improvements made during the year (and relevant outside factors) would be a better approach to tracking performance.</p>
--	---

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

Deliverables

Overall do not believe that the ESO is being ambitious enough in this area. The deliverables listed are mainly activities which we would expect the ESO to be taking forward as part of our baseline expectations. We encourage ESO to develop a more ambitious set of deliverables that introduce tangible changes to system operation processes and systems in practice. We would also like a clearer articulation of how and where the ESO intends to deliver additional value for consumers, and for there to be a clearer link between the long term vision, these deliverables and the balancing cost metric.

More specific comments include:

Deliverable	Our comments
Operability reports	At this point, it is unclear how this deliverable will make progress and deliver tangible value beyond the report introduced produced as part of the 2018/19 plan (and previously produced SOF reports). We therefore do not agree that this deliverable ought to exceed expectations. We encourage the ESO to go beyond the production of summary reports and develop tangible solutions to future operability challenges. We welcome the potential for 'extra deliverables' in this area, but without specific details or milestones we are unable to comment on ambition.
Future of the ENCC	We welcome the ESO's focus on improving the transparency around the data used in the ENCC. However, we disagree that publishing a roadmap or details about operational challenges in 2019/20 would exceed expectations. A plan, in and of itself, is unlikely to be considered as exceeding expectations. We believe the ESO has now had extensive opportunity to develop plans and roadmaps. Therefore, we would strongly encourage the ESO to provide clear and tangible initiatives and outputs from the 'Future of the ENCC' deliverable that would demonstrate additional value for consumers. This is particularly given transparency around short term decision-making has been an area of stakeholder concern for some time.
Roll out of Loss of Mains Protection setting	<p>We disagree that these activities exceed baseline expectations. This work is associated with a long-running modification process and addresses operational issues that have been known for many years. Given the costs implications for consumers of not progressing this work on an urgent basis, we would expect an ESO with a focus on maintaining an economic and efficient system to make this work a very high baseline priority.</p> <p>We note this deliverable is contained in both role 1 and role 3. The ESO should identify which role this activity is most relevant for and avoid duplication.</p>
Upgrade of information systems	<p>We disagree that this work is likely to exceed expectations. This work is required for Project Terre and we would expect it to be carried out even in the absence of this incentives scheme.</p> <p>More generally we note that the ESO's balancing systems have a significant impact on competition and efficiency. The Electricity Balancing System (EBS) is a key deliverable under the RIIO-T1 price control that was expected to deliver significant</p>

	consumer benefits through more efficient system operation. The ESO should see delivering the benefits associated with EBS as part of its baseline expectations under the RIIO-T1 price control. We are unclear from the plan how the ESO is intending to ensure these benefits are delivered, and we disagree the ESO is exceeding these expectations with its current balancing IT programme.
--	--

Metrics

Metric	Our comments
'Metric 4 - Balancing cost management'	<p>As highlighted in the main letter, we have concerns about this metric. This is a key metric which has relevance to performance across many of the principles. We would like the ESO to provide further evidence to explain why the benchmark, a ~£200m increase from last year, is justified. At this point, we do not think the adjustment factors selected are appropriate and we believe that this metric needs further work.</p> <p>We also note that the ESO has not included performance benchmarks for this metric. It therefore unclear what kind of ambition the ESO has to create savings for consumers next year.</p>
n/a	<p>We would like the ESO to consider more metrics in this section to measure the ESO's performance in meeting the deliverables and long term vision. For example, the ESO could consider a stakeholder survey on the transparency of balancing decisions to measure progress in this area.</p> <p>Given the increase in constraints costs in 2018/19, we also question whether the ESO could develop specific metrics related to this. For example, the ESO could introduce a metric to track the accuracy of constraint forecasts versus outturn constraints.</p>

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

Deliverables

Overall, we welcome the further progress planned by the ESO to deliver reforms to its balancing services. Whilst we were disappointed with previous delays to the auction trial for response (and we stress the importance of its delivery this year) we do believe this is an ambitious deliverable which has a strong potential to exceed expectations. To be more ambitious, we challenge to ESO to consider whether this work can be progressed any quicker than currently planned. We also encourage the ESO to ensure its previous commitments in relation to the product roadmaps are being delivered to schedule, and if not, to consider assigning more resources in this area.

More specific comments include:

Deliverable	Our comments
Auction trial for response	As noted, we believe this is an ambitious initiative that has the potential to exceed expectations. However, we question whether the ESO can increase ambition further by progressing this work faster than currently planned. This is particularly as the product roadmap originally envisioned a 'decision on the wider use of auctions in Frequency Response market' in the second half of 2019.
Market design for reformed reserve products	We expect the ESO to continue to communicate and engage on the redesign of its reserve products in line with its existing commitments. The extent to which this activity could exceed expectations will ultimately depend on the overall quality of the engagement and the outputs that are delivered.
Product roadmap for reactive power	We expect the ESO to progress work on reactive power in line with previous commitments in the product roadmap. We are concerned that there has been a reduction in ambition in this area compared to the roadmap last year and we are unclear on the extent to which tangible progress is going to be made during

	<p>2019/20. We request that the ESO clearly communicates the extent to which the product roadmaps are being delivered to schedule and, where there have been delays, to clearly explain the reasons for this.</p> <p>Generally, we think some for the deliverables in this area could be more specific. For example, the ESO could specify what 'industry engagement that explores options to improve reactive power' involves in practice. The ESO should also explain why and how work with UKPN on Power Potential will go beyond the expectations energy consumers already have from the granting of the innovation funding.</p>
Alternative approaches to restoration	We do that agree that simply undertaking and commencing the Network Innovation Allowance (NIA) and Network Innovation Competition (NIC) in this area would exceed expectations. The ESO should justify why and how this work will go beyond the expectations energy consumers already have from the granting of the innovation funding.
Power responsive: deliver innovation projects to unlock demand flexibility	This deliverable should be better specified to be clear what is being delivered. It also needs clearer dates and milestones. At this point we are therefore unable to draw conclusions about its ambition.
Intermittent generation	We welcome a plan for ensuring the technical capability wind generation has to provide frequency response can be utilised by the control room in practice. However, we don't believe there is a clear justification for why these activities would exceed expectations. GC0063, which introduced the Power Available signal, was approved in in January 2015. As part of the approval of this modification there should be a reasonable expectation that the ESO will take the follow up steps necessary to ensure this signal could be used in practice. We therefore strongly encourage the ESO to consider moving forward the target date of completing this work.

Metrics

Metric	Our comments
'Metric 5 - Provide Journey Feedback'	We think this is a relevant metric to include. However, the ESO should provide more clarity around how the overall score for the metric is calculated to enable us to comment on its ambition. We also believe the ESO should provide greater justification for the benchmarks chosen.
'Metric 6 - Reform of balancing services market' part 1	<p>We find the specific details around this metric unclear. We would like further detail as to what 'deliverables' the metric is tracking the completion off and how the 'shift in service accessibility' will be measured.</p> <p>If these deliverables relate to commitments in the product roadmaps, then we strongly question the ambition of the metric, particularly as in 2018/19 the ESO targeted full delivery of the roadmap. At this point we do not consider over 75% to be a stretching benchmark.</p>
'Metric 6 - Reform of balancing services market' part 2	We welcome the inclusion of this metric as we believe it is relevant and supported by stakeholders. How it currently doesn't meet the requirements of a performance metric as there are no specific benchmarks. We are therefore unable to comment on ambition.

Principle 4: Promote competition in wholesale and capacity markets

Deliverables

We welcome the ESO's aim to drive targeted improvements to market arrangements but generally believe the ESO needs to be more specific about the changes it intends to make to market arrangements in practice, including what benefits these changes will bring. We are unclear on the relevance of deliverables relating to the customer experience on network charging. At this point we are therefore unclear the ESO is being sufficiently ambitious under this principle.

More specific comments include:

Deliverable	Our comments
Facilitating code change	<p>We welcome clear commitments on 'getting the basics' of code administration right and agree that these are more in line with baseline expectations.</p> <p>For other deliverables in this area, we think the plan could better articulate how these deliverables help to meet the ESO's longer-term vision, what types of measurable outcomes/benefits will be achieved and the extent to which they have been shaped by stakeholder input.</p>
Developing and driving targeted market improvements	<p>We are pleased to see the ESO's aim to drive targeted improvements to market arrangements as we believe this was a key aspect relevant to this role that was missing from the original 2018/19 forward plan. However, we think the majority of deliverables in this area need to be more specific. There also needs to be a clearer articulation of how they link to the ESO's long term vision and what type of measurable outcome/benefit is associated with their successful delivery. For example, whilst we welcome the ESO "continuing" to review options for the SQSS and commercial security arrangements there is no specific output being delivered. Leadership in the network access and forward-looking charges review is also welcome, but a commitment to demonstrate this on an ongoing basis is not a specific enough deliverable.</p> <p>For the ESO to be deemed ambitious in this area we encourage it to be clearer on what targeted market improvements it is driving in practice and why these have been prioritised. We encourage the ESO to go beyond thought pieces and summary reports and drive clear changes to arrangements.</p> <p>We also note the ESO is planning to continue with some of these deliverables from the 2018/19 plan relaunch. The ESO should explain what progress is being made to build on and go beyond work in 2018/19 in order to further justify the ambition of these deliverables.</p>
Transforming the customer experience for charging	<p>Generally, the ESO needs to better explain how these deliverables link to its long term vision and what measurable benefits/outcomes they will deliver. We also believe a number of these deliverables lack specificity and concrete milestones (for example, "investigating options for updating system"). Without this information we believe it is hard to judge their ambition and relevance to this role. We are therefore unclear these deliverables are ambitious.</p> <p>More generally, we encourage the ESO to reconsider whether activities like improving website sign-posting and providing guidance on charges are the types of activities that clearly exceed baseline expectations in this area.</p>

Metrics

Metric	Our comments
'Metric 7 - Code Administrator: Stakeholder satisfaction'	<p>Whilst we think this is a relevant metric to track, the ESO needs to be more specific about the benchmarks. In particular, what the ESO means by 'an increase' in overall performance and similarly 'a decrease' in overall performance. The ESO should also justify the stretch of this metric by providing narrative as to how and why the metric has changed from last year. At this point it seems there has been a reduction in ambition from the 2018/19 plan.</p>

'Metric 8 - Charging Futures '	This metric is incomplete as there are no clear benchmarks or questions. We are therefore unable to comment on ambition.
'Metric 9 - Year Ahead Forecast v outturn annual BSUoS'	The ESO should explain how these metrics are relevant to this role, its long term vision and the plan deliverables in this area. We would also like to better understand what the ESO is trying to demonstrate with these metrics by explaining what steps in practice it needs to take to improve BSUoS forecasts and why this is a challenging initiative.
'Metric 10 - Month Ahead Forecast v outturn Month BSUoS '	Our initial view is that the benchmarks appear very wide. The ESO says it has selected these benchmarks because it believes the accuracy of these forecasts is subject to significant outside factors and that its "incentive performance could easily be lost by an event" outside of its control. We are concerned that this shows a lack of understanding of the purpose of performance metrics within this framework, and how the incentive framework generally works. The ESO should provide narrative to explain what it can and plans to do, within its control, to improve these forecasts. At this point we are unclear on the value of these metrics in tracking the ESO's performance against the plan. In particular, because the plan deliverables relate to raising awareness of future charges rather than improving their accuracy.

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

Deliverables

Overall, we believe the deliverables in this area could cover more of the principle's expectations and contain more specific dates and milestones. At this point, we are also unclear whether enough tangible progress is being made from the 2018/19 plan for them to be deemed ambitious. We would also welcome more explanation around how these deliverables will contribute to the ESO's longer term vision in this area and the outcomes it is trying to achieve.

The ESO refers to "developing new ways of working with DNOs and other solution providers". We would like more evidence and examples of the work the ESO is undertaking to enhance collaboration, communication and coordination with other network operators in order to identify and support the delivery of the most efficient network planning and development solutions for the whole system.

More specific comments include:

Deliverable	<i>Our comments</i>
Commercial contracts for balancing services from DER	We note this deliverable was part of the 2018/19 plan. The ESO should explain what progress is being made from work undertaken in 2018/19, and if this initiative has been delayed, the reasons for this delay.
Enhanced systems to facilitate balancing services from DER	The ESO should be more specific about what is being delivered in practice and how it relates to other deliverable listed under principles 5, 6 and 7. We also encourage the ESO to specify any milestones that will occur for this initiative during 2019/20.
Automated dispatch capability for generation in highly constrained areas	These seem like a promising set of deliverables. However, without clear milestones and a better articulation of their associated benefits, it is hard for us to draw strong conclusions on ambition during 2019/20.

RDP identification process	At this point, we do not agree this a deliverable that is likely to exceed expectations. We expect the ESO to be coordinating with DNOs to identify opportunities for whole system working as part of our baseline expectations. It also is unclear, based on the information available, why this deliverable would be challenging in practice.
n/a	We believe the ESO should outline any key deliverables related to transmission outage optimisation (e.g. related to the NAP). See paragraph 1.39 of our roles and principles guidance.

Metrics

Metric	Our comments
'Metric 11 - Whole System, unlocking cross-boundary solutions'	We believe measuring the volume of additional DER connected is a suitable metric and is relevant to the work undertaken in relation to this role. However, at this point, it does not meet requirements of a performance metric as there are no associated performance benchmarks. The ESO should develop targets for exceeding/meeting/falling below baseline expectations as required in the guidance, and ideally consult on these targets before the final plan. These benchmarks should demonstrate a step change in ambition from 2018/19.
n/a	An additional or alternative metric for the ESO to consider might be the MW of system services contracted and or utilised in those areas where RDPs were put into operation. This would help better evidence benefits delivered from the RPDs. In addition, the ESO should consider developing metrics which could help stakeholders track whether the ESO is working with TOs to optimise transmission outages efficiently.

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

Deliverables

In general, we would like to see a clearer articulation of what these activities will produce in practice and the benefits they are expected to drive. This would help to provide justification on how these activities meet or go beyond baseline expectations. For example, we welcome the ESO's plans to take a leading role in Whole System development but would like to see clear and tangible actions this will deliver beyond the production of additional position papers.

More specific comments include:

Deliverable	Our comments
Commercial flexibility around operational connections	This deliverable sounds beneficial and relevant to the long term vision. However, the ESO should explain what output is being delivered in practice. We would also like a better understanding of why this output represents a challenging deliverable and the expected benefits it will achieve.
Roll out of Loss of Mains Protection setting	We disagree that these activities exceed baseline expectations. This work is associated with a long-running modification process and addresses operational issues that have been known for many years. Given the cost implications of not progressing this work, we would expect an ESO with a focus on maintaining an economic and efficient system to make this work a very high baseline priority. We note this deliverable is contained in both role 1 and role 3. The ESO should identify which role this activity is most relevant to and avoid duplication.
Defining roles and responsibility	The ESO should be more specific about what output is being delivered. We would also like a better understanding of what is involved in practice to produce this

for voltage management across the transmission distribution interface	output, including evidence of why this a challenging deliverable and the benefits it is likely to drive.
Inertia Measurement	<p>We understand this activity has been funded through the NIA. The ESO should provide clear evidence of how work in this area is going beyond the expectations consumers' already have from this funding.</p> <p>We also note that the "<i>embedding of enhanced inertia modelling tools and new inertia measurement capability</i>" was an expected deliverable under principle 2 for 2018/19. The ESO should explain what progress is being made from 2018/19, and if this project has been delayed, the reasons for the delay.</p>
Customer connections portal	The ESO should be more specific about what output is being delivered and when. We are currently unclear how ambitious this deliverable is.
Whole electricity system thought leadership deliverables	<p>In general, whilst we welcome the ESO's aim to take a leadership role, at this point we do not believe the deliverables listed here are likely to exceed baseline expectations. Now we've had a year of experience with the new framework, we expect the ESO to move from position papers, thought pieces and summary documents towards tangible outputs which deliver whole system benefits. As a principle, we do not believe these kind of publications ought to exceed expectations.</p> <p>We note that "playing a proactive role", in itself, is not a specific deliverable. Equally, leading an Open Networks work stream in itself does not mean the ESO has automatically exceeded expectations (particularly as other regulated companies lead other work streams). To exceed expectations, the ESO must demonstrate the delivery of tangible whole system outputs.</p>

Metrics

Metric	Our comments
'Metric 12 - System Access Management'	<p>This metric has the same targets as 2018/19. Given the year to date performance in November 2018 was around 5 per 100 outages, a target of 10.4 is very unambitious.</p> <p>In addition, to reiterate our comments from last year, reducing the number of planned outages that are cancelled by the ESO due to process failure appears to be a baseline activity. We would like to see more narrative around how this metric meets the whole system outcomes of this principle. We stress that the ESO must ensure it is seeking to optimise <i>overall</i> system costs rather than focussing on minimising planned outages to meet a target.</p> <p>We would also like to see more explanation around how this metric is relevant to the deliverables under this principle.</p>
'Metric 13 - Connections agreement Management'	At this point in time, it is not clear to us that updating >90% of agreements within 9 months is a challenging target given that current performance is 86%. The ESO needs to provide clear evidence around why this is the case or improve the ambition of this metric. It is not clear what would be involved in practice to improve performance from 86% to 90%, and why this is challenging. We would also like to see more explanation around how this metric is relevant to the deliverables under this principle.
'Metric 14 - Right first time	We note there was a deliverable in the 2018/19 plan to 'get 100% of connection offers right first time'. Given this previous commitment, and that fact that the proposed target is only 1% greater than current performance, we believe this

connection offers `	metric is very unambitious. We would also like to see more explanation around how this metric is relevant to the ESO's vision and deliverables under this principle.
n/a	<p>In general, we believe the ESO should rethink metrics in this area before the final Forward Plan. At this point we do not believe outperformance of any of these metrics exceed expectations and we are unclear how they relate to the plan. We encourage the ESO to consider whether there are any better ways of measuring within-year operational costs savings delivered as a result of collaboration with TOs and DNOs.</p> <p>We understand that developing appropriate metrics for longer-term focussed activities and principles is challenging. If appropriate metrics are difficult to achieve for this principle, then this places even greater emphasis on a clear, well evidenced set of deliverables.</p>

Principle 7: Facilitate timely, efficient and competitive network investments

Deliverables

We think that the deliverables in this section contain some promising initiatives. Nevertheless, we would like a better understanding of how initiatives like the pathfinding projects are translating into tangible changes to network planning and the NOA process in practice. We would also would like to see a clearer explanation around how some activities, like the regional Voltage pathfinders and the thermal probabilistic assessment tool, build on and go beyond commitments made in 2018/2019. More generally, we'd like to better understand the extent to which the ambitions in the NOA roadmap are being delivered to schedule.

We encourage the ESO to clearly explain how some of these deliverables interact with other deliverables in principles 5 and 6. For example, the deliverable proposed for the constraint management pathfinder appears to be very similar to the development of commercial contracts for DER under principle 5. As you are aware, we have recently published a consultation on structuring the incentives by 'role area' rather than by principle. The ESO should consider whether they could present a clearer narrative in relation to deliverables under roles 3 and 4 under this proposal.

More specific comments include:

Deliverable	Our comments
Stability pathfinder	We think this is a welcome initiative with some clear milestones in place. We expect the output of the pathfinder in Q3 to contain some clear conclusions and detailed next steps on how commercial solutions will be included in the NOA process in practice.
South Wales and Mersey Voltage pathfinder	We continue to welcome the pathfinder initiatives. However, we would like greater clarity on how they go beyond work already delivered and commitments made in the 2018/19 forward plan. In particular, a deliverable for Q3 2018/19 was to "publish the results of the NOA pathfinding projects; and a plan to "update the NOA methodology to incorporate lessons learnt". We would like to better understand how the 'project recommendations' in Q2 2019 go beyond this.
Pennines voltage pathfinder	
Constraint management pathfinder	The ESO should explain how this interacts with / differs from the deliverables under principle 5.
Voltage needs identification tools / processes	In principle this seems like a promising initiative. However, the ESO should be more specific about what is being delivered in practice, what is involved that makes this a challenging deliverable, the benefits it is likely to bring, and how it interacts with NIA-funded projects on system planning tools.
Thermal probabilistic assessment tool / process	The 2018/19 Forward Plan and NOA roadmap contained a commitment for this tool to be included in the 2019 ETYS. The ESO should explain what progress is being made from 2018/19, and if this initiative has been delayed, the reasons for this delay.

Metrics

Metric	Our comments
'Metric 15 - NOA Consumer Benefit'	<p>We believe this is a relevant metric to include. However, it currently does not meet the requirements of a performance metric as the targets are not specified. The ESO should develop benchmarks and ideally discuss these with industry as soon as possible.</p> <p>We note the ESO's concern that factors outside of its control can impact this metric. We believe this can be the case for many measures of ESO performance. The framework accounts for factors outside of the ESO's control as there is no mechanistic link between metric performance and incentive values; there is a big onus on supporting narrative.</p> <p>We also understand that developing appropriate metrics for longer-term focussed activities and principles is challenging. If appropriate metrics are difficult to achieve for this principle, then this places even greater emphasis on a clear, well defined and evidenced set of deliverables.</p>