

Performance Panel response to National Grid Electricity System Operator's Forward Plan 2019/20

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Overview

Ofgem introduced a new regulatory and incentives framework for the Electricity System Operator (ESO) in April 2018. Under the new arrangements, the ESO must engage with its stakeholders and publish a forward plan before the start of each regulatory year. This forward plan should outline the key actions the ESO intends to take to maximise benefits for consumers and to meet the expectations described under our seven principles. The ESO will then report on its performance and provide evidence throughout the year. The ESO Performance Panel plays a central role in this new framework. It will challenge the ESO's plans before the start of the year, evaluate its performance after six months and then perform a final evaluation at the end of the year. This forms a recommendation to the Authority on the financial reward or penalty.

In February, the performance panel held a session on the ESO's draft Forward Plan for April 2019-March 2020.

We are publishing this report as the secretariat for the panel, detailing the panel's views on the ESO's draft forward plan. The ESO should take account of these views when producing its final plan.

Summary of ESO Performance Panel's views on the ESO forward plan

Overarching messages

The ESO Performance Panel has reviewed the draft plan and has provided some overall comments for the ESO to consider alongside the responses from stakeholders and Ofgem.

Long term vision

The performance panel would like to see a **more specific and tangible long-term strategy and vision** in the plan. The panel would like to see the ESO consider its long term vision for the future whole energy system and how this long-term vision links to its strategy for the next 5 to 10 years, moving beyond descriptions of aims to meet the principles. The panel would like the ESO to consider the technical challenges and opportunities in system operation over this time horizon and explain what steps it intends to take to help steer the energy system transition. This includes considering the various pathways that could lead to the best consumer outcomes. The panel felt that having a clearer and more tangible long term vision is the essential first step in defining the best set of shorter term activities that will maximise consumer value.

Link between plan and consumer outcomes

The panel felt that there needed to be a **clearer articulation of how the plan contributes to consumer outcomes and the ESO's vision, including where and how consumer value will be unlocked**. The panel noted that the ESO has taken steps in the right direction (noting the diagrams at the start of each section). However, the panel felt it was generally unclear why the specific output deliverables in the plan had been chosen and the benefits they are expected to unlock. It was also unclear how the different output metrics linked back to plan deliverables, final outcomes and the long term vision. The panel felt there was a risk that it could look like activities had been selected before consumer outcomes and the long term vision and had been fully considered.

The panel felt that more forecast benefits from the plan activities could be included. They acknowledged that full and precise quantification could be too difficult in some areas, but encouraged the ESO to introduce more estimates of direct or indirect benefits in areas where this seemed more possible (for example Role 1).

The panel also encouraged the ESO to ensure its plan is joined-up across activities. For example, panel members noted that the balancing cost metric (metric 4) did not appear to acknowledge that many of the ESO's activities were being put forward to reduce these costs. A large increase has been suggested under this benchmark but there is no explanation of whether this accounted for savings that might be delivered from the ESO's activities in 2019-21.

Overall, the panel suggested the ESO should begin work with Ofgem and stakeholders to develop an agreed, broad set of measurable outcomes and then more clearly articulate how its plan delivers against these outcomes.

Ambition of plan

Overall panel members felt that, at this point, the **draft forward plan was not clearly ambitious** – either in coverage or in stretch. The panel would like the ESO to explicitly justify how the deliverables, metrics and associated benchmarks proposed are likely to go beyond baseline expectations. Panel members reiterated points made above about the importance of drawing a clear link between consumer outcomes and the specific activities and metrics.

Panel members felt that it was unclear why many of the deliverables were exceeding expectations. Some appeared unchallenging and activities that would be expected from an economic and efficient ESO (for example, publishing more data and balancing transparency). The panel also noted that some exceeding activities appeared to be equivalent to those carried out by other regulated network companies without incentives. Generally, the panel questioned whether it was realistic for the majority of activities to fall into this category.

The panel noted that some deliverables could be more specific and measurable. Some of the outputs described looked as though, in practice, they could vary significantly in scope and quality. The panel discussed that whilst a description of ‘baseline’ versus ‘exceeding’ could be useful facilitate discussion on the plan’s ambition, ultimately deliverables cannot ‘exceed’ by default, as it depends on how they are delivered.

Panel members discussed that there is significant scope for the ESO to improve its performance metrics to ensure they are stretching in the final Forward Plan. This relates to the scope of the metrics and the targets set. The benchmarks needed to be explained and justified with more evidence.

Role 1 - Managing system balance and operability

P1: Support market participants to make informed decisions by providing user-friendly, comprehensive, and accurate information

P2: Drive overall efficiency and transparency in balancing, taking into account impacts of its actions across time horizons

- As mentioned in the overarching comments, the panel felt the long term vision could build beyond a re-articulation of the principles under this role and strengthen the link to consumer benefits. The panel felt the coverage was broadly correct in the plan but the ESO could improve the stretch of the deliverables and metrics.

- The panel felt that the majority of commitments in this area reflected business as usual activities for the ESO. The panel reflected that for the ESO to outperform, they would like to see strong evidence of innovation and clear leadership in solving operability challenges. For example, the panel discussed that there is greater scope for the ESO to innovate and make meaningful changes to system operation practices and processes.
- Panel members thought that the 'Open Data' deliverable sounded promising and had the potential to exceed baseline expectations. It was noted that the full details for this deliverable were yet to be defined, and so the panel would welcome more specific information around this as it was developed. Panel members also discussed that as part of this, the DNOs and ESO should work together to define what data should be shared, with the ESO taking on a leading role in this area. Ultimately, the panel consider that the extent to which this initiative will exceed expectations in practice will depend on the quality of the engagement and output produced.
- The panel noted that forecasting improvements should be driven by their value to industry. The ESO could explain how these forecasts are being shaped by stakeholder requirements. They also noted that a roadmap itself should not exceed expectations – it is the changes made in practice that are important.
- One panel member questioned the extent to which the operational insights deliverables ought to be considered as exceeding expectations. They felt it was unclear why publishing constraint cost information should be an exceeding activity when TOs need this information to make efficient decisions. The panel suggested that the ESO should provide annual forecast circuit constraint costs in each transmission licensee's area (daily average value for key power corridor circuits). This information would assist the TO's in developing their RIIO-T2 plans and help achieve a whole systems approach.
- The main discussion around metrics under role 1 focused on metric 4 (balancing cost management). The panel noted this was a very important metric and there is a clear link with consumer outcomes. They expressed concern that the plan contained little information behind the higher benchmark for 2019/20 and that the adjustment factors did not appear to be well justified. The panel would like the ESO to share the analysis, scenarios and details around the benchmark set and the adjustment factors. The panel also suggested the ESO consider producing a range of performance benchmarks or 'tramlines' around the baseline. Then when costs deviate outside these tramlines, the ESO could explain the reasons why. The panel suggested ESO could also explain its ambition to reduce costs and what would be needed in practice to achieve different levels of savings.
- Panel members also had some comments on the other metrics under role 1, including:
 - For metric 1 (information provision scorecard) the panel noted that the data and information publications in the 'scorecard' are mostly expected as part of the ESO's

license or code requirements. Therefore, whilst this might be something that Ofgem is keen to monitor, the panel did not consider it would demonstrate exceeding performance nor track the ESO's progress against its vision and plan under principle 1.

- The panel felt metric 2 (FFR information provision improvement) could be better explained and reworded to provide more clarity. They suggested that the ESO could instead measure 'tenders received for periods when there was a FFR requirement'.

Role 2 - Facilitating competitive markets

P3: Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent

P4: Promote competition in wholesale and capacity markets

- In general, panel members thought some of the proposed activities seemed reasonable initiatives but that it was often unclear why they had been included and how they contributed to the overall ESO vision and strategy. The panel noted that this role had a more medium to long term focus. This makes it even more important that there is a tangible long term vision to then justify the choice of activities and metrics. In general, the panel felt there was scope for the ESO to take on a more strategic and ambitious role in driving changes to market arrangements and code processes than is evident from the draft plan.
- Panel members considered that delivering reforms on time would be a key measure of performance under this role, with a large emphasis on stakeholder feedback. The panel noted that market participants incur costs when there are delays in the ESO's timelines and that further delays to the balancing market reforms need to be avoided this year. To be more ambitious, the panel challenged the ESO to ensure it has the capability and inputs to deliver the reforms more quickly and meet previous commitments.
- Panel members also questioned whether deliverables funded through RIIO innovation-funding would exceed expectations (such as alternative approaches to restoration and power potential trial with UKPN). The ESO should explain why work in this area goes beyond expectations under the funding.
- Panel members noted that there were some instances under this role where the ESO is trying to transform (moving to digital systems and more customer focused charging), but that more information is required to determine what transformational activities are proposed and whether these activities are indeed ambitious. Panel members agreed that deliverables involving signposting on the ESO's website and publishing updates / summary reports are generally less likely to be considered as ambitious.

- Panel members thought there were some areas of activity missing under this role. One panel member encouraged the ESO to consider deliverables which introduced more tangible changes to code governance that go beyond alignment with the Code Administration Code of Practice (CACoP). The panel also discussed that the ESO could demonstrate how it plans to go beyond the stakeholder engagement on market reforms and power responsive in 2018/19 (i.e. moving to tangible outputs as a result of this engagement).
- Panel members also provided some specific comments on the metrics under this role, including:
 - For metric 5 (provider journey feedback) the panel noted the ESO is still finalising this metric. The panel would like to review this version before providing comments.
 - Panel members found metric 6 (reform on balancing services markets) hard to understand and encouraged the ESO to more clearly explain what was being measured. The panel also encouraged the ESO to develop metric 6 part 2 further to specify when and to what extent it planned to phase out bilateral agreements. They noted that this had been put forward at the Mid-Year Review, so the panel had been expecting the ESO to develop this.
 - The panel questioned the stretch of the benchmarks for metric 7 (code administrator: stakeholder satisfaction). Panel members were not convinced that 'meeting baseline' should be aligned with maintaining the existing CACoP survey score as some incremental improvement would be expected under baseline performance.
 - For metric 8 (Charging Futures), the panel felt the metric did not take into account the diversity of participation. It was noted that it is important for the ESO to take account of feedback from a wide range of participants including new market participants. Panel members also discussed that a general measure of accessibility to balancing markets for new providers was needed, as well as a measure of the speed of change. They also noted this metric was unfinished so the panel may want to review the final version before commenting.
 - The panel felt the benchmarks set under metrics 9 and 10 (monthly/annual BSUoS forecast accuracy) needed more explanation and justification. Compared to historic performance, metric 9 appeared relatively more challenging, whilst metric 10 seemed to have been met previously by the ESO.

Role 3 - Facilitating whole system outcomes; and Role 4 - Supporting competition in networks

P5: Coordinate across system boundaries to deliver efficient network planning and development

P6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources

P7: Facilitate timely, efficient and competitive network investments

- The panel reiterated its request for a more tangible vision up to 2030 and an articulation around how the ESO intends to support a more coordinated and efficiently planned network in practice. However, panel members also recognised that there are still open policy questions about the best way forward in some cases (such as on network competition) which may make this more challenging.
- Nevertheless, the panel agreed there were some ‘no regrets’ options that the ESO could be pursuing, particularly around data sharing, trials and widening the Networks Options Assessment (NOA). They noted that these type of initiatives were broadly evident in the plan, but that more detail was needed to see whether the ESO was stretching itself in this area and making tangible progress. Generally, the panel thought the plan seemed directionally right in this area but that the deliverables could be more tangible and the ESO could do more to explain their benefits.
- For example, the panel thought the ESO could go further on exchanging data with DNOs. It appeared that in many cases the DNOs were either doing parallel work or taking the lead. The panel felt that the whole system data exchange needs to go both ways between the ESO and the DNOs, and that the ESO could show greater initiative to drive this forward given its incentives in this area. The panel also felt that there was more scope to make meaningful changes to the network planning processes in practice so that it considers all available solutions (including market-based solutions). To achieve this, there may need to be closer working between the ESO, TOs and DNO’s on carrying out joint system modeling.
- Noting the relatively greater future uncertainty in this role, the panel encouraged the ESO to also focus on its structures, processes and planning at this stage. It was suggested that the ESO could share its changes to its internal structures to show the steps being taken to build capability in this area and produce long term benefits. This could include an articulation of what inputs (in terms of resources and new processes) have been added to this role. This would add further context to the plan to enable a better judgement on ambition.
- The panel also discussed the need for the ESO’s deliverables and metrics in this area to align with RIIO-2. It was agreed that activities undertaken in this area should link back to the ESO’s future system insight work.
- The panel provided some specific comments on the metrics, including:

- The panel requested further clarity on metric 11 (whole system unlocking cross-boundary solutions). They felt that a baseline of 0MW did not appear justified and that the ESO should develop MW benchmarks for under/in line with/exceeding expectations.
- The panel felt that metric 12 (system access management) was a limited measure for the ambition and deliverables set out in principle 6 (noting also that the other two measures under this principle relate to connections). The panel encouraged the ESO to provide a measure that better captures its proposed improvements to whole system operations.
- The panel questioned the benchmark set for baseline performance under metric 13 (connections agreement management). Given current performance for the ESO is 86%, it was felt that that a more appropriate range for baseline performance would be, for example, a range of 85%-90% (accepting that performance is not entirely within the ESO's control).
- It was noted that the ESO asked for suggestions on how to measure non-transmission solutions under metric 15 (NOA consumer benefit). A panel member suggested that this should include non-conventional approaches to both existing and new transmission issues. They suggested that the measure could be a simple count of solutions. Relying on a 'customer benefit' measure could be initially counter-productive in getting new approaches and concepts established and into the mindset of network planners.
- More generally, panel members would like to see a metric included in the plan which encourages close working between TOs and DNOs to secure reduced build solutions. They noted that a more joined up approach to system analysis work had been suggested at the Mid-Year Review, so a metric could be developed to track progress in this area.