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14 March 2019

ELEXON's response to your consultation on the RIIO-2 Sector Specific Methodology

We welcome the opportunity to comment on the questions posed in the above consultation document on RIIO-2 Sector Specific Methodology.

As you are aware, ELEXON (as 'BSCCo') is the Code Administrator for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC, for which we provide Code Manager, Delivery Body and Policy Delivery support. In addition, through our subsidiary, EMR Settlements Ltd, we are the EMR Settlement Services Provider, acting as Settlement Agent for the Contract for Difference and Capacity Market.

We note the Energy Code Review launched by Ofgem. ELEXON supports the need for change, especially to streamline and consolidate the codes, and has recently proposed a [three-code, dual fuel model](#) that would dramatically improve the efficiency of industry governance.

To this end we continue to ask whether perhaps a better way for the ESO code administration functions to achieve ELEXON's 'best in class' standard might be simply to merge the ESO code administration function into ELEXON, so that the ELEXON culture of excellence in code administration is assimilated more quickly and cheaply by the ESO code administration functions.

With regard to ESO incentives, we believe that where collaboration is in the best interest of the consumer, the ESO incentives should be aligned with that and based on collaboration rather than competition. In particular, while we do not necessarily agree that financially incentivising ESO to improve its code management is the best route to achieving those improvements, we do welcome the new metric in [ESO's draft Forward Plan for 2019-21](#), as this metric now appears to reward absolute improvements in ESO's code management. We think this is an improvement on the 2018-19 metric that was based on relative improvements compared with other code managers and so effectively put the ESO in competition with other code managers.

We recognise that innovation lies at the foundation of the development of the industry, and welcome Ofgem's initiatives around innovation funding. We believe that the majority of small scale projects that have previously been funded through NIA should be funded from Incentives. Incentives are in place to enable Licensees to make investments that are not funded but which are expected to deliver savings to consumers. With NIA funding there is a risk that Licensees use NIA to obtain funds from consumers to pay for innovation that then delivers rewards under an incentive scheme that also takes a second set of funds from consumers to pay the incentive.

While we believe that the existing NIA scheme is not needed to fund Licensees, we do believe that there is scope for a similar scheme to provide a route for other not for profit organisations to obtain funding for smaller projects aimed to deliver benefits to the end consumer.

Information sharing is key to achieving whole system outcomes. To this end we recommend that the design of any incentives on data sharing or reporting should be coordinated with the work of the Energy Data Taskforce to ensure whole system regulation. Wherever possible information should be shared, in common formats, with common access, and a presumption that data should be shared unless there is a demonstrable reason not to do so.

ELEXON'S RESPONSE TO CONSULTATION ON RIIO-2 SECTOR SPECIFIC METHODOLOGY

We welcome the focus on competition to drive efficiency. As Ofgem are free from any perception of bias, they would seem best placed to run both early and late competitions. We note that Ofgem has in the past outsourced specific projects to other organisations, and that they could choose to do so for specific competitions, or groups of competitions, if they deemed it appropriate.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'JCM', is positioned above the printed name and title.

Jeremy Caplin
Design Authority

Output categories questions

CSQ2. Do you agree with our proposed three new output categories?

We agree in general with the proposed new output categories. With regard to the wording of the central output, it could be argued that it would be more appropriate for network companies to be required to meet the **requirements** of consumers and network users rather than their **needs**. I.e. the network companies should provide their customers with what they want, rather than with what they are judged to need. The identification of customer requirements should follow from the enhanced stakeholder engagement process that Ofgem has now established.

There is also a question as to what is meant by a **resilient** network. GB currently operates to a higher level of system security (typically resilient to two independent transmission system faults) than most of the rest of the world. There is scope for debate as to whether this is still appropriate, given the availability of battery or other back up supplies. Consumers who wish to pay a premium for a secure supply could elect to do so, while reducing the cost to the majority who do not require such a secure system.

Determination of the level of system security desired by the majority of consumers would be heavily informed by the work that Ofgem have done on setting a Value of Lost Load (VoLL), and could be supported by a "Willingness to Pay" study similar to those undertaken by some [DNOs in support of their business models](#). We also note the work done by ENWL using Network Innovation Allowance (NIA) funding to investigate how [VoLL varies by different customer segments](#).

CSQ4. Do you agree with our proposed overarching framework for licence obligations, price control deliverables and output delivery incentives?

We understand the structure of the framework. A key factor in the success of such a framework will be the clear, unambiguous definition of the target (particularly for Licence Obligations), together with a clear, unambiguous definition of how the performance against the target is to be measured.

Performance measures can be open to interpretation in how they are measured and calculated. In order for the industry to have confidence in the transparency and accuracy of the performance metrics reported, the metrics must be clearly defined. Ideally they will be based on publically available data, and the calculations performed by an independent organisation rather than the Licensee. As perception is key to a robust and enduring framework, at a minimum, there should be an independent audit of the performance metrics reported by the Licensee.

CSQ5. Do you agree with our proposals to introduce dynamic and relative incentives, where appropriate? Are there any additional considerations not captured in our proposed framework which you think we should take into account?

Incentives should reward a Licensee for taking risks where these might benefit the end customer, and for going beyond the work for which they are already funded through the Price Control.

We agree with the position previously articulated by National Grid that "[The application of financial incentives enables National Grid to invest in systems and resources to ensure balancing costs and risks are economically and efficiently managed](#)". To earn an incentive, a Licensee should be able to demonstrate that they have taken a risk by deploying additional resource not funded through the Price Control, or invested in systems not funded by the Price Control in order to deliver reduced costs to the Industry and the Consumer.

We also believe that the scale of the reward from an incentive should be proportionate to the total expenditure that Ofgem believes is appropriate for the incentivised work.

Enabling whole system solutions questions

CSQ8. Do you feel we have defined the problem correctly?

There are some additional factors that could also contribute towards a lack of whole system solutions:

- There will be situations, typically with outage planning, where the solution with the lowest overall system cost does not represent the solution with the lowest cost for one or more parties. The best overall solution could require one company to incur additional costs in order to reduce costs for a different company. Current mechanisms do not offer a way of allowing parties to recover their additional costs, let alone provide an incentive to encourage them to do so where this gives a lower overall system cost.
- Resource constraints can impede achievement of the ideal solution. There are a number of highly skilled roles, and highly specialised equipment, that are in limited supply and so will restrict the amount of work that can be done at any one time.
- Market opportunities can impact the timing of outages. For example, a generator may have agreed to coordinate an outage on their generator with an outage on the transmission network, but last minute changes in power prices may make it more economic for the generator to cancel their outage, thus potentially causing the other party to incur costs from having procured resources that can no longer be used.

CSQ9. What views do you have on our proposed approach to adopt a narrow focus for whole systems in the RIIO-2 price control, as set out above?

In the long run it would make sense for the definition of whole system to be as wide as possible. However, in the short term, it is sensible to seek to address the opportunities of improving whole system thinking in a narrow focus rather than risk the non-delivery of these goals by applying too wide a focus.

CSQ10. Where might there be benefits through adopting a broader scope for some mechanisms? Please provide evidence.

An obvious area for broader scope is in the area of Electric Vehicles (EV). There are a number of innovative new developments in the electricity sector, such as the growth in energy storage (including batteries) as well as the development of flexibility markets, where EVs will play a part. There are significant opportunities to benefit both the energy and transport sectors through an integrated approach to policy and regulation in these sectors.

CSQ11. Do you have reasons and evidence to support or reject any of the possible mechanisms outlined in this chapter? Do you have views on how they should be designed to protect the interests of consumers?

Information sharing is key to achieving whole system outcomes. To this end we recommend that the design of any incentives in the area should be coordinated with the work of the Energy Data Taskforce to ensure whole system regulation, and would urge all of the industry to fully engage with the work of the taskforce.

Information should be shared in common formats, with common access. It should be easy for all parties to access the data, and to understand what it means. There should be a presumption that data should be shared unless there is a demonstrable reason not to do so.

Data should be disaggregated as far as possible, and clearly defined.

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The availability of data could facilitate alternative solutions. For example, the additional optional analysis discussed in section 5.29 could be opened up to allow external organisations to offer services analysing potential synergies between networks.

CSQ12. Which of the possible mechanisms we have outlined above could pose regulatory risk, such as additionality payments or incentivising the wrong behaviour?

Any incentive scheme will drive behaviour so as to maximise return under the scheme.

CSQ13. Are there obstacles to transferring revenues between networks that disincentivise those networks from using a coordinated solution (please give details and suggest any changes or solutions)?

There is a risk that schemes where funds are transferred between competing organisations could drive behaviours where one side takes actions, or withholds information, so as to force the other party into a situation where funds are transferred to the first organisation.

The ENA Open Networks initiative discussed in Chapter 2 is an excellent example of developing Whole System working, and any scheme must ensure that it does not risk detracting from this work.

Innovation questions

CSQ44. Do you agree with our proposals to encourage more innovation as BAU?

We agree that more innovation should be funded through BAU via the totex allowance and Output Delivery Incentives.

CSQ45. Do you agree with our proposals to remove the IRM for RIIO-2?

We agree that there is no requirement for a separate Incentive Rollout Mechanism, and that rollout of successful innovation will be rewarded directly from the totex incentive mechanism

CSQ46. Do you agree with our proposals to introduce a new network innovation funding pot, in place of the Network Innovation Competition, that will have a sharper focus on strategic energy system transition challenges?

We agree with the proposal to focus innovation funding on strategic challenges that would not otherwise be funded as BAU.

CSQ47. Do you have any views on our proposals for raising innovation funds?

It is not obvious that separate funds need to be raised from BSUoS charges. The funds eventually come from Consumers, whether through TNUoS or BSUoS.

The ESO should be free to compete for funding alongside other network companies. As discussed above, Innovation in Incentivised areas of work should be funded by the network company taking the risk to invest against anticipated reward through the Incentive. Innovation funding should be for higher risk projects, or for projects in areas that are not incentivised, or where the cost of the project exceeds the value of the incentive.

Given that the objective of the Innovation proposals is to apply a levy to users of the wider system in order to fund innovation that will deliver improvements to all users, it should be open to any not for profit organisation to apply for innovation funding.

CSQ48. Do you think there is a continued need for the NIA within RIIO-2? In consultation responses, we would welcome information about what projects NIA may be used to fund, why these could not be funded through totex allowances and what the benefits of these projects would be.

The majority of small scale projects that have previously been funded through NIA should be funded from Incentives. As noted above, Incentives are in place to enable Licensees to make investments that are not funded but which are expected to deliver savings to consumers. With NIA funding there is a risk that Licensees use NIA to obtain funds from consumers to pay for innovation that then delivers rewards under an incentive scheme that also takes a second set of funds from consumers to pay the incentive. An example of this would be the recent Demand Forecasting Incentive on National Grid, where there were several NIA projects in flight or initiated during the Incentive period that improved demand forecasts, which delivered a more positive outcome for National Grid under the Incentive.

While we believe that the existing NIA scheme is not needed to fund Licensees, we do believe that there is scope for a similar scheme to provide a route for other not for profit organisations to obtain funding for smaller projects aimed to deliver benefits to the end consumer.

CSQ49. If we were to retain the NIA, what measures could be introduced to better track the benefits delivered?

While we suggest that NIA in its current form is no longer needed as a funding mechanism for Licensees, if it were retained then there is a case for improved coordination of project proposals to ensure that there is no duplication of work with different Licensees running similar projects. Similarly, at the end of the project there should be a final report that provides objective evidence of any benefits delivered. This report should be subject to review and challenge, either by peer organisations or by a central coordinating body.

It should also be recognised that NIA funding is intended for projects that are too risky to fund by other means, and so a conclusion that the research undertaken did not provide any quantifiable benefits should be regarded as an acceptable result of the project.

CSQ50. Do you agree with our proposals for electricity distribution companies prior to the commencement of RIIO-ED2?

We agree with the proposals.

Competition questions

CSQ52. Do you agree with the proposed criteria we have set out for assessing the suitability of late competition models? Would you suggest any other criteria, and if so, why?

The criteria of 'new' is open to debate. While it is clearly appropriate in many cases, the benefits of competition could be extended to many existing functions performed by Licensees. For example, several of the roles performed by the ESO are not core System Operator functions and could easily be opened up to competition. These range from preparation of documents underpinning industry development such as the Future Energy Scenarios, to financial operations such as settlement of Balancing Services Use of System charges to Code Administration functions. Many of these could indeed benefit from a fresh perspective from outside the existing Licensees, and could also avoid the risk of perceived bias.

CSQ54. Are there any considerations for a specific sector we should include in our IA?

As noted in our response to CSQ52, there are several current, non-core SO, functions currently performed by the ESO that could be opened up to competition.

In particular, we note the Energy Code Review launched by Ofgem. ELEXON supports the need for change, especially to streamline and consolidate the codes, and has recently proposed a [three-code, dual fuel model](#) that would dramatically improve the efficiency of industry governance.

CSQ59. Do you have any views on the potential criteria for identifying projects for early competition discussed above? Would you suggest any other criteria, and if so, why?

The potential criteria seem appropriate. With regard to determining whether early competition models are appropriate, there is a case for starting with a presumption that Contestability of solutions is possible. There may be innovative solutions that would make a the solution to a project Contestable that the people determining whether to apply early or late competition models to project are not aware of.

CSQ60. Do you agree with the criteria we have set out for assessing who should run competitions? Based on these criteria, which institution do you consider is best placed to run early and late competitions?

There is a clear risk of perceived bias in any competition that is not run by an independent party. For example, National Grid Group will clearly benefit more from solutions that lead to the growth of a high voltage Transmission System rather than the development of distributed generation and local energy solutions, and so the ESO faces the risk of perceived bias in any competition it runs, even if it awards a specific transmission reinforcement project to a competitor to NGET.

As Ofgem are free from any perception of bias, and have equal access to skilled resource in the job market as any other institution, they would seem best placed to run both early and late competitions. We note that Ofgem has in the past outsourced specific projects to other organisations, and that they could choose to do so for specific competitions, or groups of competitions, if they deemed it appropriate.

Ofgem also have the advantage of seeing the bigger picture, and so may be more open to considering more radical innovative solutions than an assessment run in house by ESO or Network Companies.

ELEXON'S RESPONSE TO CONSULTATION ON RIIO-2 SECTOR SPECIFIC METHODOLOGY

CSQ64. Do you think the ESO could have a role to play in facilitating competition in the gas sectors?

For the reasons articulated in our response to CSQ60, Ofgem would seem better placed to facilitate competition in the gas sectors than the ESO. As well as the risk of perceived bias, the ESO would have to recruit expertise in Gas systems that it does not currently have.

Clearly the ESO does have a big impact on the gas sector. Decisions made by the ESO in terms of procurement of balancing and ancillary services have an impact on the profitability of CCGT power station, and so on the demand for gas for these stations, and hence on gas price. ESO publications such as the FES also influence the industry in investment decisions about the type of future generation constructed.

ELECTRICITY SYSTEM OPERATOR QUESTIONS

ESO roles and principles questions

ESOQ1. Do you agree with our proposal to maintain the current roles and principles framework for RIIO-2?

We agree with the proposals

ESOQ2. Do you agree with our proposals to keep the ESO's code administration, EMR delivery body, data administration, and revenue collection functions in place for RIIO-2? Do you believe that any of these functions (or any other functions) should be opened up to competition, either now or in future?

We understand the reasoning behind the proposals. However, in [our response](#) dated 16 March 2018 to Ofgem's consultation [on the draft ESORI arrangements Guidance Document](#) we asked whether consumer value is best achieved by paying the ESO to come up to the ELEXON 'best in class'¹ standard of code administration. We asked, and continue to ask, whether perhaps a better way to achieve the ELEXON standard from a value to consumer perspective might be simply to merge the ESO code administration function into ELEXON so that the ELEXON culture of excellence in code administration is assimilated more quickly and cheaply by the ESO code administration functions.

While prioritisation of Modifications to the codes sits with the respective code Panels, we do note that allocation of resource between the codes is decided by the ESO, and so there is a risk of perceived bias in allocation of resource to modifications.

¹ As evidenced by the results of both the first two Ofgem code administrator [2017](#) and [2018](#) surveys, published in April 2017 and October 2018 respectively.

ELEXON'S RESPONSE TO CONSULTATION ON RIIO-2 SECTOR SPECIFIC METHODOLOGY

We would also note that as the CUSC is the contractual framework between parties connecting to the National Electricity Transmission System and the ESO, it could be argued that management of the modification process of this contractual framework should be independent of the organisation with whom the contract is made.

We welcome the Energy Code Review launched by Ofgem. ELEXON supports the need for change, especially to streamline and consolidate the codes.

Building on the work Ofgem is doing on the Retail Energy Code (REC) we believe that there is an opportunity to move to a three-code, dual fuel model:

The Smart Energy Code (SEC) would be brought into the retail energy code, and the Data Communications Company (DCC) would also need to comply with the REC.

The Balancing Settlement Code (BSC) and Uniform Network Code (UNC) would be brought together and the gas market would then benefit from robust assurance arrangements and a more fully resourced code manager. Such an arrangement could address the significant error in the gas market, known as unidentified gas.

There would be a 'network use of system' code bringing together the Connection and Use of System Code (CUSC), the Distribution Connection and Use Of System Code (DCUSA), the Distribution Code (DC) and the System Operator Transmission Owner Code (STC). Bringing these codes together could help facilitate the delivery of the Distribution System Operator.

The three codes could be managed individually, or jointly by one body (including management and delivery).

As part of the solution there could also be a single digital market entry platform – a front end portal to aid market entry and offer help and support for new and existing entrants.

Although there are different funding options, currently we believe that these should be looked at to get the most efficient benefits for customers, companies and for Ofgem.

ESOQ3. Do you consider the ESO is best-placed to run early and late competitions?

As noted in our response to CSQ60, there is a clear risk of perceived bias in any competition that is not run by an independent party. For example, National Grid Group will clearly benefit more from solutions that lead to the growth of a high voltage Transmission System rather than the development of distributed generation and local energy solutions, and so the ESO faces the risk of perceived bias in any competition it runs, even if it awards a specific transmission reinforcement project to a competitor to NGET.

As Ofgem are free from any perception of bias, and have equal access to skilled resource in the job market as any other institution, they would seem best placed to run both early and late competitions. We note that Ofgem has in the past outsourced specific projects to other organisations, and that they could choose to do so for specific competitions, or groups of competitions, if they deemed it appropriate.

Price control process questions

ESOQ4. Do you agree with our proposal to move to a two-year Business Planning cycled price control process for the ESO? If not, please outline your preferred alternative, noting any key features (e.g. uncertainty mechanisms or re-openers) that should be included.

It would seem appropriate to work to a two-year cycle. The pace of change in the electricity industry at the moment is such that it is difficult to accurately forecast trends at eight years ahead. It is therefore more efficient, when controlling an organisation with negligible assets other than IT systems, to work to a shorter cycle.

ESOQ5. What stakeholder engagement mechanisms should be put in place for the ESO's Business Planning and ongoing scrutiny of its performance? Do you agree with our proposal to maintain, and build upon, the role of the Performance Panel?

The current proposals include a good range of stakeholder engagement mechanisms.

ESO output and incentives questions

ESOQ6. Do you agree with our proposed approach of using evaluative, ex-ante incentives arrangements for the ESO?

We agree with the overall approach. We believe that where collaboration is in the best interest of the consumer, the ESO incentives should be aligned with that and based on collaboration rather than competition.

So, although we do not necessarily agree that financially incentivising ESO to improve its code management is the best route to achieving those improvements, we do welcome the new metric in [ESO's draft Forward Plan for 2019-21](#). As this metric now appears to reward absolute improvements in ESO's code management, we think this is an improvement on the 2018-19 metric. The 2018/19 metric based on relative improvements compared with other code managers. We believe that this effectively puts the ESO in competition with other code managers even when the industry and consumer interest was better served by partnership and collaboration.

ESOQ7. Do you agree that we should continue to apply a single 'pot' of incentives to the ESO, and that this should be a symmetrical positive/negative amount? If not, why not?

The symmetry or asymmetry of the scheme should reflect the symmetry or asymmetry of the risks and investments the ESO has to take to deliver the required performance. The size of the pot should be proportionate to the overall costs of the ESO, so that the overall profit or loss made by the ESO is in line with what a similar sized unregulated company in a competitive market company might be expected to achieve.

ELEXON'S RESPONSE TO CONSULTATION ON RIIO-2 SECTOR SPECIFIC METHODOLOGY

ESO cost assessment questions

ESOQ8. Do you agree with our proposed approach to assessing the costs of the ESO under RIIO-2? Do you think we should assess costs on an activity-by-activity basis? How would you go about defining the activity categories? Are there alternative approaches we should consider?

An activity-by-activity basis to assess costs would seem to be the best of the options offered.

In terms of defining the activity categories, National Grid has been undergoing a Lean project ([Performance Excellence](#)), in collaboration with Unipart, for several years, and so will have process maps and a clear understanding every activity they do, and the resource each activity requires, together with mappings of how these activities relate to National Grids key objectives. This data could be used to fully understand the activity categories undertaken by the ESO, and the resource currently required to do so, as well as a view of what opportunities are available to improve the efficiency of these activities.

With regard to alternative approaches, we note that the ELEXON funding model works well in enabling us to be consistently recognised as the leading code body. A variant of this model for the ESO could see the ESO presenting a budget to their Customers (parties paying BSUoS) who then vote on the budget, with voting rights in proportion to their charges. For NGEESO this budget would also need to include a base line profit that their Customers consider appropriate. Ofgem would then be able to vary the budget at their discretion, but from a basis of informed consent from the Customer base. Incentives and Regulatory obligations would continue as in the existing models. Under the ELEXON model, as a not-for-profit organisation, the savings we deliver against the budget are returned to our funding Parties each year.

ESOQ9. Do you consider the types of cost assessment activities we outline in this chapter are the right ones? Are there additional activities you think we should consider?

We note that National Grid has in the past collaborated in international benchmarking activities (e.g. the [International Benchmarking of Electricity Transmission System Operators e³ Grid Project](#)). There may be equivalent ongoing projects that the ESO could participate in to provide a view of their relative costs compared to other System Operators. If there were no such current projects, then the learning from the historic projects would provide a useful methodology for cost assessment.

ESO finance questions

ESOQ10. Do you agree with our proposed remuneration model for the ESO under RIIO-2? Do you think it provides the right incentives for the ESO to deliver value for money for consumers and the energy system? Are there other models you think are better suited?

As noted above we believe the ELEXON funding model works well. This would most closely align with the cost pass through model, as we do not need to add a profit margin, but with the addition of the annual budget approved by the industry at the start of each year.

ESOQ11. Are there any risks associated with our proposed remuneration model that you do not think have been effectively captured and addressed? Do you think that we should put in place any of the mechanisms intended to provide additional security to the ESO outlined in this chapter – e.g. parent company guarantee, insurance premium, industry escrow or capital facility?

The cost recovery mechanism needs to be defined in more detail. Would the costs to industry just be charged as a percentage of BSUoS charges, or would there be a base cost to all parties, possibly based on capacity, together with a percentage of BSUoS? Would the charges be a flat rate for the year, or varied as the ESO spends money? At present there is the potential for a risk to BM Participants in increased uncertainty in BSUoS charges.

It is not obvious what the risks to the ESO are. In our view, ESO is now directly comparable with ELEXON in terms of risk profile, e.g. an asset light monopoly function. It is a relatively small part of a large parent company, a regulated monopoly with regulated regular income that cannot be allowed to fail. The only risk is a reduction in profit should it fail to meet the standards set by Ofgem.

The parent company should not be paid to provide a guarantee – the parent company is happy to take the profits the ESO takes from the industry, and so should be prepared to take the risk to earn the profits.

Similarly, the industry should not be required to pay for an insurance premium or capital facility as this would just drive up charges. It is also unclear how an upfront cost would be charged given that BSUoS is ex-post and based on usage of the system. Industry escrow would also add to costs, and may be a barrier to entry for smaller parties.

ESOQ12. Do you agree with our proposal relating to remove the cost sharing factor? Can you foresee any unintended consequences in doing so, and how could these be mitigated?

We agree that the cost sharing factor should be removed.

ESOQ13. Do you agree with our proposal to introduce a cost disallowance mechanism for demonstrably inefficient costs? What criteria should we apply in considering what constitutes 'demonstrably inefficient'?

We agree with the proposal to introduce a cost disallowance mechanism. One possible mechanism would be an industry panel, either the Performance Panel or a separate panel elected by the industry, that any party could raise a concern with about an inefficient cost, and with the power to recommend disallowance of the cost to Ofgem.

ESO innovation questions

ESOQ14. Do you agree with our proposals to retain an innovation stimulus for the ESO, but tailor aspects of this innovation stimulus to take account of the nature of the ESO business?

There is significant scope for innovation in the ESO business, and so it makes sense to retain an innovation stimulus. There is a balance to be struck between internal and external spend. Indeed, with the ESO passing its costs through to industry anyway, there is an argument that the whole of the innovation stimulus should be spent outside the ESO.

There would be advantages in industry wide oversight of the innovation spend to ensure that the direction of the innovation is in alignment with the desires of the wider industry.

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ESOQ15. What ESO-specific issues should we consider in the design of the ESO innovation stimulus package

We agree with the concern of the risk of double reward between innovation stimulus and ESO incentives framework, and would note the Demand Forecasting Incentive and the Demand Forecasting related NIA projects as an historic example of this risk.

ELECTRICITY TRANSMISSION QUESTIONS

Energy not supplied questions

ETQ25. We welcome views on approaches to estimating embedded generation at GSP points.

With regard to the proposed 50 MW threshold for estimating embedded generation in the calculation of Energy Not Supplied (ENS), there is an issue that due to the definition of Large power station within the Grid Code, there can only be 50 -100 MW embedded generators in the NGET region, and so the proposal could be argued to unfairly penalise National Grid.

We note that NGESO has funded projects through the Network Innovation Allowance to develop forecasts for both [renewable](#) and [non-renewable](#) embedded generators at GSP level, and will be using these forecasts in its system analysis and its National Demand forecasts. As NGESO is independent of all the Transmission companies, their forecasts for embedded generation could be used to provide an estimate of embedded generation in the calculation of ENS.

ETQ26. What measures need to be in place to facilitate the collection of data on embedded generations and other real time information? How do you propose to approximate embedded generation data?

We note that the deployment of Smart Meters and the development of Market-wide Half Hourly Settlement (MHHS) will allow far more accurate calculation of ENS. ELEXON is currently leading the work for Ofgem (as part of the electricity settlement reform) on the design of the end-to-end settlement process, known as the Target Operating Model (TOM), for MHHS. Under the preferred TOM there is the potential for central settlement to hold both import and export data, which would allow detailed analysis of demand and generation both pre and post the loss of supply, and so enable a more accurate calculation of embedded generation and ENS. Clearly this information is not in real time.

We also note that NGESO is already in receipt of [GSP level embedded generation data](#), and so would be well placed to provide embedded generation data.