



Making a positive difference
for energy consumers

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Dear Stakeholders,

Mid-year call for evidence on ESO performance

Background

Last year we introduced a new regulatory and incentives framework for the Electricity System Operator (ESO) in order to encourage the ESO to proactively identify how it can maximise consumer benefits across the full range of its activities.¹ These arrangements include a defined set of role areas for the ESO²; a requirement to develop forward plans (in conjunction with industry consultation); the publication of regular performance reports; a Performance Panel; and a move towards a broader, evaluative performance assessment (with associated financial incentives).

A central part of the new scheme is the independent panel of experts who challenge and assess the ESO's performance. The panel meets to consider ESO performance at points throughout the regulatory period. At the mid-year review (MYR) stage the panel will assess the ESO's performance over the first six months of the year; identifying areas where the ESO is performing in line with baseline expectations, where it is exceeding baseline expectations and where it is not meeting baseline expectations. This will give the ESO early feedback on its performance and the opportunity to act on this and make any necessary improvements during the remaining six months of the year. At the end of year review (EYR) the panel will assess the ESO's performance across the whole regulatory year and will consider all evidence to score the ESO's performance for each role area (further details can be found in the annexes to this letter).³

Stakeholder views

Stakeholder insights are a key input into the new arrangements and form one of the criteria the panel will use to assess the ESO's performance. We want to utilise the knowledge and experience of a wide array of industry parties and independent experts in order to gain a comprehensive picture of the ESO's performance. This is vital for overcoming the information asymmetries between the ESO and other parties, including Ofgem.

¹ Our decision on the new ESO reporting and incentives arrangements from April 2018: <https://www.ofgem.gov.uk/publications-and-updates/decision-modify-nget-s-licence-introduce-new-eso-reporting-and-incentives-arrangements-april-2018>

² ESO roles and principles for 2019-20: https://www.ofgem.gov.uk/system/files/docs/2019/03/eso_roles_and_principles_guidance_2019-20.pdf

³ Further detail on the MYR and EYR review process can be found in the ESORI guidance document: https://www.ofgem.gov.uk/system/files/docs/2019/03/esori_guidance_document_2019-20.pdf

We are publishing this call for evidence to request stakeholders' feedback on the ESO's performance across all of its role areas⁴ from April 2019 to date.

We'd like feedback on all areas of ESO performance. This may include activities where you believe the ESO has met or exceeded baseline expectations and/or the activities where you may have concerns that baseline expectations are not being met. This feedback can be formal/quantitative evidence or less formal/qualitative opinions. We have highlighted our key areas of interest, (based on the ESO's proposals in its forward plan⁵ and its ongoing monthly performance reports⁶) in Annex 2. Please note, this call for evidence is separate from our ongoing investigation into the power cuts of 9 August 2019 announced on 20 August 2019.⁷ Neither Ofgem nor the panel will be providing a judgement on the ESO's performance in respect to the events of 9 August 2019 until the ongoing investigation concludes.

We would appreciate your feedback and evidence by **18 October**. All feedback will be shared with the panel and the ESO as part of the MYR process. Please clearly indicate in your submission if you would prefer for your feedback to be shared in an anonymised and/or summarised form. In addition, please contact us at ESOperformance@ofgem.gov.uk if you would prefer to discuss your feedback and evidence with the Ofgem team rather than submit documentation.

Next steps - Update on the MYR event

The ESO's mid-year review event will be held on the 13 November in central London. The event will be an opportunity for the ESO to share its own evidence and views on its performance during the first half of the year. Stakeholders will have the opportunity to raise questions and provide direct feedback to the ESO with the ESO Performance Panel in attendance.

We welcome all stakeholders to join us for the MYR event. If you wish to do so, please register your attendance for the event, no later than 5 November, using the following link: <https://www.eventbrite.co.uk/e/eso-mid-year-review-tickets-71334566609>.

After the MYR event, the panel will convene to make its mid-year assessment of the ESO's performance and a report will be published detailing the panel's assessment.

If you have any questions on the contents of this letter, please contact us at the email address listed above.

Yours sincerely,

Grendon Thompson
Head of Electricity SO Regulation

⁴ The ESO's Roles and Principles:

https://www.ofgem.gov.uk/system/files/docs/2018/02/eso_roles_and_principles.pdf

⁵ The ESO's forward plan documents can be found here: <https://www.nationalgrideso.com/about-us/business-plans>

⁶ The ESO's incentive performance and monthly reporting can be found here:

<https://www.nationalgrid.com/uk/electricity/system-operator-incentives/eso-incentive-performance-and-reporting>

⁷ Further details of the investigation can be found here: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-launches-investigation-power-cuts>

Annex 1 – Role area

For the 2019-20 incentive year, we decided to evaluate the ESO’s performance for each ‘Role area’.⁸ ‘Role area’ refers to the three groups of principles, each of which will be evaluated separately. The three role areas are:

- Role 1, which considers principles 1 and 2
- Role 2, which considers principles 3 and 4
- Role 3 & 4, which considers principles 5, 6 and 7

Role Area	Role 1		Role 2		Role 3 and 4		
Role Area incentive range	±£10m		±£10m		±£10m		
Principle	1	2	3	4	5	6	7

Annex 2 – Areas of interest for call for evidence

Role Area	Principle	Areas of interest
1	Principle 1: Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.	General satisfaction with the ESO’s information dissemination and accuracy, transparency of data, the ESO’s data and information systems and the ESO’s engagement to date. This includes the BSUoS monthly report, Future Energy Scenarios, Market Outlooks, Electricity Capacity report, webinars and events relating to Ancillary and Balancing services tenders, reporting of trades to the market, publication of forecasts of the carbon intensity of the electricity system, Ops Forum events and daily and monthly summaries of balancing costs. Uninterrupted, safe, secure system operation; Transparency of data used by our ENCC in our close-to-real-time decision making;
	Principle 2: Drive overall efficiency and transparency in balancing, taking into account impacts of ESO actions across time horizons.	Forecasting (demand, wind and solar), the ESO’s Innovation Strategy, the Trades data platform, C16 Procurement Guidelines, SO IT forum and the Operability Report. General satisfaction with the ESO’s balancing approach, IT systems maintenance and improvements and satisfaction with the level of the ESO’s transparency. Upgrade of information systems, Interconnector programmes
2	Principle 3: Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	The ESO’s future of balancing services workstream including progress of System Needs and Product Strategy (SNaPs) and product roadmaps, regional development programmes (RDPs), new providers on-boarding experience, TERRE developments, non-BM access and the Power Responsive Campaign. Intermittent Generation, Provider experience,

⁸ Our decision to modify the incentives framework for 2019-20: <https://www.ofgem.gov.uk/publications-and-updates/decision-electricity-system-operator-regulatory-and-incentives-framework-2019-20>

		Transform industry frameworks to enable decentralised, decarbonised and digitised energy markets;
	Principle 4: Promote competition in the wholesale and capacity markets.	TNUoS and BSUoS customer seminar, BSUoS and TNUoS billing and reconciliation, code administration satisfaction, Charging Futures, customer experience of charging processes and publication of charging data, participation in the Capacity Market and the ESO's work to transform industry frameworks to enable decentralised, decarbonised and digitised energy markets. Enable broader participation in the Capacity Market, Transform the customer experience for network charging.
3 and 4	Principle 5: Coordinate across system boundaries to deliver efficient network planning and development	Interactions with DNOs and TOs, network development roadmap consultation, NOA Pathfinding Projects, developing new ways of working with DNOs, Regional Development Programmes (RDPs).
	Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources	ESO's engagement on ENA Open Networks including Future DSO arrangements, Power Potential, Enhanced Frequency Control Capability (EFCC), TOGA system.
	Principle 7: Facilitate timely, efficient and competitive network investments	Network Options Assessment (NOA) process and engagement, Electricity Ten Year Statement.