OFGEM

OPEN MEETING SERIES

Network Price Control

National Grid Electricity System Operator

Record of Virtual Meeting

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ATTENDEES

Martin Cave	Chair, Ofgem
Jonathan Brearley	Chief Executive, Ofgem
Akshay Kaul	Regulatory Director – Networks, Ofgem
Eleanor Warburton	Deputy Director – ESO and Gas Systems, Ofgem
John Crackett	Non-Executive Director – GEMA, Ofgem
Simon Wilde	Senior Financial Adviser Director, ESO, Ofgem
Fintan Slye	Director ESO, NG ESO
Roisin Quinn	Chief Engineer and Head of National Control, NG ESO
Kayte O'Neill	Head of Markets, NG ESO
Richard Allman	Head of Regulatory Finance, NG ESO
Angelita Bradney	Head of RIIO-2, NG ESO
Charlotte Morgan	Chair of ESO UG, ESO UG
Andy Manning	Member of ESO UG, ESO UG
Roger Witcomb	Chair of the Challenge Group
Robert Hull	Member of the Challenge Group

THE CHAIR: Good afternoon. I'm Martin Cave, the Chair of Ofgem and also the Chair of this hearing. Thank you for joining us today at the Network Price Control Open Meeting for the National Grid Companies Electricity Systems Operator, which was delayed from the Spring by the impact of COVID-19.

This and similar meetings are the first of their kind for Ofgem and, despite us not being able to be in the same room, we very much encourage you to get involved as it is important that we all hear a variety of voices today.

I'm confident that this meeting will allow us to have an open and constructive conversation about the consultation responses and key outstanding areas of difference ahead of our final determination, which will be published later this year.

NGC ESO have told us the topic areas they would like to discuss today. These are a shared ambition, delivering net zero and unlocking value for consumers. The company is first given an opportunity to deliver a 20-minute presentation.

We also welcome today members of the company's Stakeholder Group and of Ofgem's own Challenge Group. These groups are formed of independent experts convened to review the business plans in detail. They will have an opportunity to feed in their views, and then opening the floor to questions.

It's very encouraging to see the diversity of voices registered for today's event. Please ask your questions on the chosen topics by using the Q&A function on the side bar. I'm afraid there may not be time to answer every question but we will consider them all when drafting our final determinations. Questions will also be asked of the company by members of our senior Ofgem team. We will be making a transcript and recording of these events which you will be able to watch again and will be available on our website once all the meetings have been concluded.

We start with the knowledge that energy networks in general have delivered a good service, but at a high cost to consumers. This is well documented through our own and independent evidence. We also know that investment in the energy system is going to have to rise as we meet the net zero challenge at lowest cost to consumers while protecting the most vulnerable. Our overall proposals unlock unprecedented funding for projects that cut carbon emissions to create a green, fair and secure energy system for consumers now and in the future. This will enable our sector to play a key role in the green recovery.

I would now like to hand over to Akshay Kaul, our Director of Networks, who will give a brief update and set the scene in terms of where we had reached in the RIIO-2 process with NGC ESO. Thank you.

AKSHAY KAUL: Thank you very much, Martin. Good afternoon, everybody. I hope you can see me and hear me clearly. As Martin said, this is a bit of an innovation in all sorts of ways for Ofgem. It's a shame that we cannot be together in person, but let's try and make the best that we can of the technology available to us.

What I'm going to try and do in my opening remarks is just set the scene in terms of the progress that has been made in the dialogue between the ESO and Ofgem and indeed other stakeholders since the draft determinations were published, and give you an account of our initial reading of the consultation responses that we received at the front end of September.

I am going to start by just thanking Fintan and his colleagues, the ESO Stakeholder Group – or the ESRG as you will see it called in this meeting – and other stakeholders for your engagement with the process to date, and particularly your response to the consultation on draft determinations which have provided us with very useful feedback and information that we are currently reflecting upon.

We are of course still very much in the process of firming up our views, but I'd just like to reflect now on the key themes that have been highlighted in these consultation responses.

I'm going to start by talking about the role of the ESO, which is central to this debate. I'm going to then touch on how we secure value for money from the ESO for the roles that it is meant to play, and then perhaps at the end I will touch very briefly on the important subject of remuneration for the ESO and how we set it up so that it is capable of delivering the ambitions that we together have for it.

The ESO's evidence for this session indeed starts, as Martin said, with a shared ambition and their role in net zero. The ESO fulfils what I think everyone will recognise as a unique function and it is absolutely right to start with that function. We have set out a bespoke price control that is tailored to this central role that the ESO will play in the system, driving it towards net zero.

We generally support the ESO's ambitions to operate the electricity system carbon free, and to have, as they state, competition everywhere by 2025. We see these as challenging outcomes, but your feedback as stakeholders generally has supported this.

Our draft determinations, we set out our detailed views on the ESO's business plan. Clear shared expectations, which I know all of you endorse and buy into, must provide the basis for the price control. It also provides the benchmark for the ESO's incentive scheme.

There are two areas of our draft determination feedback that it may be worth briefly highlighting. Firstly, it was pointed out to us that the ESO's business plan deliverables could be clearer in some areas, both on outcomes as well as on timing. Secondly, and in particular the ESO's business plan and their role in shaping the future network could be much more concrete on both ambitions as well as deliverables. We have had a number of bilaterals since draft determinations with the ESO to explore their plans in these areas, including how they see their role in shaping the future of the electricity system, both transmission as well as distribution, pro-actively taking account of major offshore and distributed impacts and balancing both network and non-network solutions to different system problems.

The ESO has provided further information, developing the milestones and the success criteria across the entirety of their business plan, and as part of this they have responded also to our questions on their role in shaping the future transmission and distribution electricity system. We are considering this further information very carefully as we reassess the incentives benchmark for final determinations.

The ESO Stakeholder Group and the Challenge Group – from which you will hear in due course – have also raised concerns over whether the ESO's current model would set them up for successful IT delivery, which is a very big enabling component of their business plan. Following our draft determinations, we are grateful to the ESO for substantial further information on this and we will assess this and wider stakeholder feedback on this very topic very carefully.

Let me turn next to value for the consumer. As I say, the ESO has a unique control, and I am pleased that the ESO agrees that our RIIO-2 framework has the right components for the ESO to be an innovative, proactive and agile organisation.

Our framework must therefore ensure that it takes strong ESO delivery performance to achieve strong financial performance. We have had detailed discussions with the ESO in areas of potential disagreement between us, and I believe that we have been making considerable progress.

On cost assessment, which is essentially the expenditure budget for the ESO, we have had a number of bilaterals to understand better the ESO's costs and plans for investing in IT developments. We have received additional information from the ESO that will help us understand the level of confidence associated with the delivery and costs of the different projects and the plan, and we are giving active consideration to how far to move the cost benchmark to reflect this new evidence.

We have also listened very carefully to some of the ESO's concerns that because the ESO does not have a sharing factor, we should be applying a lower level of challenge to uncertain IT costs for innovative and unique projects. Good progress has been made in this area and we are again giving very active consideration to whether we should adjust our approach to totex on this front so that the ESO has adequate budgetary flexibility to be proactive and innovative in delivering its roles.

On the question of incentives, we have said that incentive rewards are available for the ESO. They are substantially larger than those of any other RIIO-2 network company in this round of controls. The ESO put forward a number of suggestions to improve the operation of the incentive scheme, including improvements to the assessment score card and for an independent Chair to be appointed for the expert panel that will evaluate the ESO's performance. We're giving active consideration to these and other suggestions, but none of these proposals fundamentally change the value or the operation of the proposed incentives.

Finally on the subject of financial returns and remuneration, we have had significant engagement with the ESO to discuss the financial parameters of their package and to understand better the response that they make to the consultation on this area. We have discussed with them both the allowed returns as well as the financial parameters, for example, we have welcomed further new evidence from the ESO to show how or where our draft determination position may be improved. Some areas remain light on evidence, and we note the feedback from the Challenge Group and from Citizens Advice that the ESO's risk levels are already quite low and that their returns, in their perception, potentially quite high.

We are also reflecting on the recent CMA provisional determination with regard to the PR19 price controls for the water sector. While the CMA's determination for PR19 is provisional, we still consider it an important contribution to the debate on cost of capital for the energy sector.

In summary, ongoing engagement is key to ensuring that we have the ability to fully understand your responses and to continue to develop a robust price control which provides efficient funding for you, the ESO, to continue to operate the system in the way that provides the greatest value for consumers in the transition to net zero. We believe that we are making very good progress in developing our position for final determinations, and we very much look forward to hearing your reflections.

I'm going to hand back to the Chair now. Thank you.

THE CHAIR: Thank you, Akshay. I'm now going to hand over to the company for a 20-minute presentation.

KAYTE O'NEILL: Fintan is going to open for us. It looks like he has just dropped off with some technical difficulties, so we'll just give him a few seconds to see if we get Fintan back, otherwise Ro and I will make a start.

FINTAN SLYE: Hello. Apologies. The technology is getting the better of me.

Good afternoon. My name is Fintan Slye. I am the Executive Director of the Electricity System Operator. Akshay and Martin, thank you very much for the introduction and thank you everyone for taking the time to join us today to talk about our RIIO-2 business plans, plans that we are incredibly proud of and very much looking forward to the discussion today.

I'm joined by my colleagues Ro Quinn, who is the Head of National Control and our chief engineer, and Kayte O'Neill, who is our Head of Markets. Also available later to answer your questions will be Richard Allman, our Head of Regulatory Finance, and Angelita Bradley, who is our Head of RIIO-2.

As a country, we've made a monumental commitment to achieve net zero emissions by 2050. That's the right thing to do. It's also the smart thing to do. It promises a greener, more sustainable society, with more jobs, more growth, more investment, which will put the UK at the forefront of low carbon technology. That's the

future I believe we all want. The key issue is how we get there. A lot has been done, but there's so much more to do and we need to make sure that it's done in a way ---

THE CHAIR: Hi, it is Martin Cave, the Chair, back again.

FINTAN SLYE: Hi Martin.

THE CHAIR: We seem to be having some difficulties but I'm sure they may be resolved. I personally hope they may be resolved shortly, so I beg your patience.

FINTAN SLYE: Okay. Could people hear me? No?

KAYTE O'NEILL: I can hear you, Fintan. It's Kayte, but I think there are others who can't.

THE CHAIR: We can hear you, Fintan.

FINTAN SLYE: Okay, should I go ahead then?

THE CHAIR: Yes, carry on.

FINTAN SLYE: Super. I think, as I was saying, net zero, that is the future we all want. The key issue is how we get there. While there's an awful lot done, there's so much more that we need to do, and we need to make sure that it's done in a way that is fair to all and keeps bills affordable.

At ESO we're absolutely committed to achieving net zero. It is the cornerstone of our RIIO-2 business plan, a plan developed in consultation with over 900 of our customers, stakeholder and consumer representatives, with their priorities woven throughout the plan.

But it's not just a plan for net zero. It's not just a plan for reliable system operators. It's also a plan which looks to deliver fairly and affordably, promoting competition everywhere and actively seeking out value for consumers. For our internal costs, all of our proposals have been subjected to robust cost benefit analysis, and in terms of consumer bills, the ESO will cost each household approximately £1.80 on their annual bill, but will deliver benefits over two and a half times that amount.

So, there's much to be optimistic about, but this clean future should not be taken for granted. This is a seminal moment which will determine whether we set the UK energy system on a path to net zero or whether we fail the challenge and merely play around the edges. That's what we want to talk to you about today, about how the ESO can be that critical enabler of our low carbon future, how it can drive competition and value for consumers right across the value chain.

But this does require some changes to the draft determination. The changes that must be made are neither difficult nor costly, but they are symbolic of a new

approach, an approach that recognises that what got us here won't get us there, an approach that understands that to be world leaders in addressing climate change requires innovation, flexibility and agility, an approach that enables change and prioritises consumer value, an approach that was established by the CMA as appropriate to a system operator.

We have made good progress with the Ofgem team as Akshay outlined on some of the key areas highlighted in our response to the draft determination. However, there is one area where there is a significant gap between us, and that is around financial ---

(Technical issue – music playing over Mr Slye)

--- ensuring that it is fair and appropriately protects the inherent nature of the ESO business. If we don't get this right, then the ESO will be perpetually in survival mode, unable to innovate or to drive the transition to net zero and seek out value for consumers. We know what changes are needed and we have calculated how much they will cost and, as I said earlier, they are neither difficult nor costly.

Before we talk through this in detail, we want to talk to you about our ambition and what we are proposing to do to decarbonise the energy system, and why that is so important.

I am now going to hand you over to Ro Quinn, our Chief Engineer, to tell us a bit more about that. Ro.

ROISIN QUINN: All the energy companies are talking about net zero and the action they're taking in RIIO-2. You will hear about us at the forthcoming open meetings for the network companies, I'm sure.

But there's an important sequencing point here. All the renewable generation, all the new flexibility and storage technologies that are being developed, or the new network that has been built to connect these assets, they won't have their full impact if the ESO cannot operate the power system at zero carbon. The ESO needs to move first, to move fast so that system operability is not a blocker to low carbon development across the electricity sector. That's why being able to operate a zero carbon system by 2025 is a cornerstone of our RIIO-2 business plan.

It is not an easy task and it requires us to solve engineering and market challenges. On the engineer side, we are redesigning how we operate the power system. We're developing new processes, new products, looking at total system stability. We're buying these products from a growing pool of providers in a way that provides confidence in the market and drives competition. Many of these providers are new companies, new start-up companies, highly innovative, developing cutting edge technology.

Our RIIO-2 plan includes a highly ambitious roadmap, so we will have this range of new contracts in place to manage the stability of the entire power system, not just

frequency, by 2025. No other system operator in the world is pushing at all of this at once.

We're not just rising to the engineering challenge. There's also a market challenge we need to address, which aligns to another one of 2025 goals: competition everywhere. A range of studies have demonstrated the value of flexibility to consumers and a decarbonised energy system, and flexibility can and must be found right across the energy system, from how you charge an electric vehicle, to how a supermarket manages refrigeration, to whether you locate a battery beside a wind farm. In order to unlock this value, new markets must be created in new places. These markets must be coherent, must be operable, must be clear if consumers are to benefit. This requires innovation, visibility of actions across the system at realtime, shared data, shared process, shared market and contract design, co-ordination across network operators, governments, service providers and others.

The ESO has a critical role to play. We're at the forefront. We can't afford to fall behind. If we don't rise to these challenges, the UK will miss out on a significant portion of the billions of pounds of investment needed in the UK by 2030. Jobs and growth will suffer, particularly in those areas that stand to benefit most from renewable energy investment. The country risks missing out on the tens of thousands of new jobs in offshore wind alone, and ultimately consumers would pay more.

We need to show leadership, innovation and agility if we are to deliver our shared RIIO-2 ambition. We used to talk about an upper limit on the value of renewable generation that could connect to the power system. We're now taking that limit away. But to do that we need the right regulatory conditions to be in place, and that takes us on to the framework that Ofgem have proposed for us for RIIO-2.

I will now hand over to Kayte to say some more on that.

KAYTE O'NEILL: Thanks, Ro. The ESO's first price control provides that rare opportunity to design and put in place the right framework, setting the ESO up for success to deliver net zero. The good news is that, in principle, the regulatory framework that Ofgem has proposed does have the right building blocks for us to do this. It protects consumers by designing the potential for windfall gains driven by macroeconomic factors other than company performance, and it has the potential to encourage the right behaviours from the ESO, the innovation, agility and proactivity needed to deliver net zero.

However, the unfortunate reality is that the package as it stands will have the opposite effect to what was intended because when you put the building blocks of the ESO price control together, you will see that they fundamentally fail to recognise those key characteristics of a legally separate ESO business: asset-light, service-focused, delivering first-of-a-kind outcomes in a rapidly changing landscape.

So, where does the package go wrong? For me, really it just comes down to two clear problems. First, the ex-post evaluative incentive scheme isn't the best way to

drive strong performance, but we are working with Ofgem to develop improvements that can sharpen the scheme, being clearer on what excellent performance looks like and how this performance would be judged. Ultimately, that incentive scheme needs to be clear and credible if it is to drive the levels of ambition, the risk and ultimately the performance.

The second area that needs changing is financeability, and if there's just one thing that I would like to change as a result of this meeting, that's it. Ofgem's proposals don't deliver a financially sustainable business. Under the current package, one decision judged in hindsight to have been wrong could lead to an incentive penalty or a disallowance that wipes out the ESO. The financial package that Ofgem has proposed means that the £5m annual return for the investments that we make and the services that we provide doesn't even cover the annual incentive downside of £6m. If one item is disallowed, this could wipe out fivefold the profits for the year. If that happens – and there is precedent for Ofgem reaching such decisions – then the sustainability of the business would be in question. In fact, even if we kept going we would just be in survival mode, in no position to show the kind of ambition needed to lead and accelerate the journey to net zero, and that could have real impacts.

We're currently leading the thinking on how to develop a co-ordinated offshore grid, crucial for our shared net zero ambition. An integrated grid would require far fewer assets to be built, and as well as saving consumers money, would reduce the impact on the environment and on our coastal communities. Our initial analysis shows that the costs that consumers pay could be up to 18 per cent lower than if we do nothing. Consumer benefits could be £6b to 2050, but without a flexible framework, we won't even be able to investigate opportunities such as this, let alone push hard to drive such benefits for consumers or to innovate and invest in new technologies that have no precedent.

Similar examples exist throughout the plan, with the funding model and the incentive scheme as they are currently set out in draft determinations. There are investments that we simply cannot get going with without reassurance from Ofgem there won't be a penalty or a disallowance.

The way Ofgem's proposals will pan out is that they will require us to seek agreement as we go. We'll sort of have an Oliver Twist price control – we will be returning over and over to ask for more, and the result of that, inevitably, will be industry-wide delays. If we are unable to invest to operate a zero carbon system by 2025, then other parties will be constrained in their own development of low carbon technologies, failing to unlock the economic value and the growth that Ro talked about earlier.

That is not a model for the type of business that our stakeholders want us to be or the type of business that Ofgem wants us to be. The reality is that no business would do it for the package that is on offer. The funding model and the incentive scheme, they just must not penalise innovative proposals. They need to allow us

the financial headroom to take risks and to invest when required without the fear that an incentive penalty or a disallowance will wipe out the business.

I'll hand back to Fintan now to conclude.

FINTAN SLYE: Thanks, Kayte. I said earlier that the changes needed were neither difficult nor costly. In a nutshell, we need an overall framework appropriate to the business that promotes the right behaviours and the right outcomes. As Kayte said, it should surely not be the case that one decision, for example, on a first-of-a-kind IT system, judged with hindsight years later jeopardises the very existence of the business.

Faye, if you could put up the slide here now, we will just show the ESO financials in the first year of RIIO-2. The slide illustrates just how precarious the situation is. The bar on the left represents the ---

(Technical issue – music played over Mr Slye)

--- almost £4b in cash we handle each year on behalf of the industry for the network charges. The consumer benefits we deliver in RIIO-2 £2b over the five years or £400m a year is the bar on the right. Our internal costs are £257m. The £4.5m profit after tax is what Ofgem proposes as the return for the services we provide, all that we invest in and everything we do for industry and consumers. As an example, this year we are providing up to a £100m support to the industry as a result of COVID-19. The £4.5m doesn't even cover our incentive downside, let alone any disallowance risk, which Ofgem has proposed could be up to £25m in any single year. Such a precarious financial position will drive risk aversion and bureaucracy. We would be trying to drive down the road to net zero with the handbrake on. We would always be in survival mode, never able to get to ambition.

I said at the beginning I'd tell you how much it would cost to change this and adopt a financial framework in line with regulatory precedent, but appropriately recognises and reflects the risk the ESO holds and is faced with. Well, now I'll tell you: 10 pence. The change to the financial package to enable the business to deliver the £2b benefits we've set out will cost just 10p per year on a consumer's annual bill, 10 pence out of an overall cost of around £1.80 for the ESO on consumer bills for which they deliver over £4.70 in benefits.

However, this does require recognition that the ESO is not your standard asset-heavy utility. We're a metric based on the size of the asset base at the core of the price control. But the ESO is more like a service company, and therefore other metrics and other regulatory constructs and regulatory precedents need to be properly factored in. These include two recent CMA reviews, one of which is the review of the system operator in Northern Ireland, our closest comparator, and also the CMA's recent initial findings that Akshay referenced in PR19 to award our company price controls.

While Ofgem's draft determinations for the ESO do appear to have all of the required elements, unfortunately, it does not properly recognise the changing nature of the business and does not put them together appropriately and, as such, runs the risk of being a halfway house of neither one thing nor the other. To pick up the earlier analogy, we now need to release the handbrake and enable the ESO to accelerate that transition to net zero and deliver the literally billions in consumer value.

I want to conclude by bringing it back to what we're trying to achieve. A clean, sustainable, affordable and reliable system, one which delivers our net zero future, that is our vision as the ESO and we have a plan to get there.

The changes needed to the draft determination proposals are neither difficult nor costly, but the benefits are huge. As an innovative, agile, flexible and proactive ESO, we can create the conditions for an effective energy transformation at an efficient cost to consumers. There is a lot at stake here. This is the first price control for our new business and it is critical that we get it right. We have all of the required elements. We now need to put them together in a way that will drive the right behaviours and outcomes, to deliver a positive, sustainable future for our country and the planet.

Thank you very much. I will hand you back to Martin.

AKSHAY KAUL: Thank you, Fintan. I understand that Martin's link is coming in and dropping out, so I'm going to take over for a bit while we give him some time to log back in.

Thank you, that was very, very clear. Thanks to Fintan and colleagues for setting that out so well and so thoroughly. I would like to hand over now to the ESO Stakeholder Group and over to you, Charlotte, to give us your sense of where things stand from a stakeholder's perspective.

CHARLOTTE MORGAN: Good afternoon, everyone. Hopefully you can hear me. I'm Charlotte Morgan and I'm the Chair of the ERSG which is the Stakeholder Group who have been looking at the ESO's business plans and commenting on those through the RIIO-2 process.

We very much recognise and welcome Ofgem's support for the ESO's ambitions, which we believe to be a very progressive proposition for creating value for end consumers, and in particular also to allowing the country to deliver its net zero targets.

Our perception is that the proposals in the draft determinations have been underpinned by a genuine desire by Ofwat*(sic)* to support the ESO to meet those ambitions and we recognise and welcome the shared ambition.

However, we do have some residual concerns that the draft determinations may not yet fully equip the ESO with the right regulatory incentives and tools to enable them to meet that ambition. What we're really hopeful is that these open meetings and

the continuing dialogue between the ESO and Ofgem will enable the parties to come slightly closer together in how that ambition would be delivered.

We do believe that the ESO is in a unique position and, similarly to what Akshay was saying earlier, it is a unique position in the industry from which we can drive real change for the benefit of consumers and stakeholders.

There is an ambitious aim in the plan for delivering over £2b worth of net benefit for consumers over the RIIO period as has been described more widely. We would support, as the ERSG, a much clearer linkage between the delivery of this benefit and the ESO incentive reward framework. We feel that this could allay some of the concerns that Fintan has articulated just now in terms of making sure that we remove uncertainty and subjectivity in the incentivisation mechanism, and that would enable and free the company to be much more innovative and to deliver those consumer benefits with much more confidence.

We are, as the ERSG, also very supportive of the ambition to achieve net zero carbon. We believe that that is essential for the country as a whole to fulfil our climate change obligations. We think and consider that the ESO has a major role to play in helping the industry as a whole move towards that target.

We do appreciate that Ofgem and the company is working together towards developing those proposals to enable the ESO to deliver those ambitions, but the current package may need to be adjusted and may need to recognise the fact that the ESO is a very different type of entity from the transmission and distribution networks. We need the ESO to be very innovative. It has a lot of new projects to deliver, particularly in the IT space, and also to drive through greater competition for the benefit of consumers. Therefore, we would encourage Ofgem, as it moves forward towards a final determination, to consider the uniqueness of those challenges and the mission that the ESO is facing and to apply a slightly different toolkit than that which is used from other network companies, to make sure that the ESO really can stretch towards those innovative things which will move the industry forward more generally.

Just some final thoughts from me as well. As Akshay also commented on, we have really focused in, as the ERSG, on the ability of the company to deliver these complex IT projects. We have been critical of the company in the past in terms of its model for delivering IT and we are really pleased to see that some of the criticisms that we have discussed with the company at length during the business plan process are now being fully addressed by the company. We wanted to formally recognise the steps which have been taken by the ESO to develop alternative models for IT delivery and the approach and the openness with which they have embraced and are engaging and continue to engage with the ERSG on that.

We think that both the ESO and Ofgem are aligned now in those ambitions and we would ask that the company and Ofgem work together to work on an incentive framework which can really make sure that we can deliver those innovations, particularly in respect of IT.

Thank you. Shall I hand back to you, Akshay?

AKSHAY KAUL: That's fine, Charlotte. I was waiting to see if Martin was back on, but I think he is still struggling with his link.

Thank you, that was a very, very helpful, very clear assessment of the Stakeholder Group's views on the areas of contention.

Let me now hand over to Roger Witcomb, who is the Chair of the RIIO-2 Challenge Group, to set out perspectives from their point of view. Roger, over to you.

ROGER WITCOMB: Good afternoon, everybody. Thank you, Fintan, and thank you, Charlotte, for those very clear explanations as to where you are.

We have some brief comments, I guess. The first thing to say is that we recognise that the ESO is actually a world leader already. Looking globally across the piece, the ESO does already a job which is much more advanced than many ESOs and we appreciate that, and we wholly welcome their huge ambitions for net zero and the £2b of whole system benefits which they have seen in their plan and we would clearly endorse everything they are doing to achieve that.

I got the impression from Fintan's presentation that the sort of subtext at the back of it was to get Ofgem off their back and give themselves a bit more freedom, and I can entirely understand that. I think the problem we had was that there were one or two obstacles to that which we really need to work at and to sort out. The first one is that all these benefits require a huge amount of co-ordination between the ESO and other industry participants, co-ordination and one could say head-banging as well. The ESO does not have the power to enforce that co-ordination to bang those heads together. It needs Ofgem. A lot of what I'm saying is really telling Ofgem that they have a very big job here to make sure that we facilitate, we enable the ESO to achieve what it wants to achieve without getting in its way and without turning it into a bureaucratic dead hand.

Effective co-ordination is one of the key levers, one of the keys to achieving the ESO ambition. Another thing we have identified, and everybody has really mentioned it as well, is the capability of the ESO to deliver what they want to deliver, particularly in the area of IT, but generally speaking it's a huge change in what the company is doing from what ESOs have done in the past. That's not just a question of developing capability; there's an issue here which we don't like to talk about too much which is one of conflicts of interest. At the moment, IT is provided by a National Grid group, and I can see why that is, we can understand that. That's clearly an issue for an ambitious outfit like ESO. I think there is also the intrinsic conflict of interest that exists between having an owner of ESO who is also an owner of assets. I know there are safeguards in there to try to stop it or to at least reduce its effect, but the fact remains is that conflict of interest is intrinsic and it will need Ofgem oversight of what's going on on a continuing basis, as long as that conflict exists.

Those are two reasons why I think inevitably Ofgem are going to have to take really quite a major role in the development of ESO over the next five years.

There are issues around the incentivisation. They may not be quite the same issues that the ESO have identified, though they are the same. ESO have talked a lot about potential disallowance. Just to put that, to see where we see that, we looked at the entire risk framework in the incentive schemes for the ESO and looked at as a whole we think that the ESO is actually a very low risk organisation. It's got cost path through, it's got prior approval of almost all its expenditure. We don't see it as a risk and we really don't regard the risk of disallowance as being a serious one. It is just there to ensure that ESO doesn't get a blank cheque. Again, I'm sure Ofgem will look at other ways of trying to reassure themselves that it is not a blank cheque. We don't believe that actually the system that is set up at the moment puts any significant risk on to ESO, as long as it acts in good faith. Almost all the expenditure will have been effectively pre-approved by Ofgem and we think the risk is actually very low.

I think the one exception to that is around innovation, innovation expenditure, and we actually don't believe that that innovation expenditure should be subject to disallowance. That really is blue sky stuff where people should be encouraged to take the risks that need to be taken.

The other area, I guess, is around the concern we have, the effective two-year price control I think is the only way to go at the moment, but net zero whole system, a much longer term than that. We think that innovation projects should have at least a five-year horizon rather than the two years you've got at the moment, and we think that performance measures should be aligned with those strategic goals. In other words, there should be more long-term incentives on ESO to deliver net zero and whole system. You can't really look at those long-term objectives in the context of a two-year price control and two years' incentives.

I think, summarising, we very much like the way ESO is going. We would encourage Ofgem to control ESO with as light a touch as it can and with as unbureaucratic a touch as it can, but we have to recognise that that control has got to be there.

I'm actually speaking out of line now, but I think one has to look at the ownership of ESO going forwards, not something which the Challenge Group has actually delivered on, so that's a personal view.

We don't think that there is any need to increase the incentives on ESO to deliver what it is attempting to deliver.

I know Bob is on the line. Is there anything I have missed which we should add there?

ROBERT HULL: No, nothing from me.

ROGER WITCOMB: I think that's my lot, thank you.

AKSHAY KAUL: Thank you, Roger, and colleagues. That was really helpful. We'll now go into the Q&A round. Before we do that, let me just try and attempt to summarise the key things that we've heard in the first part of this session.

I think you heard that the ESO has a strong ambition to operate a net zero system by 2025, which is widely shared by Ofgem and all stakeholders. We think that there is some work to do in terms of fleshing out the deliverables, particularly in terms of their role in the crucial space of developing and evolving the system, co-ordinating onshore and offshore, and putting network and non-network solutions on an even keel. But it is a shared ambition.

I think you heard from the ESO their worry about the incentives and the remuneration and whether they would have the counterproductive effect of making them a more risk averse organisation, rather than the innovative and risk-loving organisation that we would like them to be.

We heard again endorsement on the ambition, some concerns around the subjectivity/objectivity of the incentives, and a particular note on the IT capability, which is going to be absolutely central to allowing the ESO to do what it needs to do.

Finally, Roger, I think very clearly, the message is coming through there in terms of absolutely with the ESO in terms of their ambition. You felt like they don't currently have the powers that they need to have to co-ordinate effectively across the whole system and they will need Ofgem's help on that. Like, Charlotte, you raised the issue of IT capability which is a huge change programme and whether the ESO needs to be supported in developing that capability, and also in passing, I think you mentioned the issue of the conflict of interest between being a system operator and an owner of network assets, which we will need to give some thought to, outside of course to the price control process. Your last point, I think very well made, was about the difference between maybe BAU expenditure and innovation expenditure and whether there should be a slightly more liberal approach to any kind of disallowance on innovation given that it is inherently blue sky thinking.

That's a really, really helpful set of views. We're now just going to go into the Q&A and I'm going to start with questions from the Ofgem panel, and perhaps, Jonathan, if I can begin with you first.

JONATHAN BREARLEY: Fintan and team, first of all, thank you for your presentation. The first question we have really is on what you will do to take a whole system view of the energy landscape. So, you talk about delivering new competitive processes, both asset and non-asset based solutions to meet system need, the ambition for your role in shaping network development around that, but also tell us how that's evolved from your ESO experiences today. In particular, I'm keen to see what you are doing above and beyond some of the pathfinders and

discrete projects you've already launched, and really how we get to that compelling vision that you described.

FINTAN SLYE: Jonathan, my sound dropped out at the start of that. I don't know, maybe Kayte or Ro could pick up the question and then I will jump in.

ROISIN QUINN: Absolutely. So, Jonathan was asking about whole system and I think what are we doing beyond just the discrete activities, how do we make sure that we're thinking right across the board and really unlocking that value. So, absolutely, pathfinders, the regional development programmes, a lot of our work on IT. There are a number of pieces to this. We would see it as there is work that we need to do, but this kind of wider strategy needed to really unlock it. We think we have a critical role in this area to pull it together. We don't think we've a role to do this alone. I think, as the other presentations mentioned as well, there are roles for other people involved in that.

Part of what that needs to look like as well then is how do we move to do more information around policy. So, how do we look at what's in sales, how do we identify the big decisions that are coming up. So, using that analysis, that expert analysis, to inform where are the areas that we should prioritise thinking and how do we then use evidence to help inform those decisions. We would recognise that we would need to engage with different parties. We will need to target particular expertise to really inform that decision-making. In doing so, we will be looking at ourselves to kind of look up. So when we think about whole system, there is the immediate activities around looking at transmission boundaries, there is all of the work around bringing flexibility into market design so that wherever you are, you are getting the right signal for despatch. There is all the technical work in the RDPs, underpinned and informed by that wider strategic thinking around how does policy shape up, how people understand the consequences of decisions. Hopefully you could hear me.

JONATHAN BREARLEY: Akshay, I think you're on mute.

AKSHAY KAUL: Can everyone hear me? Let's move next to John Crackett.

JOHN CRACKETT: Can you hear me? Sorry, it's taking an age to come off mute.

I wanted to go back to the issue of IT. Now, great presentation from the company, thank you for that. As has been alluded to, IT is a major component of this work that you're going to do in the next few years. In fact, if we look at the run rate of the expenditure you've asked for, which has gone up more than 50 per cent per annum, most of that is to fund IT projects. Now, you don't necessarily have the finest experience with some of these IT projects – I'm thinking perhaps of the EBS system which, as you know, ran late, you ended up in a dispute with the supplier and it only delivered a fraction of the benefits it was supposed to. I think we're very keen to hear what you're doing now to make sure that you actually have the capabilities and the skills and the processes that will make a success of delivering what are quite ambitious and stretching IT projects in the next control period.

FINTAN SLYE: Thanks, John. Perhaps I will start and then I will maybe hand over to Ro to say a few words about the specifics that you talked about, John.

I think we absolutely recognise how central IT is to our success over the course of RIIO-2, and that is why we spent a lot of time working with Charlotte and the ERSG around the IT delivery model and indeed working with Eleanor and the Ofgem team on that as well.

I think looking back over the history of the ESO over the last number of years in terms of delivering IT projects, what we sought to do is try to learn from when projects haven't gone as well as we would have liked, where there have been issues. We have looked to put in place changes and learn from those issues. So, the EBS system which you talked about is currently deployed in the control room. It provides scheduling advice up to four hours ahead for our control room engineers. What we found, though, was that the market in the UK is so complex that actually trying to solve that in realtime minutes ahead on an ongoing basis as part of one large algorithm is just not possible and hence we needed a new approach around how to chunk that up and to deliver it.

So, going forward, through RIIO-2, two things to say. We have looked at the IT delivery model and how do we make sure that we have the capability within the ESO to deliver on the very ambitious plans that are there, and, two, how do we make sure that we learn from past successes, and failures as well, because there have been some great successes over the past, most recently things like the despatch desk for small renewables, the wider access API. So, we have continued to make progress and learn from those.

Ro, is there anything you'd like to add to that?

ROISIN QUINN: I think I would probably just add in terms of what that learning looks like ---

(Technical issues)

--- our delivery. We have introduced the Technology and Advisory Council which will help us bridge between our plans and between what the engagement and the transparency stakeholders need. We realise that our efforts were not hitting the bar in that space.

We are also moving away from big programmes towards more off station based where you will have interactions and integration that are easier to manage because of how those modules will come together, all sitting in a really clear data infrastructure, so that the programmes can dip in and out, and that will enable us to make change at a faster pace.

The key to most of our programme is learning how to do that for this year, so going into RIIO-2 we will understand what that looks like in detail. We know what the

capabilities are and what the ways of working will be to allow us to deliver those big IT programmes going through RIIO-2.

AKSHAY KAUL: Thank you, Fintan, and thank you, Ro. Let's move on to Eleanor. Any questions from you, Eleanor, for ESO?

ELEANOR WARBURTON: Fintan and I think Kayte, you both mentioned concerns about barriers to investment and I would like to just unpick that a little bit more, if I may. As John said, you have quite a step up in expenditure for RIIO-2 and whilst we have a lot of discussion ongoing about exactly how that is assessed, I think there is a general consensus where the money needs to be spent, it should be spent. Assuming you get the top benchmark you need and you have this money on a path through basis, so you have that upfront certainty, it is a path through cost, and it is at most one factor among a number of others within the incentives, so it is outweighed by the factors around the delivery, realised consumer benefit, strong stakeholder feedback. Does that give you the certainty you need to invest? Because you've got the money, you can spend it without any overrun costs and you have a very qualitative efficiency challenge which will absolutely take account of the benefits you will deliver for consumers and will be outweighed by that, so it would be good to unpack how far that would give you comfort and how far you think risks really still remain and where they are.

FINTAN SLYE: Thanks, Eleanor. Sorry, there's a delay coming off mute so I apologise about that. That's an excellent question. So, I think one thing for me, I would just take a step back and say at its highest level, the ESO does two kind of things. One of them is that it will, as we just talked about, build and invest in IT systems ---

ELEANOR WARBURTON: Sorry, can people hear me?

FINTAN SLYE: Yes, I can hear you, Eleanor. Are we good to go? Yes, okay.

AKSHAY KAUL: Yes, you're okay.

FINTAN SLYE: Thanks, Akshay.

At its highest level, the ESO does two types of things, for example. You talk about making investment, Eleanor, so I think typically we default to that means investing in an asset. For ESO that is an IT system, so we would invest potentially in a new auction management system that could deliver, say, benefits to consumers by having a more effective auctioning of frequency products, for example. But the other investment that we often do is investment of time and resources and expertise into a lot of the things that were pulled out as really important earlier, such as whole system thinking, co-ordination. A great example of this is the recent report we did on co-ordination of onshore connections. So, identifying £6b in consumer value out of that. But, unfortunately, the price control just does not attach any value to that investment. It focuses the ESO, it says if you can create an asset, will you get a return on the equity? All we can do on the other one is actually lose money. So if

we didn't do that report sufficiently enough, you decide that we spent a little bit too much getting expert advice on the current technology state of HVDC breakers, we would lose money. So, we are really, really concerned. We think we should do both. We think a good ESO needs to do both, it absolutely needs to have modern IT systems that will enable the control centre to visualise a very different system, to control it in a really different way. But we also think it is equally important that the ESO invests in whole system thinking, leadership, new ways of planning and managing the system, and at its highest level our concern is that the control focuses on one and not on the other, and we need a hybrid type of control that recognises the ESO does these two different type of things at its highest level.

So, that's my concern, Eleanor, is that if your question is about investment in a box that does a whizzy auction faster and better and delivers value to consumers, I can see how the price control stacks up the elements associated with it. But if it is how do you get that £6b worth of benefits for consumers to 2050, there I struggle with how the price control properly remunerates and rewards that.

I don't know, Kayte, whether you wanted to add anything to what I have just said? We may have lost Kayte. Maybe, Akshay, I will just hand it back to you with that.

AKSHAY KAUL: I think there may be a slight delay in transmission.

(Technical issues)

SIMON WILDE: Good, so Fintan can hear me? Great, thank you. Sorry, for some reason the audio wasn't working.

ESO colleagues, you have asked for material amounts of additional – can I just check three things. One is to what extent has your request changed over the last two years, ideally in millions of pounds. Secondly, how does your request relate to the 10 pence that Fintan indicated and, thirdly, how are those additional revenues tied to the consumer benefits that you are correctly identifying as important?

FINTAN SLYE: Thanks, Simon. Hopefully you can hear me. I don't see any nods ... okay, yes, super. Good old school with the thumbs up!

Simon, we have sought to actively work with you, with our Challenge Group around what the price control should look like, and through all of that our view has changed because it has been informed by our stakeholders and our customers and indeed by feedback that you and the team have given us, and at times the direction you have pointed us in to look to explore different avenues. Undoubtedly our request has changed. Our view of it has changed. I think that what we consistently have tried to say, though, is that what matters is when you stand back and look at the ESO as a business, does the sum total of all of the bits add up to something that is financially sustainable? We have tried to stay away from drawing red lines around any part of it because we believe that that's not constructive to getting to a solution, but rather to try to work with our customers, our stakeholders, you, your team,

Eleanor and her team to try and do it. But, absolutely, our request has changed, indeed as it should have, I think.

You asked how does that relate to the 10p. The 10p is a conversion of that to the customer bill, so the ESO's costs we reckon, as outlined in our business plan and our response to your draft determination, is £1.80. The changes that we think are needed equate to 10p of that £1.80, so that's how they relate.

I think your other question just broke up a little bit, but I think was how is that remuneration tied to consumer benefits if I picked you up rightly – you are nodding. So, it's linking directly to it to ensuring that the ESO does have the capacity and the capability to invest in those things that are important, be they looking at a blueprint for how do we connect offshore wind and save £6b for consumers, to how do we look at how distribution and transmission should co-ordinate better across that interface, to what is the right set of frequency products in order to manage the system. So, across all of those things, making sure that ESO actually has the capability to go after them.

Richard, I don't know whether you wanted to add anything around the specifics of Simon's request or anything there.

RICHARD ALLMAN: Sure. Can you hear me okay? I am getting a lot of repetition back, so is hopefully you can just hear me once not twice because I'm getting an echo.

In terms of our request for non-RAV funding, as I think your question suggests, Simon, yes, the ask has evolved during the course of this process. What we have sought to do through the business plan submission and then through to our draft determination response is to present a series of different data points and evidence to support that non-RAV funding request. It has evolved, as I say, and what we have effectively got now in our draft determination response is a request which we summarise as £15m, and that £15m we have done in several ways. We have done it applying the methodology that your own consultants and yourselves applied and sort of just effectively working with that same approach. We've also done it applying this from a top down benchmark where, if you look at other service providers – and the ESO is a service provider – if you look at other service providers, then an EBIT margin in the region of about 10 per cent is what you might expect to be getting, and that 10 per cent, you can look at a variety of different benchmarks within there, but for example balancing the system, you've got the London Stock Exchange at 13.9 per cent, and then we've got other benchmarks in there like professional and commercial services, IT services, all of those kind of things. So what we have tried to do effectively is work with a regulatory approach, like you have done in your draft determinations, but we've also done this from a top down approach and with an EBIT margin approach to see what a competitive margin might be if you actually look at other comparators out there for similar risks. That's how we have come by the figures that we have got.

SIMON WILDE: If I can just ask one clarificatory question – can you hear me? Just one very brief clarificatory question. Richard, you mentioned £15m but I heard from Fintan 10 pence per customer and if there are 25 million customers, isn't that £2.5m? You might want to take that offline, but I just want to ask about that.

(Technical issues)

RICHARD ALLMAN: --- the methodology which effectively Ofgem themselves use, so what that method technology does is for BSUoS charges, which is where this would show through, 50 per cent of that is reflected in effectively demand in the domestic bill. We then take that 15 million and effectively you can divide it by the total demand and then there is a loss factor that gets applied. Again, this is all using Ofgem's own methodology, and then we multiply by the average household demand, which is the figure that again Ofgem would themselves use in their domestic bill calculation. When you do that, effectively £15m goes in as an input and what comes out of the other side of the equation is 10 pence per annum.

SIMON WILDE: Thank you.

JONATHAN BREARLEY: Given the time, just ask one question firstly, but then go to questions from our stakeholders and, Fintan, the one question we have got left around financeability, which you have raised as an issue, was just to ask you your view on the new credit rating issued by Moody's. Now, clearly following our draft determination, they upgraded you to a 3 from AA1, reflecting a marked improvement in its business risk profile and as a result of the changes proposed and made to the regulatory framework. Do you want to just give us a view on that given that you have raised financeability as a key issue?

FINTAN SLYE: Sure. One thing I would say is that the key thing here is that it also relies on the ESO being part of the National Grid group, so you need to reflect that, but maybe Richard has a much better appreciation of the ins and outs of these credit ratings and how they work. Richard, do you want to talk through that one?

RICHARD ALLMAN: Yes, thanks, Fintan. You are right, what I would say is that Moody's has other rating agencies. They assess this purely from a debt perspective, so what would the debt markets thing in terms of the creditworthiness of an organisation. As I hope was quite clear from the presentation we gave earlier on, ESO's concerns are not about the debt perspective. They are about the equity proposition, both in terms of the allowed return on equity not being sufficient and not adequately considering regulatory precedent and the risks that the ESO faces, and the non-RAV funding where again there are risks which are not related to the size of the RAV, but the ESO has got particularly when it comes to the asymmetric disallowance risk and the revenue collection role which at the moment are not factored into that. Moody's wouldn't be worrying about the equity side; they focus on the debt side.

JONATHAN BREARLEY: That's great. Thank you. I'm now going to open up to two questions from our Stakeholder Group. First of all, from Stu Horne, Citizens Advice.

Does the price control provide enough scope for the ESO to take on a system architecture role needed to deliver major projects under way, including offshore wind co-ordination at early stage competition?

Matched to that, you might as well answer this question at the same time from Andy Manning who says would the business plan look different if done today given the challenge balancing the system this summer and the commitment to 40 gigawatts of offshore wind?

FINTAN SLYE: I will say a little bit about them and then maybe Ro will say a little bit more about just balancing the system this summer.

I think the question about scope for that system architect role that Stu raises, it's a really good question. It goes to the heart of what I was saying in response to one of Eleanor's questions earlier, is that the current way the price control is put together, and Akshay talked at the start about how all of the requirement elements are there and we agree with that, but they are just not put together in a way that actually recognises some of those things that the ESO does which are so incredibly important to UK PLC, such as how do we ensure whole system thinking, how do we think about co-ordination of offshore development with onshore development. You can't tie any of those back to an asset base and therefore work out a return based on them, and yes, they are desperately important that we do them and we get them right and they are important and add value for consumers. That goes, I think, to the heart of our point, which is we need to think about how the framework gets put together and adopt a more hybrid approach which recognises that, yes, the ESO will have to invest in IT assets and indeed in RIIO-2 it is significantly more than it was in RIIO-1, but we also need to invest in how we think about whole system thinking, thought leadership, and really for the ESO it is about challenging the status quo – how do we make change in an industry that is inherently resistant to change? We need to step up and take a leadership role, and that is my concern around that piece.

The question about whether the price control would be different now based on what we learnt over the summer, I will let Ro talk a little bit about the summer, but what I would say is I am concerned that the price controllers were looking at it today doesn't have the flexibility that would enable us to do some of the things that we did this summer and would leave the business highly exposed in a financial context if we were to try to do some of the things under RIIO-2 that we did this summer.

Ro, would you like to say a little bit more about some of those things we did this summer?

ROISIN QUINN: Absolutely. So this summer we saw an unprecedented low demand for electricity, which has been seen by some as a taster of a low carbon system. There was a taster of a low carbon system without all of the work in our plan to make sure that we could operate that securely and at least cost to consumers.

The things I would reflect on in terms of the business plan, it reinforced our need to really understand the physics of the network, the deep engineering to make sure we had that baseline to be able to jump to solution mode. It reinforced the importance of responding quickly. We saw demand start to plummet as soon as lockdown was announced, with Bank Holiday weekends approaching upon us, so the need for fast response and to be able to bring a pool of technical people with deep expertise together, cross-skills was really, really vital. I think I would also say the collective response of the industry and that where there is leadership and where there is transparency you can achieve a huge amount, and we relived our ambitions around greater transparency.

How it would change the business plan, it would probably reinforce a lot of what we need in terms of innovation, being able to respond quickly, the benefit of transparency and the benefit of leadership and innovation as we look towards a low carbon system.

JONATHAN BREARLEY: Thank you. I think what we are going to do, given the time, I'm just going to read out the final stakeholder comment and then I might just move to making some concluding remarks.

The final stakeholder comment is from Nigel Bradbury who says given the ever changing ---

(Technical issues)

--- it can only be right that revenue is moved to uncertainty mechanisms where ESO have to demonstrate value for money for all consumers and not just domestic consumers.

I'm going to leave it there in terms of the comments from stakeholders and just really move just briefly to make some concluding remarks.

First of all, I do want to say thank you to the ESO for your input today, for bearing with us with the tech and really being our guinea pig for the first ever open hearing, so thanks for all the work you've put into this, and genuinely thanks for all the preparation you've put through the business planning.

Additionally, I want to say thank you to the Stakeholder Group and the Challenge Groups, your independent review and all your hard work throughout this price control process, and equally all of those who dialled into this and submitted questions today and listened to what's been happening, thank you for your involvement.

Finally, just before I finish the list of thank yous, I do want to say a big, big thank you to the Ofgem team, not only for today but all of us are putting in a huge effort to get to where we want to get to.

Before I talk about today, I would just like to reiterate some of the things Martin said. As you have heard me say publicly, I genuinely believe these price controls are going to play a critical role in supporting a green recovery and helping the country hit net zero at lowest cost to consumers. Equally, I think there is strong consensus on the strategic direction of these price controls. I think, broadly, we accept the returns are going to come down and need for greater efficiency, and within Ofgem and across the industry we accept there is a greater need for investment and net zero. Having said that, I recognise that we do differ in the extent of the changes I have described above. So since our draft determination, we have received more evidence from companies and stakeholders, and looking forward to working with them as we get towards final determinations.

Just coming on to today, what I really want to say upfront is what is great is there is a huge consensus here. We all agree on the importance of getting to net zero and we all agree on the importance of the role of the system operator in getting there, and the value and the work of what you will do in the next 20 or 30 years is fundamental to making sure we make a least cost transition. Equally, it's great to hear that all of us are in the same place when it comes to the importance of flexibility in the market, of competition and of innovation driving your approach over the next few years. Equally, I think we all accept that IT is a fundamental part of what you do and the regulator and the ESO are absolutely going to have to work closely together to support that transition as we move through it.

I think what I heard today is we differ collectively over how we get there, the toolkit as you guys described it. Now, one area, you talked about the incentives that we put in place, and Akshay has already highlighted some areas where we would like to work with you, but equally you raised issues around financeability. All I would say at this stage is there were varying views there and I note what the Challenge Group said about their assessment of the risk and your financeability as part of that. Clearly, there is more to do for us to work together.

One last thing before I do conclude, I just want to add that the Challenge Group raised the issue of conflicts of interest, and I just wanted to highlight there is a wider review of system operation that will be looking at wider issues of role and function.

I just want to conclude by saying we really should reflect on the fact there is a huge consensus in terms of strategic direction and aims here, and I look forward to working with all of you over the coming months to address some of the outstanding issues, and I'm sure the team do so. Thank you for today. Thank you for all your hard work and particularly thank you for bearing with the technology.