

26<sup>th</sup> January 2021

**Re: National Grid ESO response to consultation on ESO Roles Guidance**

Dear ESO Regulation Team,

We welcome the opportunity to respond to your consultation on the ESO Roles Guidance and acknowledge the importance of this document in aligning expectations between the ESO, Ofgem and stakeholders. We are pleased that following our detailed response to the previous consultation we were able to have further in-depth discussion on some of the key areas where we had concerns about the degree of alignment in expectations. This open and collaborative approach has led to clearer understanding between the ESO and Ofgem and this is reflected in a number of changes throughout the Roles Guidance. This has ensured that the RII02 period will start with clear expectations and alignment on what constitutes good performance.

We have been through the Roles Guidance in detail and whilst we are comfortable with the majority of the expectations set out, there are a few areas which we would draw your attention to for further consideration below and we set out proposed changes to the wording of the expectations in Appendix 1.

**Key points of our response:**

Role 1a: Maintaining security of supply

- We welcome the changes to this expectation but are uncomfortable with some of the language used in reference to frequency excursions. Whilst we have agreed that we will report on excursions that go beyond 0.3Hz, we do not agree that this represents being “close to breaching SQSS requirements” and therefore with the language of “tolerating” these excursions. Proposed changes to the expectation are provided in Appendix 1.

Role 1a: Minimising outage changes caused by error

- The expectations here reference “unplanned” outages whereas we believe this should be referencing “planned” outages. This is consistent with the performance metric and reflects the fact that only planned outages could be impacted in this way (as unplanned outages by their nature cannot be changed). Proposed changes to the expectation are provided in Appendix 1.

Role 1a: Maintaining effective and reliable IT systems

- The expectations reference “high IT system availability”. We would like clarification that our assumption that this means ‘better than historical average’ fulfils this.

Roles 1b: Restoration on service procurement

- In our previous response we proposed a reference to procurement “if they can meet the technical criteria”. We were pleased to see this addition to the ‘meets expectation’ but believe it should apply equally to the ‘exceeds expectation’. If providers are not able to meet the technical criteria, then this would lead to inefficient and uneconomic procurement. We would expect that we would need to see proof of concept from technology providers. Proposed changes to the expectation are provided in Appendix 1.

Role 2a: Signalling procurement needs

- Whilst we understand the intent of the reference to SNaPS publication, we don’t think it is helpful to continue to refer to this publication that is now out of date. It would be helpful to discuss a more up to date reference point such as the Operability Strategy Report. Proposed changes to the expectation are provided in Appendix 1.

Role 2a: Coordinated procurement across the whole system

- We have concerns regarding the expectations upon the ESO of our role in “organising, convening and building consensus with other network/system operators”. As previously noted, ‘consensus’ is difficult to achieve within any stakeholder group and achieving this expectation is not within the gift of the ESO to deliver but dependent on the actions of a number of other independent organisations. Similarly, it is also not fully in the ESO’s control to deliver “a single interface point for providing services to the ESO and DNOs” but we note this is broadened to the potential for “consistent standardised interface points”.

#### Role 2a: Coordinated procurement across the whole system (beyond 2023)

- The expectation that “Service providers have a single, consistent set of procurement requirements when looking to provide services to the ESO or DNOs” requires further discussion to establish what is possible and desirable. Whilst there is likely to be benefit in harmonising requirements and timescales for equivalent services that are being procured by the ESO and DNOs; it may be the case that there is no benefit to service providers, or it is not technically possible, to have a single set of requirements for services that are fundamentally different. For this reason, it would be helpful to acknowledge that there should be a single, consistent set of service requirements “where appropriate”. Proposed changes to the expectation are provided in Appendix 1.

#### Role 2b: Making accurate prequalification decisions

- We note that this expectation now has separate elements relating to the CM and CfD processes. Whilst this separation is useful, we do not believe that it is appropriate to set a higher bar for the “very few errors made or decisions overturned” for CfDs compared to the CM. Historically, application numbers have been significantly lower for CfD compared to CM, but BEIS have indicated that there may be a significant increase in the number of CfD applications going forward. Importantly, the measure that will be used for CM and CfD disputes will be the number of Tier 2 overturns relative to the overall number of applications (with CM being overturns per 1,000 applications and CfD being disputes per 100 applications). We believe that using this measure means “very few errors” are comparable for CM and CfD, and therefore this should be ‘exceeding’ expectation for both CM and CfD. Proposed changes to the expectation are provided in Appendix 1.

#### Role 2b: Monitoring compliance with rules

- We understand what Ofgem is trying to achieve with this expectation and we support the principle behind it. We do wish to raise some issues and pitfalls that we are keen to explore with Ofgem when it comes to the practical application of what is required here. We are mindful that the expectation to notify Ofgem of “any potential” instances of non-compliance needs clarification. If defined too broadly, this could mean that in many instances the ESO would notify Ofgem about issues that upon examination do not turn out to be non-compliant. This could create unnecessary work and communication for both parties. Similarly, we would need to agree what information Ofgem expect to receive at D+1, recognising that full details may not be known at that stage. Finally, the process and Ofgem’s expectations regarding information and communication following on from the notification at D+1 need to be clarified and agreed. It will be important to find an appropriate balance between early communication and allowing the necessary examinations to progress with minimal disruption.

#### Role 3b: Producing analytically robust scenarios and long-term forecasts

- In our previous response, we highlighted our concerns around the expectation to perform ex-post analysis between ‘forecasts’ and ‘real world’ outcomes due to the number of variables involved in the process. To build upon this point, the number of variables means it would be necessary to re-run the scenario analysis changing each variable one by one to understand the impact. Furthermore, many of these variables interact with each other, which may require even more re-runs. Often, some of these variables have no ‘real-world’ data that we can compare with so we cannot fully analyse this, particularly below the transmission boundary, although we appreciate this is an area where we are continuing to work with stakeholders to improve data quality.
- Often, there can material retrospective changes to key input data from external sources (e.g. there are often understandable but material retrospective changes to historical data in the Energy Consumption UK data-set year on year). This impacts the forecasts but is also likely to be the actual out-turn data the following year.
- The impact of weather is also relevant as weather correction is not a perfect tool. For instance, it has been affected this year by the impact of Covid-19 on demand. Some data does not become available

for a long time (over a year) after outturn demands and there is also the staggered effect of data becoming available meaning this retrospective analysis would have to be completed several times over many years until the full picture is known.

- All these factors limit our ability to carry out direct analysis of the previous year although it is feasible to take the latest data we have available to us every year to allow us to be most up to date without doing a full quantitative analysis of performance year on year.
- That said, we agree more generally that this is an important area to consider and that the focus should be on how looking at previous FES work actually helps improve the forecasting accuracy in the future. As such, there is likely to be more value in focussing on the monitoring and review processes we already undertake - specifically in relation to both the EMR demand forecasting accuracy incentive (which directly compares forecast vs out-turn) as well as the accompanying letter to Ofgem around year-on-year changes to our approach and improvements identified). This could be expanded to cover more than just the demand components. Proposed changes to the expectation are provided in Appendix 1.

Role 3c: Identifying network needs and solutions (beyond 2023)

- We welcome the changes to these expectations (and the other expectations more broadly within Role 3) following our previous response and follow up discussions. However, we would like to clarify that the exceeds expectation of “improvements to model outage planning in year-round” is not a reference to conducting outage planning activities on network development timescales but rather ensuring that when we look at long-term network development, we improve the way we consider the impact outages could have on future network needs.

Should you require further information or clarity on any of the points outlined in this paper then please contact Gareth Davies or Laurence Barrett in the first instance at [gareth.davies5@nationalgrideso.com](mailto:gareth.davies5@nationalgrideso.com) or [Laurence.Barrett@nationalgrideso.com](mailto:Laurence.Barrett@nationalgrideso.com).

Yours sincerely

Craig Dyke

Head of Strategy and Regulation

## Appendix 1: Proposed changes to the expectations

### Activity 1a: System operation

Output	Meets expectations	Exceeds expectations
<b>Immediate and ongoing</b>		
Maintaining security of supply	<ul style="list-style-type: none"> <li>Maintain system frequency and voltage within statutory limits (including the SQSS).</li> <li>Demonstrably minimise any increases in the number of instances where the system frequency is <del>close to breaching SQSS requirements outside operational limits but within statutory limits</del> (for example, excursions beyond 0.3Hz) or transparently demonstrate why <del>tolerating</del> increases in these excursions strikes an appropriate balance between security and cost-efficiency.</li> </ul> <p>Respond swiftly to unexpected events to secure the system and minimise costs.</p>	<ul style="list-style-type: none"> <li>Maintain stable system frequency and maintain or decrease the number of instances where the system frequency is <del>close to breaching SQSS requirements outside operational limits but within statutory limits</del> (for example, excursions between 0.3Hz and 0.5Hz).</li> <li>➤ Develop innovative operability solutions to unexpected events that maintain system security and minimise costs in a fair and transparent way.</li> </ul>
Minimising outage changes caused by error	<ul style="list-style-type: none"> <li>A small proportion of short notice changes to <del>un</del>planned outages are caused by ESO error, in line with the meets expectations benchmark of Performance Metric 1D (Short notice changes to planned outages).</li> </ul>	<ul style="list-style-type: none"> <li>No or only a very small proportion of short notice changes to <del>un</del>planned outages are caused by ESO error, in line with the exceeds expectations benchmark of Performance Metric 1D (Short notice changes to planned outages).</li> </ul>

### Role 1b: System Restoration

Output	Meets expectations	Exceeds expectations
<b>By the end of RIIO-2</b> (with evident progress demonstrated by March 2023)		
Restoration service procurement	<ul style="list-style-type: none"> <li>Competitively procure the majority of system restoration services.</li> <li>Ensures that procurement is fair and accessible to all market participants and technologies at transmission and distribution</li> </ul>	<ul style="list-style-type: none"> <li>➤ Develop liquid markets for system restoration services such that all providers, from transmission and distribution voltage levels, can be procured competitively at an economic price in all</li> </ul>

	voltage levels if they can meet the technical criteria.	restoration zones <b>if they can meet the technical criteria.</b>
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**Role 2a: Market Design**

Output	Meets expectations	Exceeds expectations
<b>By the end of RIIO-2</b> (with evident progress demonstrated by March 2023)		
Signalling procurement needs	<ul style="list-style-type: none"> <li>Transparent and clear communication to market participants on current and future system challenges and ESO balancing service needs, in line with the objectives of <b>the Operability Strategy Report. System Needs and Procurement Strategy (SNaPS).</b><sup>49</sup></li> </ul>	<ul style="list-style-type: none"> <li>Proactive, transparent development of balancing services markets to solve foreseen future system challenges (before the ESO would need to incur significant costs to address these challenges).</li> <li>Notice of procurement rounds signalled to stakeholders sufficiently in advance to enable optimal participation.</li> </ul>
Coordinated procurement across the whole system	<ul style="list-style-type: none"> <li>ESO run markets are coordinated with distribution-level flexibility markets, providing minimal complexity for providers looking to maximise the value from their services.</li> </ul>	<ul style="list-style-type: none"> <li>Service providers have a single, consistent set of procurement requirements, <b>where appropriate</b>, when looking to provide services to the ESO or DNOs.</li> <li>Providers have a single interface point (or consistent standardised interface points) for providing services to the ESO and DNOs.</li> </ul>

**Role 2b: Electricity Market Reform**

Output	Meets expectations	Exceeds expectations
<b>Immediate and ongoing</b>		
Making accurate prequalification decisions	<ul style="list-style-type: none"> <li>Competent and responsive development, management and maintenance of the Future Energy Scenarios (FES) process, with evidence for assumptions and decisions through a record of data inputs and the cross section of stakeholders views gathered.</li> <li>Provide justifiable and credible long-term scenarios (updated at</li> </ul>	<ul style="list-style-type: none"> <li>Monitors and evaluates previous analysis/scenarios, including by <b>performing ex-post analysis of what has happened since the 'forecast' scenarios that has led to a different 'real-world' scenario, building on and expanding the current consideration of forecast vs. actual outcomes as part of the EMR demand forecasting</b></li> </ul>

	<p>least annually) covering a sufficiently wide range of outcomes, both in terms of future energy system development and the associated costs of operating the electricity system in those scenarios.</p> <ul style="list-style-type: none"> <li>• Stress-testing of scenarios, analysis and assumptions and consideration of whether scenarios and forecasts remain fit for purpose at least on an annual basis.</li> <li>• High degree of engagement, transparency and justification of decision making to stakeholders throughout the development process.</li> <li>• Work collaboratively with other parties to improve industry data (where possible and relevant) to support the development of scenarios.</li> </ul>	<p>incentive (e.g. to include supply as well as demand elements for this 5yr period), to improve accuracy in future publications and explain clearly the reasons for shorter-term deviations between forecast and realised outcomes.</p> <ul style="list-style-type: none"> <li>• Invites and proactively facilitates collaboration from all interested stakeholders to drive forward the improvement of industry data to achieve more reliable forecasting capabilities.</li> <li>• Continually expands the functionality of demand models to provide step changes in accuracy, in particular by better taking into account profiles across the year, changes at the regional level and developments across vectors.</li> </ul>
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Role 3b: Operational strategy and insights

Output	Meets expectations	Exceeds expectations
<b>Immediate and ongoing</b>		
Producing analytically robust scenarios and long-term forecasts	<ul style="list-style-type: none"> <li>• Accurate CM prequalification and agreement management decision making, based on compliance with the Rules and Regulations.</li> <li>• Accurate CfD qualification decision making, based on compliance with the Rules and Regulations.</li> <li>• <del>Very few errors made or decisions overturned by Ofgem in the Tier 2 process following CfD qualification.</del></li> </ul>	<ul style="list-style-type: none"> <li>• Very few errors made or decisions overturned by Ofgem in the Tier 2 process following CM prequalification.</li> <li>• <b>Very few errors made or decisions overturned by Ofgem in the Tier 2 process following CfD qualification.</b></li> </ul>