



Making a positive difference
for energy consumers

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Dear Stakeholders,

Call for evidence on ESO performance over the 2018-19 regulatory period

Background

In April 2018, 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 activities¹. The new arrangements include a set of seven principles for the ESO; a requirement to develop forward plans with industry; the publication of regular performance reports; the introduction of a new Performance Panel; and a move towards a broader, evaluative performance assessment (with associated financial incentives).

A central part of the new scheme is the ESO Performance Panel², who play a key role in challenging and assessing the ESO's performance. The panel uses the following criteria when assessing the ESO's performance: (1) evidence of delivered benefits; (2) evidence of future benefits / progress against longer term initiatives; (3) stakeholder views; (4) plan delivery and (5) outturn performance metrics and justifications.

The panel met for the mid-year review in November and assessed the ESO's performance over the previous six months. The panel identified areas where the ESO was performing in line with baseline expectations, where it was exceeding baseline expectations and where it was not meeting baseline expectations. At the mid-year stage, the panel considered that a lot of the evidence provided in the ESO's mid-year report related to initiatives that were more consistent with baseline expectations for the ESO. The panel considered that the ESO should provide a more focussed assessment of its performance for the end of year review. This should include tangible evidence of the outputs delivered by the ESO and the extent to which these outputs have delivered consumer benefits this year or expect to deliver benefits in future years.³

The panel will meet again in June for the end of year review to evaluate the ESO's performance over the 2018-19 regulatory period. The panel will consider all the evidence submitted so far and will use the criteria above to score the ESO's performance for each principle. The Gas and Electricity Markets Authority (the Authority) will consider the panel's

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 The details of the panel membership are published alongside the Mid-Year Report here:
<https://www.ofgem.gov.uk/publications-and-updates/mid-year-review-panel-report-2018-19>

³ The ESO Performance Panel's mid-year review report for 2018-19:
https://www.ofgem.gov.uk/system/files/docs/2018/12/2018-19_myrr_report.pdf

recommendation when making a decision to financially reward or penalise the ESO up to a maximum cap/floor of \pm £30m.⁴

Stakeholder views

Stakeholder views are a key component of the criteria the panel will use to assess the ESO's performance. We want to pool 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 tackling the information asymmetry between the ESO and ourselves.

We are publishing this call for evidence to request stakeholders' feedback on the ESO's performance across all of its principles⁵, shown in Figure 1, for the 2018-19 regulatory period (year end March 2019).

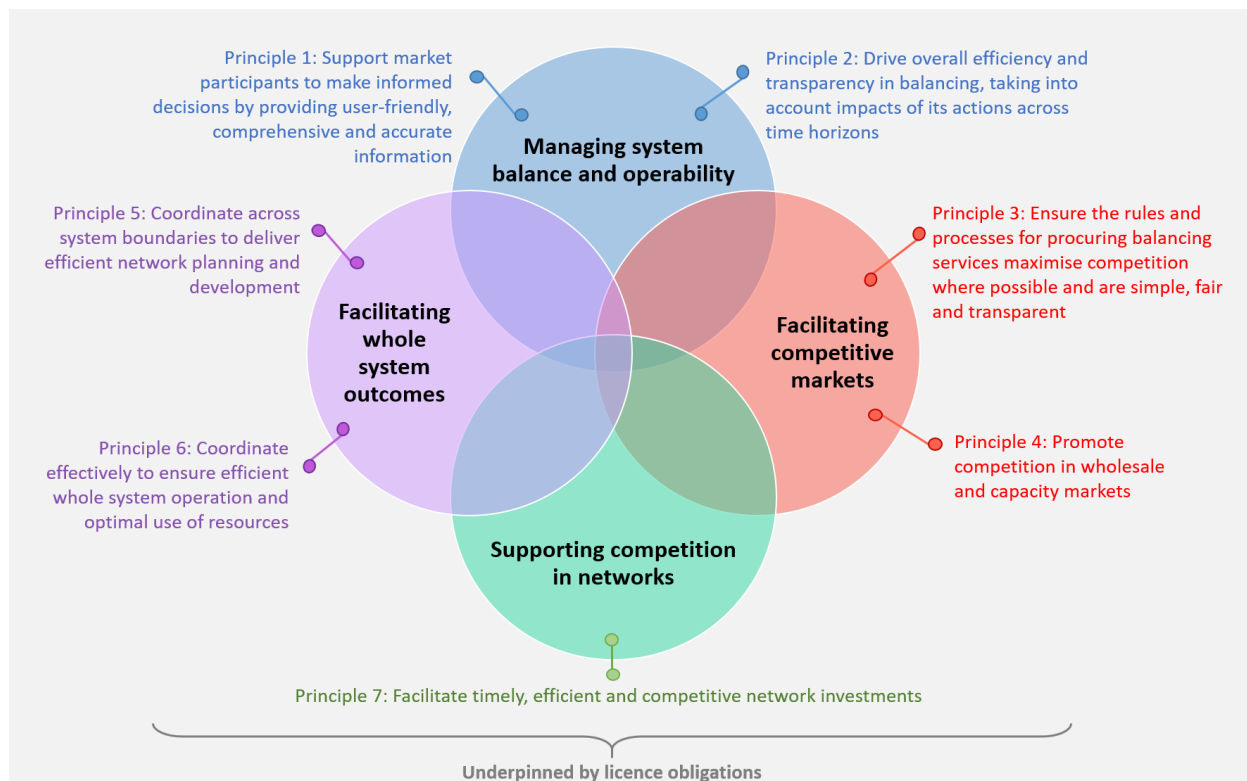


Figure 1. Summary of the ESO roles and principles

We'd like feedback on areas where you believe the ESO has met or exceeded baseline expectations in relation to a principle and/or feedback on the areas where you may have concerns that baseline expectations are not being met. This feedback can be formal evidence or less formal views/opinions. We have highlighted our key areas of interest, (based on the ESO's proposals in its forward plan⁶ and its ongoing monthly performance reports⁷) in the table in the Annex. However, we welcome all feedback, even if you think it doesn't relate directly to the deliverables in the ESO's Forward Plan.

⁴ 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/2018/03/esori_arrangements_guidance_document.pdf

⁵ The ESO's Roles and Principles: https://www.ofgem.gov.uk/system/files/docs/2018/02/eso_roles_and_principles.pdf

⁶ The ESO's forward plan documents can be found here: https://www.nationalgrid.com/uk/about-grid/our-role-industry/future-electricity-system-operator?utm_source=ESO+Workshops&utm_campaign=03a6bf3b2d-EMAIL_CAMPAIGN_2018_01_22&utm_medium=email&utm_term=0_6313a83fea-03a6bf3b2d-57934021&mc_cid=03a6bf3b2d&mc_eid=b2259a11f0

⁷ 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>

We would appreciate feedback and evidence by **Friday 10 May**. We do not intend to publish the feedback and evidence we receive. However all feedback will be shared with the panel and the ESO as part of the EYR 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

We are planning to hold the EYR Performance Panel event on **Thursday 6 June** in central London (precise details will be confirmed in due course). The event will consist of a half day open session for the ESO to provide its own evidence and views on its performance to date. Stakeholders will be invited to this session and there will be opportunity to raise questions and provide direct feedback to the ESO in the presence of the panel. Afterwards, the panel will convene again to make its final assessment of the ESO's performance using the predefined criteria. A report will be published detailing the panel's assessment and recommendation for Ofgem. The Authority's decision on whether to financially reward or penalise the ESO will be made by August.

We will provide further details of the end of year open session in due course. If you would like to attend, please email us at esoperformance@ofgem.gov.uk.

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

Annex – Areas of interest for call for evidence

Principle	Areas of interest
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, the ESO's data 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, Operational Forum events and daily and monthly summaries of balancing costs.
Principle 2: Drive overall efficiency and transparency in balancing, taking into account impacts of ESO actions across time horizons.	The ESO's approach to the real-time operation of the system, forecasting (demand, wind and solar), the ESO's Innovation Strategy, the Trades data platform, C16 Procurement Guidelines, SO IT forum, the ESO's monthly BSUoS report and the Operability Report, the Platform for Ancillary Services (PAS) and the ESO's approach to managing inertia. General satisfaction with the ESO's balancing approach, IT systems maintenance and improvements and satisfaction with the level of the ESO's transparency.
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, progress against TERRE related developments, progress against facilitating non-BM access and the Power Responsive Campaign.
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, improvements to the customer journey on network charging and code administration, the Regulatory Horizon project, experience of charging processes, publication of charging data and European network codes, capacity market modelling.
Principle 5: Coordinate across system boundaries to deliver efficient network planning and development	Interactions with DNOs and TOs, network development roadmap consultation and the final NOA roadmap, NOA Pathfinding Projects, developing new ways of working with DNOs, unlocking further connection capacity for DER, 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, the connections process, Power Potential, Enhanced Frequency Control Capability (EFCC), TOGA system.
Principle 7: Facilitate timely, efficient and competitive network investments	Network Options Assessment (NOA) process, engagement and recommendations, Electricity Ten Year Statement.