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10 May 2019.

Sent by email to: ESOPerformance@ofgem.gov.uk

Dear Grendon,

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

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

The new regulatory and incentives framework for the Electricity System Operator (ESO), implemented in 2018, is to encourage the ESO to pursue consumer benefits across the spectrum of its activities. Stakeholder input into the Forward Plan and evidence of the ESO's performance are key elements of the framework.

We believe the ESO has responded positively to the new regime and, as such, the regime has been successful in encouraging some performance improvements. For example, the ESO effectively facilitates the Charging Futures Forum, has ensured stakeholders are kept abreast of developments and has used multiple channels to disseminate information. Also, we welcome the ESO's participation in the Energy Networks' Association's Open Networks project, sharing its experiences of developing and improving markets for system management services.

We are mindful that the new incentive regime was introduced during the RIIO-T1 price control, which started in 2013. Stakeholders' views of activities the ESO should undertake and how it should perform are shaped by current challenges and how a competent and efficient system operator would be expected to meet those challenges. However, we recognise that some of the requirements now being placed on the ESO could not have been reasonably envisaged at the time of the RIIO-T1 price control review. As such, the ESO may not have been funded to deliver some of the current requirements. Activities relating to the Charging Futures Forum are a good example of this. Whether the ESO has been funded for undertaking an activity is important when considering how performance should be financially rewarded (or penalised).

Our evidence presented in this document is based on our understanding of what the ESO committed to delivering in the *2018-19 Forward Plan*. Our evidence is also based on commitments

the ESO made elsewhere, such as in product development Roadmaps, for delivery during 2018-19. Our main observations are:

- **A lack of clarity has resulted from various market reforms being presented in multiple documents. A single 'Master Plan' for the reform of markets for system management services is required.**
- **Broad investment signals provided by ESO have not been as reliable and timely as expected:**
 - Unexpected and material changes in the direction of travel have not always been signalled with sufficient notice.
 - There have been delays in the delivery of some market reforms.
- **The ESO's communication and engagement with stakeholders can be improved and transparency can be increased.**

A single 'Master Plan' for the reform of markets for system management services is required:

A lack of clarity has resulted from various market reforms being presented in multiple documents at different points in time, such as the *2018-19 Forward Plan*, the *System Needs and Product Strategy* and product development Roadmaps. Our expectations are based on commitments made in these multiple documents. When updates are provided, it is unclear which commitments remain relevant. We believe this could be resolved by the ESO compiling a single 'Master Plan' on the reform of markets for system management services. This would better enable stakeholders to monitor performance and hold the ESO to account.

A related issue we recognise is that is unclear how the ESO can be effectively held accountable for the commitments made in multiple documents when the new incentive regime encourages it to deliver against the annual Forward Plan. This issue may be resolved once the RIIO-2 price control for the ESO is implemented.

Broad investment signals provided by the ESO have not been as reliable and timely as expected:

We support the ESO providing ambitious but achievable development plans. Our expectation is that parties should be able to rely on these plans with a reasonable degree of confidence and that any material changes are communicated with good notice. As the ESO is currently the main purchaser of system management services, it is necessary that the broad investment signals provided by the ESO are reliable and timely. Our experience over the past years is that unexpected and material changes in the direction of travel have not always been signalled with sufficient notice. Further, we have observed several delays in the delivery of market reforms. These factors are negatively affecting investor confidence. Examples are described in the attached appendices.

The ESO's communication and engagement with stakeholders can be improved and transparency can be increased:

While there have been improvements in this area, further improvements are needed to provide confidence that the system is being managed efficiently and effectively. In our response to the

Call for Evidence for the Mid-Year Review, we highlighted the critical need for the ESO to be transparent about the phasing-out of procurement via non-competitive methods and legacy contracts resulting from procurement via non-competitive methods. We also highlighted the critical need for the ESO to develop a schedule for and to monitor progress towards fully open market-based procurement for Firm Frequency Response and Fast Reserve services. In our opinion, sufficient progress has not been made during the second half of the year and our expectations have not been met. Examples are described in the attached appendices.

We include our evidence of performance according to each of the seven principles in the attached appendices. I hope you find these comments helpful. Please contact me if you would like to discuss any aspect of our response.

Yours sincerely,

Andy Manning
Director - Network Regulation and Forecasting
Centrica Regulatory Affairs, UK & Ireland

Appendix 1:

Evidence of performance against Principle 1 – Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information

The ESO's end-of-year goal for stakeholder sentiment:

“Stakeholders are telling us that they understand and buy into our vision for how we will enhance transparency and accuracy of information sharing. Stakeholders have a much better understanding of where information is available. We receive feedback that the actions we have taken within the year have made an improvement and are helping market participants to make informed decisions.”

Our response:

We recognise the ESO has taken steps during 2019 to increase transparency of its operational decisions and to increase the availability of operational data. Publishing the daily balancing costs is an example of this. We accept there is a balance to be struck between the speed with which daily reports can be published and expenditure data becoming available. Our experience of these publications is that they have been less useful than they otherwise could have been, because of the delay in publication. However, we often have been unable to reconcile the aggregate expenditure data with other publicly-available data. In other areas, the need to increase transparency and to make operational data available remains.

Deliverable:	Commence new BSUoS monthly report (Q1) AND Publish BSUoS Monthly Report (Q2 – Q4)
Due:	Q1 - Q4
Commentary:	We welcome the publication of the BSUoS monthly reports. This has increased transparency. Particularly, we welcome the commentary on the broad drivers of system management expenditure for each month.

Deliverable:	Webinars on AS/BS tender results.
Due:	Q1 – Q2
Commentary:	The usefulness of these webinars has reduced over time. We are unsure of the value of these webinars to market participants as, in our opinion, additional information is not provided. The webinars have not proved to be a suitable format for encouraging dialogue or providing us with additional clarity.

Deliverable:	Publish monthly summary of daily balancing costs and volume with high-level summary of system conditions.
Due:	Q2
Commentary: <p>We welcome the publication of the summary reports. This has increased transparency. Particularly, we welcome the commentary system conditions in the daily reports. Unfortunately, the delay of the publication of the reports has rendered the summary reports less useful than they otherwise would have been. Typically, the monthly reports are published five weeks after the end of the relevant month while the daily reports are published nine days after the relevant day. We have also noticed that some of the daily reports have not been published.</p> <p>Though not a direct component of this deliverable, it would be helpful if the ESO responded to queries about the content of the monthly reports more promptly. We have queries remaining outstanding after five months.</p>	

Metric: Forecasting accuracy (day-ahead demand forecasts)

In our response to the consultation on the 2018-19 Forward Plan, we stated our view that the proposed metric was complex and could present a barrier to stakeholders understanding and assessing performance. Instead, we recommended the mean absolute percentage error (MAPE) should be used to measure performance. We also recommended higher performance thresholds because we believed a 5% reduction in error is insufficiently challenging. As an example, the MAPE for demand forecast over the period covering April 2017 to January 2018 was 2%; a 5% reduction in error would result in a MAPE of 1.9%. Nevertheless, the ESO retained the proposed metric and performance thresholds.

We note the ESO has stated the following in the End of Year report:

Day-ahead demand forecasts exceeded expectations against the metric target 12/12 months. We delivered a 9% year-on-year reduction in forecasting error; a 12% reduction in error against the three-year average; a 12% reduction in large (>1GW) errors year-on-year; and a 6% reduction in large error against the three-year average.¹

We analysed the ESO's demand forecasting performance by comparing the final National Demand Forecast² (NDF) to out-turn demand for each day between October and March (which we refer to as the 'Winter Period') for the four-year period up to and including 2018-19. These data points are published by the ESO in the Balancing Mechanism Reporting System (BMRS). We selected the final NDF for analysis because the ESO typically will commit to expenditure to balance the system at this stage.

Our analysis shows highlights a systematic bias to over-forecasting peak demand: the ESO over-forecasted final NDF about 75% of the time over the four-year period. As shown in the table below, the proportion increased from 74% in 2015-16 to 78% in 2018-19. The figures below illustrate that

¹ "2018-19 Forward Plan End of Year Report - Evidence chapters"; page 20:
<https://www.nationalgrideso.com/document/128421/download>.

² This is a forecast of peak demand produced at 1200 on the day.

the extent to which final NDF exceeding out-turn has consistently been greater than the extent to which out-turn exceeded final NDF in all four years. The figures also illustrate that the range of the forecast error has consistently widened over the four-year period. These factors suggest the ESO's demand forecasting performance has not improved.

Table 1 - Proportion of days between October to March in which final National Demand Forecast exceeded out-turn

	2015-16	2016-17	2017-18	2018-19
October	58%	65%	68%	77%
November	80%	73%	67%	80%
December	74%	65%	77%	66%
January	87%	74%	77%	78%
February	79%	86%	79%	93%
March	65%	71%	77%	74%
Winter Period	74%	72%	74%	78%

Figure 1: Forecast error for 1 October 2018 to 31 March 2019

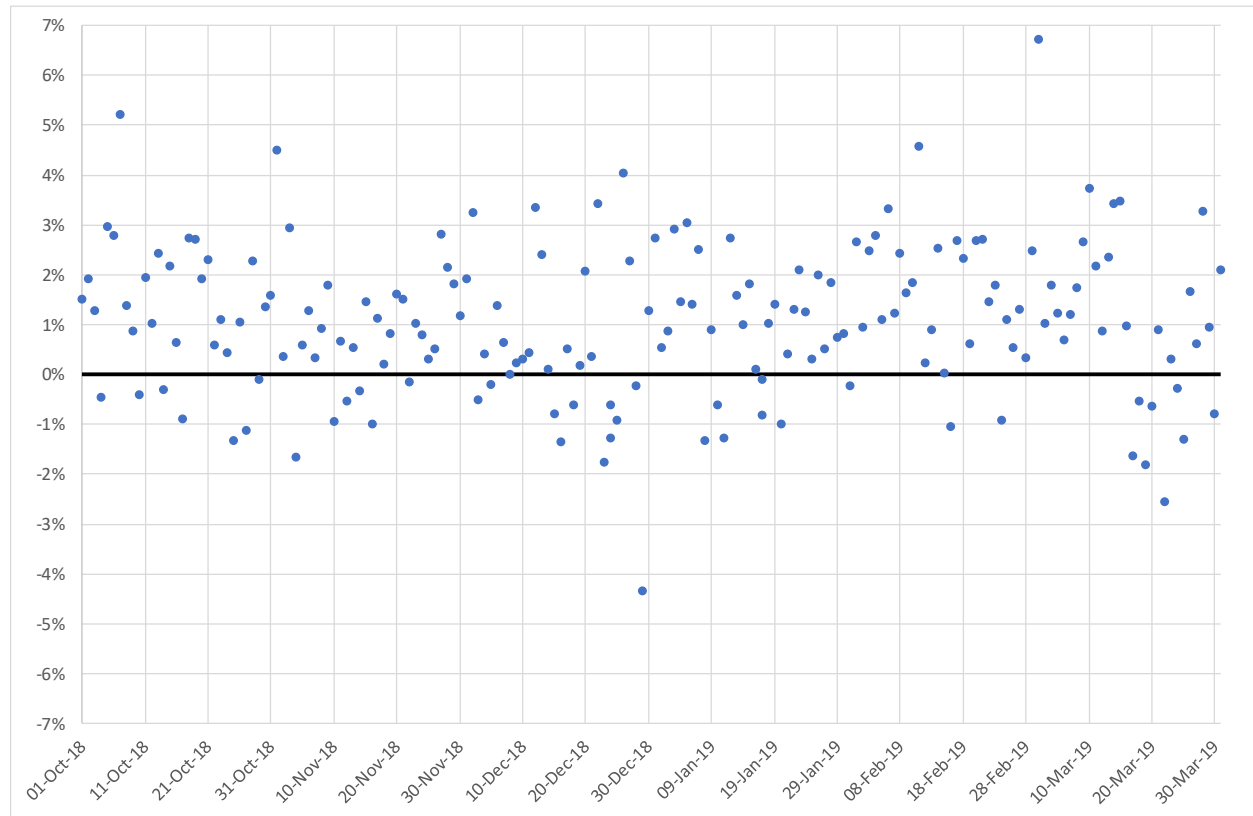


Figure 2: Forecast error for 1 October 2017 to 31 March 2018

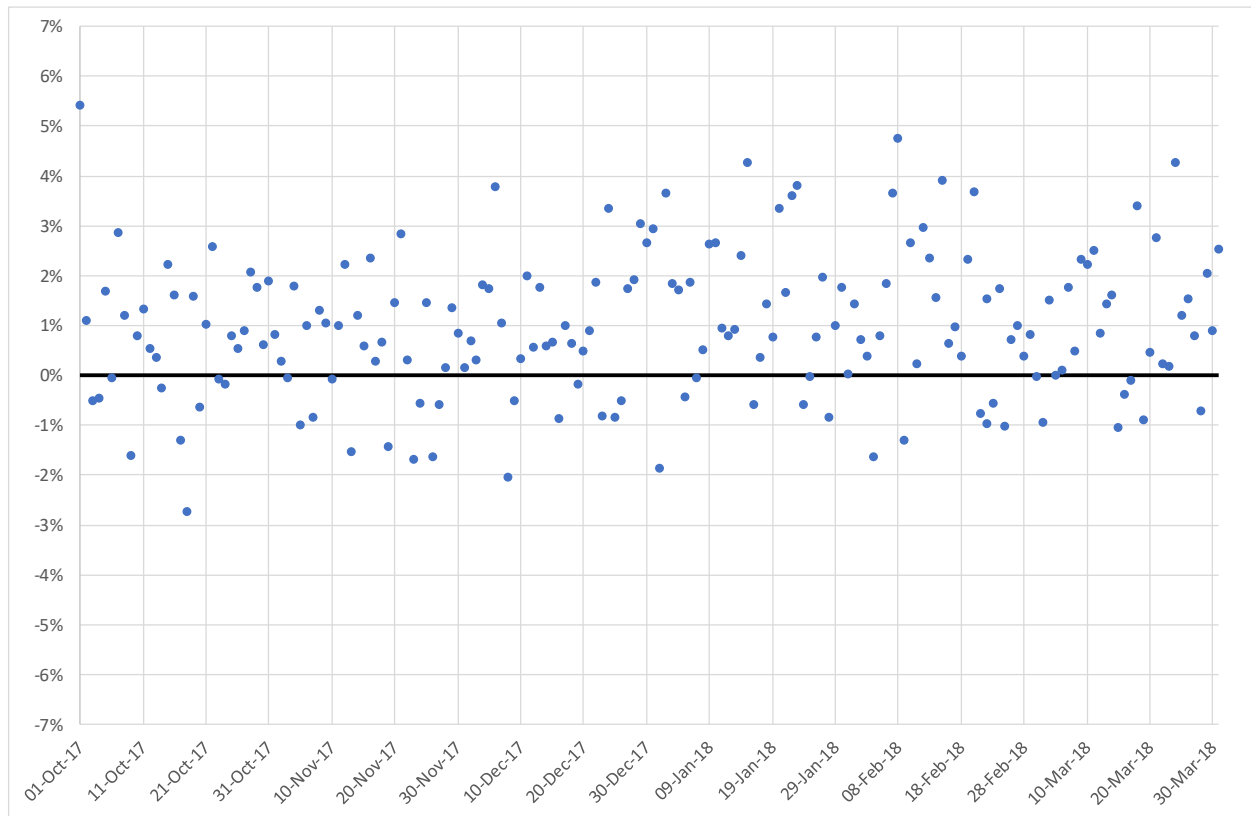


Figure 3: Forecast error for 1 October 2016 to 31 March 2017

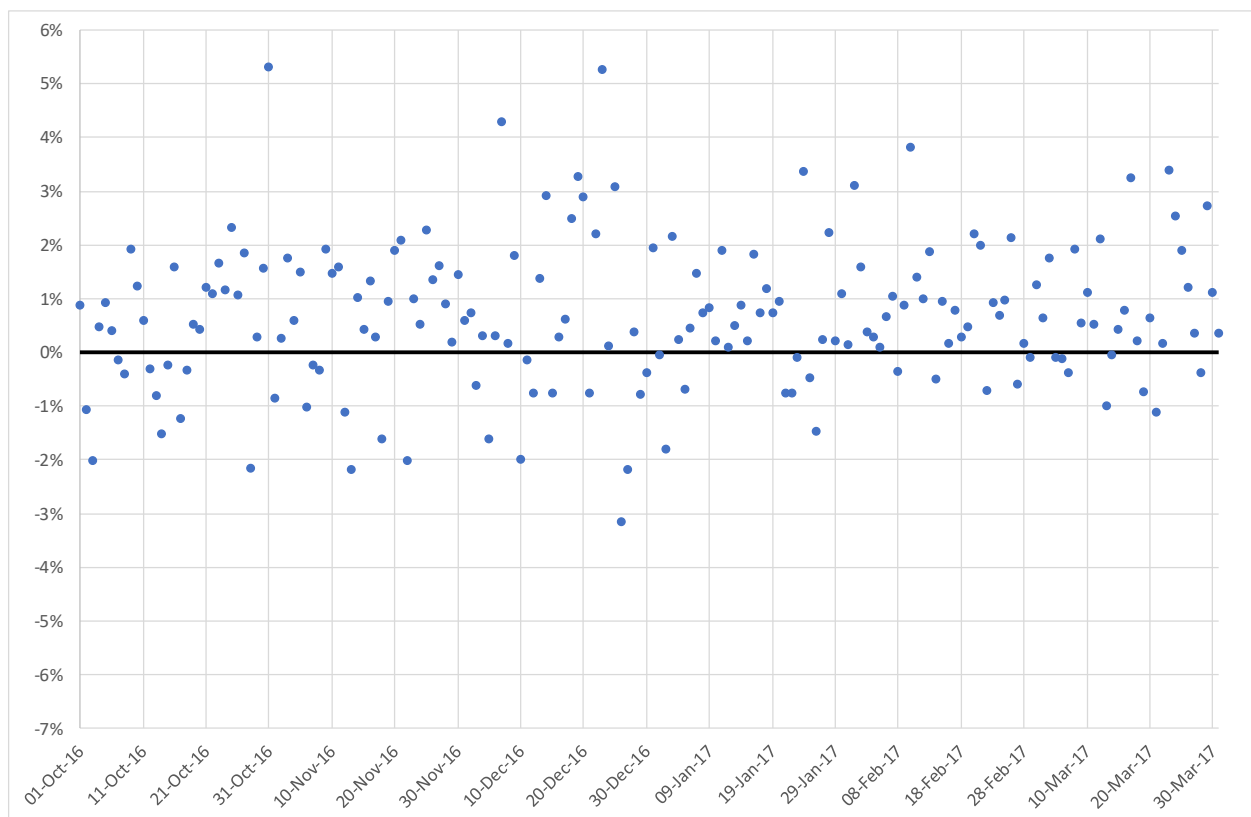
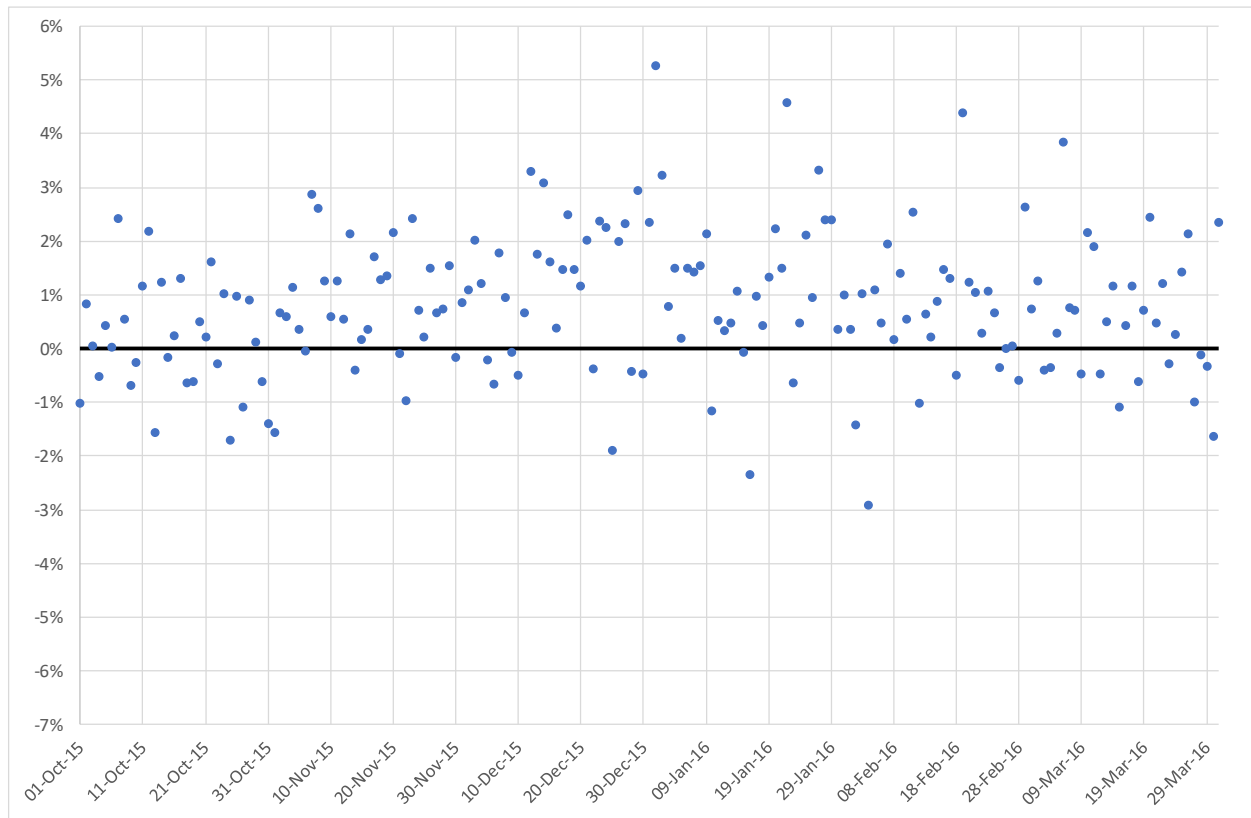


Figure 4: Forecast error for 1 October 2015 to 31 March 2016



Appendix 2:

Evidence of performance against Principle 2 – Drive overall efficiency and transparency in balancing, taking into account impacts of ESO actions across time horizons

The ESO's end-of-year goal for stakeholder sentiment:

"Stakeholders have noted a step-change in their understanding of the decisions we take in procuring balancing services and they have a significantly better understanding of the factors that drive balancing costs. Our SO IT Forum is welcomed as a big step towards improving stakeholder understanding of changes to our IT systems and this is helping them to manage their own business systems and processes."

Our response:

Our understanding of the ESO's decisions taken in procuring balancing services has increased. However, this increased understanding is limited to decisions relating only to balancing services that are competitively procured. We remain unclear about the ESO's decisions relating to volumes that are not competitively procured. We have raised queries throughout 2018-19 which are still outstanding.

Appendix 3:

Evidence of performance against Principle 3 – Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent

The ESO's end-of-year goal for stakeholder sentiment:

"Stakeholders have provided clear feedback that the progress and engagement on the reform of balancing services is satisfactory. Stakeholders understand the routes through which they can engage with the ESO on the potential to offer balancing services and that we are considering a full range of potential options to meet system requirements."

Our response:

Our expectations in this area have not been met. We highlighted the critical need for the ESO to be transparent about the phasing out of procurement via non-competitive methods and legacy contracts resulting from procurement via non-competitive methods. We also highlighted the critical need for the ESO to develop a schedule for and to monitor progress towards fully open market-based procurement for Firm Frequency Response (FFR) and Fast Reserve (FasRes) services. We believe unexpected and material changes in the direction of travel have not always been signalled with sufficient notice. Further, we have observed several delays in the delivery of market reforms. These factors have created considerable uncertainty and are negatively affecting investor confidence.

Deliverable:	Trading activity to be published closer to real time.
Due:	Q1
Commentary:	The ESO now publishes trading activity data closer to real time.

Deliverable:	Publish roadmaps on the development of markets for voltage, constraints and black start.
Due:	Q1
Commentary:	<p>Roadmaps on the development of markets for voltage and black start were published in May 2018.</p> <p>An information note on Transmission Thermal Constraint Management was published in 2018³. The note was intended to encourage more potential providers to participate, to describe the ESO's short-, medium- and long-term plans for Thermal Constraint Management and to signpost future developments. The document did not contain necessary information on market development contained in the voltage and black start Roadmaps, such as specific deliverables and their scheduling. No further information has since been published. We do not believe the information note on Transmission Thermal Constraint Management constitutes a Roadmap.</p>

³ See

https://www.nationalgrideso.com/sites/eso/files/documents/National%20Grid%20Transmission%20Thermal%20Constraint%20Management%20information%20note_July%202018.pdf

Deliverable:	Standardise the Firm Frequency Response (FFR) product structure and simplify the contract.
Due:	Q1
<p>Commentary:</p> <p>We recognise the ESO has increased its engagement with market participants in this area, via media including webinars and YouTube videos. Other improvements implemented by the ESO include a limit on the number of tenders each market participant can submit in each tender round. We believe these developments have increased market efficiency.</p> <p>Standardisation occurred (e.g. moving to EFA blocks) were completed ahead of the May 2018 tender round, within the prescribed timescale. Proposals for the simplified contract were consulted on in June 2018. The contract changes were implemented until December 2018 via a Detailed Change Proposal (DCP).</p> <p>The ESO proposed changes the performance monitoring formula, which would have been compromised the viability of FFR assets. We acknowledge the ESO heeded market participants' views and has not made the changes the methodology. However, this work remains open it is unclear to us how it will be progressed⁴.</p> <p><i>Further improvements:</i></p> <p>Market arrangements can be made more efficient by further streamlining aspects of the tendering process. The <i>FFR Market Information Report</i>, which sets out the volumes the ESO intends to procure during the coming tender round and when volumes will be needed within the relevant period, is published only five days ahead of the start of each monthly tender round. We believe this is insufficient to allow market participants to conduct robust technical and commercial analyses which will underpin tenders. Publishing the Market Information Report farther in advance ahead of the start of each tender round would allow market participants to prepare higher quality bids.</p> <p>The content of the Market Information Report would be enhanced if the included the methodology and data used to derive the volumes of FFR services it intends to procure in each tender round. Publishing the volumes of Frequency Response (FR) services already procured via non-competitive methods, the volumes of Enhanced Frequency Response (EFR) services procured and the expected utilisation of Mandatory Frequency Response (MFR) services would increase transparency.</p> <p>We accept the ESO's zero tolerance approach to errors in tender submissions since standardisation has occurred. However, the existing tender submission template (ARIBA template) is not user-friendly and increases the risk of errors being made. This can lead to otherwise valid tenders being rejected, which introduces a degree of market inefficiency. We recommend the tender submission template is made more user-friendly.</p>	

⁴ "Firm Frequency Response (FFR) Detailed Change Proposals (DCP-18)", page 8:
<https://www.nationalgrideso.com/sites/eso/files/documents/FFR%20DCP%202018%20-EXT.pdf>.
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Deliverable:	Publish a new FFR testing and compliance policy.
Due:	Q2
Commentary: <p>The ESO published a draft of the policy for performance monitoring requirements in September 2018⁵. The ESO has not yet published the confirmed policy.</p> <p>The ESO proposed changes the performance monitoring formula, which would have been compromised the viability of FFR assets. We acknowledge the ESO heeded market participants' views and has not made the changes the methodology⁶. However, this work remains open it is unclear to us how it will be progressed.</p>	

Deliverable:	Deliver new, standardised products and simplified contracts for reserve.
Due:	Q2
Commentary: <p>The Outline Change Proposal (OCP) – the consultation on the simplification of the contract - for FasRes was published in September 2018⁷. However, the DCP - the confirmed changes to the standardised contract – was published in December 2018⁸. Similarly, the Short Term Operating Reserve (STOR) OCP was published in June 2018 while the DCP was also published in December 2018⁹. We do not believe consulting on the terms of the simplified contracts within the specified window is equivalent to delivering the simplified contracts. We highlight that the ESO previously signalled these outputs would be delivered in Q2 2018 (i.e. April to June)¹⁰.</p> <p>We welcome standardisation because it should increase market efficiency. Different standards have been implemented for reserve and response services (e.g. the services are procured over different timescales and pay-as-bid and pay-as-clear pricing mechanism both being used). The ESO should aim to achieve standardisation across services where possible, to further increase market efficiency.</p> <p>Following standardisation, we expected some types of contracts to be available. However, in August 2018, the ESO confirmed that would no longer happen¹¹. This is an example of an unexpected change that was communicated without sufficient notice, which has made business planning difficult.</p>	

⁵ The ESO stated “The draft policy for performance monitoring requirements is now being published as part of this letter”. See page 1 of:
<https://www.nationalgrideso.com/sites/eso/files/documents/Performance%20Monitoring%20Policy%20Sep%202018.pdf>.

⁶ “Firm Frequency Response (FFR) Detailed Change Proposals (DCP-18)”, page 8.

⁷ See: <https://www.nationalgrideso.com/node/125486>.

⁸ See:
<https://www.nationalgrideso.com/sites/eso/files/documents/Fast%20Reserve%20Detailed%20Change%20Proposal%20.pdf>.

⁹ See: <https://www.nationalgrideso.com/sites/eso/files/documents/STOR%20DCP%202018%20-%20EXT.pdf>.

¹⁰ This is shown in the ‘Reserve’ section of the diagram on page 4 of “Product Roadmap For Frequency Response and Reserve”. See:
<https://www.nationalgrideso.com/sites/eso/files/documents/Product%20Roadmap%20for%20Frequency%20Response%20and%20Reserve.pdf>

¹¹ See: <https://www.nationalgrideso.com/document/120611/download>.

Deliverable:	Deliver a new, highly scalable and flexible dispatch solution for reserve (PAS).
Due:	Q2
Commentary:	<p>We were involved in the development of Platform for Ancillary Services (PAS) for FasRes services. There was good collaboration between the ESO and market participants and is an example of how systems can be developed in an agile way. We highlight that the ESO previously signalled the platform for STOR services would be delivered in Q4 2018¹² but it has not yet been delivered.</p>

Deliverable:	Publish and consult on exclusivity clauses.
Due:	Q2
Commentary:	<p>The ESO published a consultation on exclusivity clauses in September 2018¹³. We supported the principles outlined in the consultation because they should further encourage competitive markets for system management services. The consultation closed at the end of October 2018 and, since then, the ESO has not provided an update on progress.</p>

¹² This is shown in the 'Reserve' section of the diagram on page 4 of "Product Roadmap For Frequency Response and Reserve".

¹³ See

<https://www.nationalgrideso.com/sites/eso/files/documents/Review%20of%20Exclusivity%20Clauses%20within%20Balancing%20Services%20Contracts%20Sep%202018.pdf>.

Deliverable:	Develop an integrated approach to buying standard and faster-acting frequency response.
Due:	Q3
<p>Commentary:</p> <p>We note the overlap in this area between commitments in the <i>Product Roadmap For Frequency Response and Reserve</i> and the <i>2018-19 Forward Plan</i>. In the Roadmap, the ESO signalled that procurement of faster-acting response would occur in Q4 2018¹⁴. Without additional clarification from the ESO, we believed this deliverable in the <i>2018-19 Forward Plan</i> was a restatement of the commitment made in the Response roadmap.</p> <p>Further, within the Roadmap, the ESO stated:</p> <p style="padding-left: 40px;"><i>“...our ambition is to have a closer to real-time frequency response market that combines the existing dynamic products of Primary, Secondary and High with new fast-acting frequency products”.</i>¹⁵</p> <p>As such, we expected the new Faster-Acting Response (FAR) service would be procured along with Primary, Secondary and High products in a holistic manner.</p> <p>Workshops in which technical details were discussed were held in May 2018. We are unaware of any formal engagement with market participants between May 2018 and February 2019, despite this output having been scheduled for delivery between October and December 2018. In February 2019, the ESO published an update¹⁶. Crucially, the update did not include a revised timescale in which this output will be delivered, how FAR services will be procured alongside standard FFR services and whether FAR services will be used to replace standard MFR services.</p> <p>Following the February 2019 update, and from subsequent discussions with the ESO, we are now aware the ESO now intends to replace existing FFR services with the new suite of services. We believe this is a material and detrimental change. Replacing existing FFR services will unjustifiably exclude some types of technologies. Market participants have committed investment based on previous statements from the ESO and reasonably expected existing FFR services would have been required on an enduring basis. We believe this material and detrimental change will negatively affect investor confidence and could result in investors not committing investment to meet system needs in a timely manner in the future. By extension, consumers will be negatively affected.</p> <p>Had the ESO engaged with market participants throughout the year, market participants could have formally raised concerns, such as the design of the FAR service may exclude certain technologies. This is an area in which the ESO’s engagement with market participants has not met our expectations and our uncertainty about future arrangements has considerably increased.</p>	

¹⁴ This is shown in the ‘Response’ section of the diagram on page 4 of “Product Roadmap For Frequency Response and Reserve”.

¹⁵ “Product Roadmap For Frequency Response and Reserve”, page 25.

¹⁶ See: <https://www.nationalgrideso.com/document/138861/download>.

Deliverable:	Develop a weekly auction trial for response.
Due:	Q3
<p>Commentary:</p> <p>We note the overlap in this area between commitments in <i>the Product Roadmap for Frequency Response and Reserve</i> and the <i>2018-19 Forward Plan</i>. In the Roadmap, the ESO stated the start of the auction trial was expected in Q4 2018¹⁷. We believed this deliverable in the <i>2018-19 Forward Plan</i> was a restatement of the commitment made in the Roadmap.</p> <p>The trial was not delivered during the 2018-19 scheme year and remains outstanding. The ESO has since indicated it expects to deliver this output during the 2019-20 scheme year¹⁸. The ESO has also confirmed this output will now be delivered on two phases, the first of which is due to be completed in Spring 2019¹⁹.</p> <p><i>Market participants require clarity:</i></p> <p>We welcome clarity about the first phase of the trial. We highlight that the ESO stated it did not intend to procure new services during the auction trials:</p> <p style="padding-left: 40px;"><i>“...New products will not be procured through the weekly auction trial as changing two variables – the products and the market – would prevent us from drawing clear conclusions on the impact...”²⁰</i></p> <p>We agree. However, the service being procured in phase 1 (the ‘1 second Static Low response’) service is a completely new service.</p> <p>The ESO has not yet fully explained what the outputs of the second phase will be, or other related factors such as volumes to be procured, whether these volumes will be taken from (existing FFR or MFR volumes), and the commercial procurement methodology. For the second phase, the ESO has stated that it will procure standardised versions of existing products²¹. However, The ESO has not yet described how the all four of the standardised FFR services currently offered by market participants will be mapped across to the four proposed services to be included in the second phase of the trial. We assume the response time (i.e. 10 seconds or 30 seconds) will remain the same, but this has not been confirmed by the ESO. This uncertainty has made business planning difficult.</p> <p>The ESO has not clarified whether it intends to continue procuring MFR services and has not confirmed the timetable for phasing out procurement via non-competitive means or when volumes previously procured via non-competitive means will be competitively procured. We also highlight that the delay in the move to daily auctions has prolonged the procurement of FFR services not being technology-agnostic and blocks revenue opportunities for some market participants.</p>	

¹⁷ This is shown in the ‘Response’ section of the diagram on page 4 of “Product Roadmap For Frequency Response and Reserve”.

¹⁸ “Future of Frequency Response Industry update”, page 1:
<https://www.nationalgrideso.com/document/138861/download>.

¹⁹ “Future of Frequency Response Industry update”, page 1.

²⁰ “Future of Frequency Response Industry update”, page 5.

²¹ “Future of Frequency Response Industry update”, page 5.

The continued uncertainty about the implementation of auctions, the future of certain types of Response services, phasing-out of non-competitive procurement methods and future overall system requirements for response services has made business planning challenging. This has been compounded by the unexpected changes that have communicated without sufficient notice. This is an area in which the ESO's engagement with market participants has not met our expectations.

Negative impact on consumer value:

We are concerned that the delay in developing a weekly auction, as an intermediate step to developing a daily auction, prolongs the period over which consumer value is being lost. Broadly, response requirements have been satisfied by FFR, MFR and EFR services. All other things being equal, MFR services tend to be more expensive²². Further, utilising MFR services can lead to operational difficulties because assets may need to be 're-positioned', which may be in the opposite direction to that required for energy balancing.

The impact of the competitive pressures brought about by the introduction of monthly tenders for FFR services has been beneficial in two ways:

- Prices for FFR services have been reducing over time.
- The reducing prices for FFR services has had a downward effect on prices for MFR services.

The delay in the move toward daily auctions for FFR services has been resulted in consumer value being lost in three ways:

- The downward trend in prices for FFR services has slowed. It is likely that daily auctions will attract a greater range and numbers of participants. Increased competition in those auctions could result in lower prices.
- The substitution of equivalent services at lower cost has been delayed. FFR services procured daily can, at least in part, replace MFR services.
- Volumes of MFR services being procured have been increasing having previously decreased, which may be because of increasing output from renewables. Again, FFR services procured daily can, at least in part, replace MFR services.

Several market participants have stressed that day-ahead auctions are needed, especially to facilitate Demand Side Response (DSR) and renewables assets into auctions. However, there is no acknowledgement of this aim in the *2019-21 Forward Plan*. Indeed, the only reference to this is in the ESO's *RiIO-2 Ambition* consultation, in which the ESO stated day-ahead auction for all balancing services will be developed and implemented during RiIO-2²³. In the absence of any other information, we assume this is the case. This delay means daily auctions would be implemented six years after they were proposed in earnest. Further, this would result in viable participants being excluded from such markets for several years and the benefits of competition to consumers would be delayed. We do not believe this is in the best interests of consumers.

²² When re-positioning fees are considered.

²³ "Our RiIO-2 ambition", page 24: <https://www.nationalgrideso.com/document/141256/download>.

Deliverable:	Grow Power Responsive including annual conference.
Due:	Q4
Commentary:	<p>Power Responsive has been useful medium for raising awareness of opportunities and engaging with operators of DSR assets. It also plays a role in ensuring demand has equal opportunity with the supply side when it comes to balancing the system. That said, we are concerned that recent ESO announcements have made the opportunities for DSR less clear. We were surprised that the Demand Turn-Up product was withdrawn (without information on what might replace it) even though the ESO has indicated the general need is increasing year on year²⁴. The new FAR products, as currently designed, would rule out many forms of DSR with the requirement to respond in less than one second. This has negatively impacted the services we can offer to help customers participate in DSR.</p>

Deliverable:	Facilitated entry of early adopters into BM (Project TERRE – ahead of full delivery by 2020).
Due:	Q4
Commentary:	<p>A formal update has not been provided.</p>

²⁴ See:

[https://www.nationalgrideso.com/sites/eso/files/documents/EXT%20Demand%20Turn%20Up%202019.p
df.](https://www.nationalgrideso.com/sites/eso/files/documents/EXT%20Demand%20Turn%20Up%202019.pdf)

Appendix 4:

Evidence of performance against Principle 4 – Promote competition in the wholesale and capacity markets

The ESO's end-of-year goal for stakeholder sentiment:

“Through the relevant surveys stakeholders tell us that our performance as a code administrator has improved significantly. Stakeholders understand our vision and level of ambition for driving wider industry change through our role. Stakeholders tell us we are adding real value to them in helping them to engage with the industry change process for network charging.”

Our response:

We believe the ESO has performed well in engaging with stakeholders on EU-led change and Brexit preparations. Additionally, the ESO has delivered well on providing educational webinars and multiple stakeholder forums and workshops. In our opinion, the ESO has effectively facilitated the Charging Futures Forum.

Deliverable:	Improved transparency and publication of charging data – Phase 1: Customer access to information. (Q1) AND Improved transparency and publication of charging data – Phase 2: Better forecasting and outturn information and material. (Q3)
Due:	Q1 - Q3
Commentary:	We welcome the publication of the BSUoS II settlement run data. This has been of use since the publication of the II data for any given day precedes the SF data by 14 days. Our analysis of the expenditure, volumes and rates for both sets of data for 2018-19 shows that there is little variance in volumes between the settlement runs. However, there are material differences in the expenditure reported and, by extension, the rates. As shown in Table 2, on average, the expenditure reported in the SF data was almost 11% greater than that reported in the II data. For November 2018, SF data was almost 26% greater than that reported in the II data We recommend the ESO reviews how expenditure in the II data is reported.

Table 2: Comparison of II and SF data for 2018-19

	Expenditure change (£)	Expenditure change (%)	Volume change (MWh)	Volume change (%)	Rate change (£/MWh)	Rate change (%)
Apr-2018	-1,226,699	-1.77%	27,022	0.07%	-0.03	-1.84%
May-2018	12,401,337	14.67%	18,090	0.05%	0.33	14.63%
Jun-2018	11,832,566	11.22%	11,068	0.03%	0.33	11.19%
Jul-2018	-2,802,071	-2.79%	25,994	0.07%	-0.08	-2.86%
Aug-2018	6,269,419	6.65%	19,180	0.05%	0.17	6.60%
Sep-2018	8,664,829	5.35%	3,713	0.01%	0.24	5.34%
Oct-2018	25,573,155	15.37%	336,425	0.81%	0.59	14.67%
Nov-2018	33,601,966	25.67%	57,670	0.13%	0.75	25.57%
Dec-2018	17,452,050	14.78%	291,685	0.64%	0.37	14.23%
Jan-2019	12,955,460	13.06%	283,345	0.57%	0.25	12.56%
Feb-2019	10,056,310	10.11%	526,625	1.30%	0.22	8.93%
Mar-2019	12,279,509	7.39%	90,562	0.22%	0.29	7.19%
2018/19	147,057,830	10.53%	1,691,380	0.35%	0.29	10.22%

Deliverable:	Deliver webinars, podcasts and publications under Charging Futures.
Due:	Q1 – Q4
Commentary:	The ESO has proactively kept stakeholders abreast of developments and has used multiple channels to disseminate information.

Deliverable:	Deliver Charging Futures Forum.
Due:	Q1 – Q4
Commentary:	The ESO has effectively facilitated the Charging Futures Forum. We acknowledge work being delivered by the Charging Futures Forum could not have been reasonably envisaged during the RIIO-T1 price control review. As such, this is an example of where we think it is unlikely the ESO has been funded to deliver this output.

Appendix 5:

Evidence of performance against Principle 5 – Coordinate across system boundaries to deliver efficient network planning and development

The ESO's end-of-year goal for stakeholder sentiment:

"Stakeholders are happy with how we have collaborated with parties in our development of processes to allow significant progress towards realising a "whole system" approach in this area. Stakeholders are happy with the role the ESO is playing to facilitate collaboration across the Transmission-Distribution boundary including our contribution to the ENA Open Networks Project. Stakeholders are satisfied that our activities in this area are creating a level playing field for different types of solution and will drive outcomes that deliver the best value for consumers."

Our response:

We welcome the ESO's contribution to the Energy Networks Association's Open Networks Project. The ESO shared its experience in developing and improving markets for flexibility services, improving connections and data transparency with the DNOs. We believe this is a positive outcome and encourage the ESO to continue to do so.

We welcome the ESO's initiatives to facilitate connections for flexible distributed energy resources (DER) to contribute to the resolution of network constraints. We acknowledge the work completed by the ESO, in collaboration with DNOs, on Regional Development Programmes (RDPs). We also recognise the broader commitment the ESO has shown to working with DNOs to help distributed generation connect to the network by using appropriate alternatives to network investment. We think the ESO's stakeholder engagement on the RDPs focused on communication with DNO and TO stakeholders. Although some updates were given to wider stakeholders through the Open Networks Project, the ESO should have undertaken more engagement with operators of connecting DER.

The ESO has not yet implemented the roll-out of a revised Statement of Works process on a national basis. Additionally, we are aware that some connecting customers have been adversely affected by the delays in facilitating the unlocking of further DER connections. We note the ESO acknowledges these delays²⁵.

²⁵ "2018-19 Forward Plan End of Year Report - Evidence chapters", page 98.
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Appendix 6:

Evidence of performance against Principle 6 – Coordinate effectively to ensure efficient whole system operation and optimal use of resources

The ESO's end-of-year goal for stakeholder sentiment:

"Stakeholders tell us that the balancing services roadmaps and the new Operability Report have improved their understanding of future demand for balancing services. We acknowledge that we will never be able to completely satisfy the demand for detailed forward-looking information on this topic due to the dynamic nature of the networks and markets.

Stakeholders acknowledge the leading role we are playing in facilitating the transition to "whole system" network operation through our Regional Development Plan collaborations with DNOs and our contribution to the ENA Open Networks Project."

Our response:

Again, we welcome the ESO's contribution to the Open Networks Project. Particularly, we support the work the ESO has done to promote the role of market-based principles and the importance of system operator neutrality for future Distribution System Operator (DSO) commercial and technical arrangements. We welcome the work done independently by the ESO on whole electricity system thought leadership. This complements the ESO's engagement in Open Networks Project.

Appendix 7:

Evidence of performance against Principle 7 – Facilitate timely, efficient and competitive network investments

The ESO's end-of-year goal for stakeholder sentiment:

"Stakeholders are clear that competition is being implemented in the identification of solutions to meeting transmission network requirements. Stakeholders are happy with how they have been able to participate in changes to the Network Options Assessment process and have seen significant progress towards opening markets in this area. They are satisfied that our activities in this area are creating a level playing field for different types of solution and will drive outcomes that deliver the best value for consumers."

Our response:

We welcome the ESO's efforts in this area. Particularly, we welcome the inclusion of non-build solutions in the Network Options Assessment. We recognise those non-build solutions arose mainly out of engagement with the transmission network operators. We encourage the ESO to accelerate the widening of its engagement to include market participants so that a greater range of non-build solutions can be considered.

Metric: NOA consumer benefit

In our response to the consultation on the 2018-19 Forward Plan, we stated our view that performance benchmarks should be based on the number of credible options identified because benchmarks based on the number of all solutions could result in perverse incentive to add non-credible options to the process). Also, we recommended that, if this metric was retained, the target should reflect the increased level of activity since the 2014-15 baseline. Nevertheless, the ESO retained the proposed metric and targets.

Given the information available to us, we were not able to identify what would constitute an ambitious target. Additionally, given the information available to us, we have not been able to confirm whether all the solutions considered by the ESO were genuinely credible.