

By e-mail to: esoperformance@ofgem.gov.uk

Grendon Thompson
Head of Electricity SO Regulation
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

25 April 2019

Dear Grendon

ELEXON's response to your call for evidence on ESO performance over the 2018-19 regulatory period

We welcome the opportunity to provide evidence on the ESO's performance for 2018-19.

As you are aware, ELEXON (as 'BSCCo') is the Code Manager for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC and systems that support the BSC. ELEXON is also responsible for EMR settlement arrangements.

Under the BSC and EMR arrangements, we rely heavily on the ESO:

- for timely and accurate data in order, for example, to calculate imbalance prices
- for support in raising certain BSC Modifications e.g. those required to meet EU legal requirements
- for providing resource and information to enable certain BSC Modifications to be progressed and implemented in a timely and efficient manner.

In turn, ESO relies on both industry's and ELEXON's expertise and input, e.g. in developing the GB TERRE settlement arrangements and in widening Balancing Mechanism access; in developing harmonised imbalance settlement in Europe; and data for ESO to calculate TNUoS charges.

Therefore, the key ESO performance attribute for us is collaboration and cooperation between ESO and ELEXON on matters where we deliver maximum benefit to the end customer via joint service excellence to the industry.

The views expressed in this letter are those of ELEXON Ltd alone, and do not seek to represent those of the BSC Panel or Parties to the BSC.

I hope you find these thoughts helpful and if you would like to discuss any aspects, please do not hesitate to contact me at steve.wilkin@elexon.co.uk.

We are happy for this evidence to be shared in full with the Performance Panel and with ESO as part of the EYR process.

Yours sincerely,



Steve Wilkin
European Coordination Manager

Contents:

ELEXON's views on ESO Performance April 2018 to March 2019

Annex: ELEXON's views on ESO Performance (April 2018 to September 2018) previously submitted

ELEXON'S VIEWS ON ESO PERFORMANCE: APRIL 2018 TO MARCH 2019

1. ESO performance April 2018 to September 2018

- 1.1 We previously sent you our views on the ESO performance for the first six months of the ESO performance year 2018/19. We sent this response to you on 17 October 2018.
- 1.2 This current, new, response immediately below is additional to the previous response and is for the second six months of the 2018/19 year. Consequently, it does not replace the previous response but is supplementary to it. For ease of reference and to give the complete picture of 2018/19, we have copied the earlier response in the Annex below.

2. ESO performance October 2018 to March 2019

Update on previous response – joint and collaborative working between ESO and ELEXON

- 2.1 In this second six month period of the review year, ESO has continued to work with us on BSC changes, raising BSC Modifications where we cannot (e.g. relating to Brexit and the implementation of the European Electricity Balancing Guideline), attending BSC Working Groups and providing analysis on request. Generally, ESO has been good to work with, engagement has been good and ESO has been willing to cooperate with ELEXON. We strongly welcome this approach and support. We see this improvement as addressing some of the concerns that we previously raised in our first six-month submission.
- 2.2 In the second six months of the ESO 2018/19 performance year, we have also noticed an improvement in National Grid ESO's performance in that ESO is starting to publicly recognise and acknowledge joint collaboration and working between ELEXON and ESO. This is a very welcome development that we would like to see continue.
- 2.3 One minor observation and request, we have noticed that we have had, on occasion, multiple requests for related changes to data interfaces from different personnel in ESO over the past year. Our request is for a single point of contact at ESO for all the interfaces to ELEXON so that we can coordinate testing and changes more efficiently.

3. Other observations

Consultation issues

- 3.1 In September/October 2018, ESO consulted on its proposals for market suspension, restoration and imbalance settlement during market suspension periods as required by the new EU Network Code on Emergency and Restoration (NC ER). ELEXON responded to the consultation within the required deadline.
- 3.2 However, by January 2019 it appeared that ELEXON's comments had not been addressed in ESO's post-consultation submission to Ofgem. We sought clarification from ESO as to why our comments had not been considered, as we believed some of them to be key considerations, for example, we were unsure whether BSC Modifications would be required if the ESO proposals went forward as originally drafted.
- 3.3 ESO agreed that that the comments from ELEXON on market suspension were not correctly processed as part of the consultation. ESO asked for Ofgem's guidance given that ESO had already submitted the final proposals to Ofgem. While there was clearly an oversight with how ESO handled our consultation response, we are content with how ESO responded to our complaint once it became aware of the issue.

- 3.4 However, we note that ESO is legally obliged (NC ER Article 7(2)) to publish 'a sound justification for including or not including the views of stakeholders' resulting from the required public consultation and such publication shall be 'in a timely manner before, or simultaneously with, the publication of the proposal'. As ESO published the proposal on 18 December 2018, we believe that if ESO received consultation responses (other than ELEXON's which we agree it had missed in making its final proposal), ESO should have also published the 'sound justification' on that date.
- 3.5 Unfortunately we cannot tell for certain that ESO has/has not published the 'sound justification' for the consultation exercise as related consultations, final proposals and stakeholder comments appear on different webpages of the ESO website with no obvious links between them, which makes it difficult to be certain what has been, and what has not been, published. By way of example, we only became aware that ESO had made its final market suspension proposal because of an announcement made at the Joint European Stakeholder Group meeting on 8 January 2019, rather than being notified by email at the time of its publication on 18 December 2018 or finding the announcement via the website.

Performance Measurement

- 3.6 ESO reports its preparations for Brexit as 'exceeding expectations', e.g. in its performance report for December 2018. We are unsure whether this is wholly justified, as some evidence ESO provided related to the progression of the legally-mandated code changes that many other code administrators also needed to prepare for in the course of "business as usual" operations without incentive payments.

Open ESO Performance Panel session in November 2018

- 3.7 This observation is not strictly a comment on the ESO performance, but we are including it as an observation for Ofgem, ESO and the ESO Performance Panel to consider for the future.
- 3.8 The first open ESO Performance Panel session was on the morning of 20 November 2018. We were somewhat surprised by the format of this open session as we had expected it to be a 'Parliamentary Select Committee' type approach with ESO being challenged by the Performance Panel on their performance, with the Panel's questions informed by stakeholder comments received beforehand. In reality, the session was similar to a standard ESO seminar with ESO presentations and promotion of ESO's views with no significant challenge from the audience, which included some who happened to be Panel members but not meeting as the Panel.
- 3.9 The audience was permitted to speak but did not, with some exceptions, avail themselves of the opportunity to challenge historic ESO performance, which was presented, albeit from an ESO viewpoint. However, our impression was that this particular audience was rather more interested in ESO's long-term plans.
- 3.10 While an ESO seminar may be a reasonable approach for the 6-month review, we believe that it is unlikely to meet the needs of the annual review when ESO incentive payments should come into sharp focus. We suggest that consideration be given to holding a Select Committee style open challenge/response discussion between the Panel members and ESO with the audience enabled to speak when invited to do so by the Panel. The afternoon confidential session can then be reserved for Panel discussion of what they learnt in the morning and any follow-up questions for ESO.

ANNEX: ELEXON'S VIEWS ON ESO PERFORMANCE (APRIL 2018 TO SEPTEMBER 2018) PREVIOUSLY SUBMITTED

4. Background

- 4.1 Below is a copy of the response we sent to you on 17 October 2018, covering the first six months of the ESO performance year. This earlier response should now be read in conjunction with the above view of the later six months, not in isolation. This is because we believe that in respect of the aspects noted in section 2 above, ESO performance has changed/improved over the course of the full year.

5. Information published by the ESO

- 5.1 Over the past six months we have noted that some of the information published by the ESO could be confusing for industry stakeholders, particularly new entrants who are seeking to engage with the central bodies and understand their respective roles and codes.
- 5.2 We note that the distinction between ELEXON and the ESO's responsibilities (and achievements) may have been blurred by some ESO publications.
- 5.3 Although frustrating for ELEXON, the real problem from publishing such information is that new entrants, or new employees in an existing industry party, may approach the wrong central body to seek advice. This unnecessarily complicates and frustrates the process for them, so it is important that the ESO is precise as to its own role and that of others who support it, and whom it supports.
- 5.4 ELEXON emphasises the importance of collaboration and cooperation, as mentioned in the covering letter. This comment relates to ESO Principle 1 (Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information).
- 5.5 We give some evidence of this below.

P344 and widening access to the Balancing Mechanism

- 5.6 In August 2018, Ofgem approved possibly the most complex BSC Modification (P344) to date.
- 5.7 [P344](#)'s aims are twofold:
- to align the BSC with the European Balancing Project TERRE (Trans European Replacement Reserves Exchange) requirements. This is in order to allow the implementation of the TERRE balancing product at national level and hence ensure compliance with the European Electricity Balancing Guideline (EB GL)
 - to give wider access to the Balancing Mechanism, e.g. to enable independent aggregators to participate.
- 5.8 ELEXON started detailed internal thinking on TERRE in early 2015 immediately identifying key questions that would need to be addressed and providing initial thoughts on options and solutions. Ofgem itself was party to these early meetings, and subsequently [BSC Issue 60](#) and P344 conversations, so can confirm its view as to the extent that industry, BSC Parties and ELEXON played a significant role in the development of the P344 proposals and eventual solution.
- 5.9 Despite this effective collaboration between many parties including the electricity industry and the Issue 60 and P344 working groups that led to a successful design for P344, we felt that this successful collaborative effort has not always been presented as such by the ESO. In our view the ESO has implied that this was down to work solely or mostly within ESO/National Grid

by downplaying or even omitting to mention the great collaborative work that was done. This is evidenced by, for example, the [ESO performance report for August 2018](#) published in September 2018.

- 5.10 We found one statement (in the [ESO 2018/19 Quarter 1 Report](#)) describing ELEXON as a 'key industry partner' and we would welcome more of this approach to collaboration and cooperation.

ESO Winter Outlook 2018/19 Report

- 5.11 ESO published its [Winter Outlook 2018/19 Report](#) on 11 October 2018, just outside the ESO performance review period. It contains an article on changes to the imbalance price calculation which will take place on 1 November 2018.
- 5.12 Although it does link to ELEXON's website for more information, we think it would have been helpful to draw out the distinction between ESO and ELEXON's roles and to supply contact details, e.g. the BSC Service Desk. ELEXON's role in calculating imbalance prices, making imbalance payments to/from parties or in implementing the changes (BSC Modification P305) are not mentioned, which again may confuse those stakeholders who are seeking further information.

Statements on what ESO does and what ELEXON does

- 5.13 The statement regarding the respective roles of ESO and ELEXON that we highlighted as clearly incorrect in [our consultation response to the draft ESO Forward Plan in February](#) was repeated in the [ESO May 2018 Performance Report](#):
- Both the February ESO Forward Plan and the May Report included a statement that ESO settles and reports on the outturn of the balancing mechanism whereas, in fact, ELEXON is required under the BSC to settle balancing mechanism trades (bid-offer acceptances); and we report on balancing mechanism outturn on the Balancing Mechanism Reporting Service (BMRS). This data may have originated with the ESO but, contrary to the report, neither activity is carried out by the ESO.
 - Following publication of the May Report ESO privately apologised and we have not seen the error repeated, but has not, as far as we are aware, been publicly corrected.

Statements on BMRS capabilities

- 5.14 In our view, ESO has had misconceptions of the role and capability of BMRS and were making these public prior to, and in, the first half of the performance period:
- We have expressed concern to ESO that there had been several references by National Grid pre 1 April 2018; and then also as ESO post 1 April 2018 to the speed of publication of data on the Balancing Mechanism Reporting Service. (These references date from October 2017 at National Grid's Operational Forum, the draft ESO Forward Work plan in February 2018, at the ESO Operational Forum in April 2018 and most recently in May in a 'New Power' interview with ESO).
 - Some of the statements made seem to mix up the speed of change to get new categories of data published on BMRS (which we have been addressing, e.g. most recently with BSC Modification [P372](#)) and the speed of publication itself, which can be immediate.
 - In the May edition of 'New Power', an interview with ESO included the statement that the new ESO trading data platform 'provides better access to information coming out of the balancing mechanism (BM) but it also provides visibility of all of our non-BM trades'. On checking we found that this new platform does not provide access to BM trades, so does not provide better access to the Balancing Mechanism, as BM bid-offer acceptances (trades) are already published on BMRS.

- 5.15 It is important that the information that ESO publishes on the capabilities of BMRS is accurate, not only for stakeholders but also for its own internal decision making processes.
- 5.16 If ESO wrongly assesses the relative capabilities of BMRS versus other publication channels, it may be led to make investment or publication decisions which are not in the best overall interests of the industry or end consumer.
- 5.17 It is possible that this may simply be due to a lack of understanding by some in the ESO as to the capabilities and functionalities of BMRS. But what would be particularly concerning was if there was an underlying ESO policy to attempt to replace BMRS with its own platform leading to duplication of data on different sites or different data held on different sites, all to the confusion of, and at considerable cost to the market. This would also be in contradiction with Ofgem's stated intent in February 2018 where:
- In paragraph 1.15 of the ESO Roles and Principles document, version 2.0 Ofgem said that 'We think the ESO should publish any relevant information it has that would help market participants to balance their own positions. In doing so the ESO should consider the most effective mechanism for publishing information and avoid duplication or fragmentation with established platforms (for example BMRS).'

6. Other Aspects of ESO Performance

Electricity Balancing System (EBS) Delays and BSC Modification P297

- 6.1 We do not give a view here on the ESO performance in relation to [BSC Modification P297](#)¹ 'Receipt and Publication of New and Revised Dynamic Data items' because we note that the BSC Panel has already provided views to Ofgem by letter on 21 September 2018, and the Ofgem response of 8 October stated it would be taken into account..

Electricity Market Reform (EMR)

- 6.2 ELEXON, via its subsidiary EMR Settlements Ltd (EMRS), is contracted to provide EMR settlement services to the Low Carbon Contracts Company (LCCC) and the Electricity Settlements Company (ESC).
- 6.3 EMRS has provided comments on ESO performance as the EMR Delivery Body to the LCCC which is considering making its own submission and, as a subcontractor of LCCC, it would not be appropriate for us to comment further here.

END.

¹ It is noted that there is an associated Grid Code change [GC0068](#).