

Energy UK response to the Call for evidence on ESO performance over the 2018-19 regulatory period

17th May 2019

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. Annually, the energy industry invests over £11bn, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

Executive Summary

Energy UK welcomes the opportunity to respond to the Call for evidence on ESO performance over the 2018-19 regulatory period. In the past year, we have been encouraged by the goals and deliverables set by National Grid Electricity System Operator's ("the ESO"), following the legal separation from National Grid Electricity Transmission ("NGET"). There has been a noted increase in communication with industry stakeholders, and the scope of deliverables and projects has generally been well received. However, these deliverables have not necessarily always been delivered to the committed timeframes and milestones, which often result to the detriment of market participants whose investments rely on such ESO commitments. Energy UK are committed to providing an ongoing facility for the ESO to engage with stakeholders, to receive feedback and input to help enhance communications, transparency and openness, to support the ongoing aims of the ESO.

We recognise the increased quantity of ESO publications, updating industry on the progression of projects, deliverables and milestones in the various ESO project areas. Taking into particular consideration the updates and publications provided on the *Future of Balancing Services* project, these have not always provided the updates required in the past year. We ask that these are fuller and more detailed, covering all deliverables that have been committed to in the particular workstream. Further, we highlight the lack of communication of the decision to cease procurement of Demand Turn-Up (DTU). Although we recognise the developments made to the ESO's website, these should go further to rationalise and simplify documents and data publication, to further improve stakeholder experience and engagement.

We have been disappointed by the failure to meet milestones and committed timeframes of projects in the *Future of Balancing Services*, and the failure to appropriately communicate and explain these delays. Of particular concern are delays to the Electronic Dispatch and Logging (EDL) and Electronic Data Transfer (EDT) alternative, and a solution to Operational Metering issues. These delays are directly delaying potential market participants from providing services to the ESO, and should be delivered as soon as possible. Further concerns are arising from the delays to the weekly-auction trial for Frequency Response.

Certain core functions of the ESO have not met expectations in the past year. The forecasting of BSUoS price forecasting has been inconsistent in the previous year, only accurate in three of the twelve months between March 2018 and February 2019. We recognise that this is reliant on external factors, and that there is ambition in the ESO Forward Plan 2019-2021 to improve forecasting accuracy, however, reliable forecasting is required by industry, and it has been below what is expected in the past year. There are also various aspects of the ESO's code administrator role that should be addressed and enhanced with priority, as reflected in the Ofgem Code Administrator Performance Survey.

General Comments

Since the legal separation of the ESO from NGET, Energy UK have noted an increase in engagement and commitment to communicate with industry stakeholders. The overarching cultural change of openness and availability of the ESO is recognised and welcomed. The ESO's commitment and openness to attend meetings and events to provide updates on progress against deliverables on the *Future of Balancing Services* project is an area where communications have been high, however, content does need to be improved. Engagement sessions have provided good opportunities for stakeholders to get updates on areas that have otherwise not been covered by usual engagement. Such events, however, tend to be high level overviews (which may be useful to new market participants) and hence do not go in to the specific detail required to aid industry. Often, the more challenging questions are taken away to be answered, but the answer is never obviously publicised or necessarily provided.

Energy UK also highlights the importance of the ESO incentive scheme to encourage the ESO to perform and deliver to a standard that is expected by industry stakeholders.

We are aware of occasions in the past year where consultation responses have been running in parallel to other consultations (e.g. ESO's Draft Forward Plan 2019-2021 Consultation, and the C16 Annual Industry Consultation 2019-20) and consultation periods have been shorter than what would be expected by stakeholders. Energy UK notes that the length of the consultation period for the ESO Draft Forward Plan April 2019 – March 2021 was less than 5 weeks, and the RIIIO-2 Ambition consultation was 4 weeks. In order to facilitate a greater quality of responses, we would encourage the ESO to mirror the standards set by Ofgem to allow a consultation period policy. This stipulates that Ofgem can only run a consultation period of 4 weeks for urgent issues, 8 weeks for issues with narrower impact and more specific interest through to 12 weeks of major issues.

Principle 1: Support market participants to make informed decisions by providing user friendly, comprehensive and accurate information.

Following industry input, we welcome the implementation of a dedicated, and easily locatable page on the ESO's website for data. We encourage ambitious yet realistic targets to publish data. Data should be released in real-time or as soon as reasonably possible, with increased transparency of all balancing actions taken by the ESO and the respective costs. This information should be easy to interpret in order to allow market understanding of the rationale of actions taken for system needs. This will inform market operators what services they could provide and bid into. In addition, we believe that the ESO should endeavour to increase transparency around the costs incurred in procurement of bilateral contracts. We believe that there needs to be transparency about the current value of bilateral contracts and the ESO should commit to the phasing out of procurement of balancing services via non-competitive methods.

Website

Over the past few years, Energy UK members have voiced concerns to National Grid on a number of occasions regarding the poor usability of the ESO website. Energy UK notes that the website has been upgraded but the changes that have been made have been slow to implement and the website can still be difficult to use, particularly if you are unfamiliar with it. The website still provides a difficult platform for stakeholders to monitor updates, publications and consultations released by the ESO. These still appear in many different locations on the website. Industry stakeholders require a single platform or area on the ESO's website where documents are published. This allows for easy monitoring of the ESO's activities. We would expect that this platform would be similar to those currently employed by Ofgem and BEIS, providing a daily update (via email) to subscribers of the days published documents. As this is common practice across other industry partners, we would deem this to be an expected deliverable and therefore baseline with what is expected of the ESO. This is greatly needed to avoid stakeholders inadvertently missing publications and consultations, and to provide the ESO with the quality of views and feedback required.

BSUoS and Demand Forecasts

We note that from the ESO's Forward Plan 2019-2021, in-line with benchmark for the ESO's Balancing Services Use of System (BSUoS) forecasting accuracy is 20%.¹ Energy UK recognises that this is a significant error scale to account for, and is not consistent with what we would expect of an ambitious ESO. Further, in the 12 months, forecasting has been inconsistent. Below shows forecasting accuracy since March 2018, through to February 2019, presented to attendees of the Operational Forum in March 2019. Although we recognise that inaccuracies are often due to unforeseen external factors, we are disappointed with the inaccuracies over the past year, noting that the month-ahead BSUoS forecast was only accurate in three months over the past year. The ESO have recognised in its Forward Plan 2019-2021 that it needs to improve its accuracy of its energy forecasting (day-ahead demand forecast and day-ahead BMU wind forecast) in five months compared to the same months over the last three financial years, and we reflect our support of this commitment.

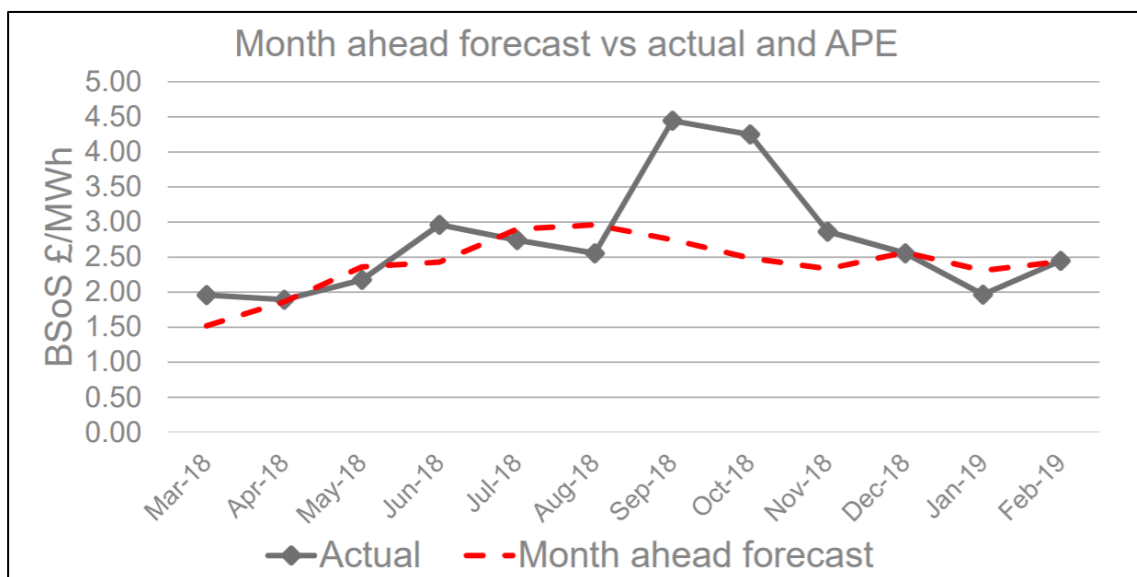


Figure 1 Forecast Accuracy - BSUoS Report from the ESO Operational Forum March 2019²

Principle 2: Drive overall efficiency and transparency in balancing, taking into account impacts of ESO actions across time horizons.

It has been noted that the ESO's persuasion to focus short-term on its positions and decisions, reacting to near-term forecasts for system needs could be to the detriment of the end consumer. Energy UK reflects that this approach does not lead to an appropriate consumer benefit, and does not allow for market participants to prepare their investments and focus beyond to longer-term horizons. This in turn increases risk and subsequently costs. The ESO should be proactive in managing financial risk and mitigating rising costs to consumers, rather than merely acting as a body that passes monies through.

Energy UK has been encouraged by the ESO's steps to improve overall transparency and openness to market. We recognise that increasing transparency of the ESO is an ongoing process, however, there is a persistent lack of transparency around many actions and decisions taken by the ESO, that needs to be addressed. For example, industry requires more clarity around Grid Trade Master Agreements (GTMA) Schedule 7A trades. Currently, through the Elexon owned Balancing Mechanism Reporting Service (BMRS), the volume contracted and the price contracted are published, but crucially, it does not identify the Balancing Mechanism Unit (BMU). The requirement to have this information available has been reflected to the ESO at previous Operational Forums. In particular consideration of new entrants into the ancillary services and those who are less experienced, this transparency is greatly needed to aid competition. Energy UK recognises the proposals ongoing in Grid Code Modification 'GC0109: The open, transparent, non-discriminatory and timely publication of the various GB electricity Warnings or

¹ <https://www.nationalgrideso.com/document/137001/download>

² <https://www.nationalgrideso.com/document/140626/download>

Notices or Alerts or Declarations or Instructions or Directions etc., issued by or to the Network Operator(s)' as a key enabler to driving transparency.

The decision to cease procurement in 2019 for Demand Turn-Up (DTU) could have been communicated better to industry, Energy UK noting the unawareness of the decision by any. We were not aware that this was being assessed as an option. Before decisions such as this are made, it would be prudent for the ESO to appropriately consult industry, which can provide valuable insight into the issues with such options. We welcome the ongoing effort to provide industry with more transparency, however, this must be delivered at a faster rate. Energy UK will continue to offer the facility, which has been accepted by the ESO frequently in the past, to assist with this. We are of the opinion that negative reserve products are a valuable resource to system stability, and encourage the ESO to provide firm plans outlining the provisions being made in replacement for DTU, and when this would be opened up to wider market participants.

Principle 3: Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.

Increased visibility and more frequent publications have been welcomed by industry stakeholders, including the Product Roadmaps in the *Future of Balancing Services* project. However, we now expect a published update, outlining updates to deliverables set out in the original product roadmaps, and the progress to date regardless of movement or not. Stakeholders have received a lot of communication in the past year; however, this has not always covered what stakeholders expected, and has often been perceived as a 'meeting benchmark' exercise, rather than providing information required.

For example, the 'Future of Frequency Response Industry update' released in February 2019 did not give a full update of project deliverables outlined in the Future of Frequency Response Product Roadmap, this is greatly needed. Other publications that have fallen short of industry's expectations include: the brevity of the consultation on Review of Exclusivity Clauses within Balancing Services Contracts³, and the Transmission thermal constraints information note⁴. We expect it to be the ESO's responsibility to provide industry stakeholders with a full update with regards to project milestones, their expected versus actual progress to date, and also any revised timeframes for delivery (if necessary). This will give a clear indication of performance against this portion of the principle. Whilst we are welcoming of positive updates, we also require updates on what is not progressing as expected, so that industry can adjust as necessary. We would also deem this an appropriate action to allow the ESO Performance Panel, and industry stakeholders to assess the ESO's performance. Many industry participants rely upon revenues from ESO balancing services, and hence transparency on balancing services reform and any delays is required. A missed project milestone can have a negative impact on stakeholder investments that have been made to provide flexibility to the ESO.

Energy UK welcomes opening up Balancing Services to wider participants that can prove their ability to provide to required standards of products, and generally supported the Wider Access to Balancing Services Product Roadmap. However, ongoing delays to produce against roadmaps is disappointing, and is acting as a direct delay to industry stakeholders participating in Balancing Services. In particular, the existing Electronic Dispatch and Logging (EDL) and Electronic Data Transfer (EDT) system, as well as unsuitable solutions to Operational Metering creates a significant, and an unnecessary barrier to entry for certain potential participants. There has been a commitment by the ESO to provide an alternative web-based platform to fulfil the role of EDL and EDT, and a solution to Operational Metering however, Energy UK notes that these have been met with delays and industry are now not expecting these to be forthcoming until Autumn 2019. In regards to the alternative web-based platform to EDL and EDT, project TERRE acted as a catalyst for this approach, and as many participants using the alternative platform will be doing so to participate in project TERRE, this lead time from Autumn 2019, to project TERRE implementation of December 2019 is not an appropriate amount of time for industry participants to become experienced with the platform for operational use.

³<https://www.nationalgrideso.com/sites/eso/files/documents/Review%20of%20Exclusivity%20Clauses%20within%20Balancing%20Services%20Contracts%20Sep%202018.pdf>

⁴https://www.nationalgrideso.com/sites/eso/files/documents/National%20Grid%20Transmission%20Thermal%20Constraint%20Management%20information%20note_July%202018.pdf

We are also disappointed by the delays that came forth with the Frequency Weekly Auction. We note that timeframes have been delayed significantly since the original delivery date of December 2018. Although this was revised in an 'Update on Auction Trial'⁵ letter in August 2018 that it will be delivered in June 2019, we now understand that the auction will be divided into two phases. The first of the phases will be delivered on 13th June 2019, with the second phase (and the full auction) going live in September 2019. Although we support the ESO's ambition by implementing challenging timeframes for project delivery, these timeframes must be obtainable. Industry will continue to push the ESO to deliver projects as quickly as possible, however, it is important that we have sight of realistic timeframes, so that it can prepare and rely on these commitments. We also need to be provided with clear auction trial objectives. It was our understanding when this project was announced that it was in anticipation of moving to a daily-auction, and testing the potential to moving auction timings to as close to real-time as possible. This was widely welcomed by stakeholders. It has become apparent, however, timeframes for moving to a daily-auction are further in the future than what was anticipated. This unexpected delay would be disappointing, as it directly prevents intermittent generation from participating effectively in Balancing Services. Clarity over timeframes of the wider project for closer to real time procurement, and auction trial objectives are required.

In the Product Roadmap for Frequency Response and Reserve, the ESO signalled that procurement of faster-acting response would occur in Q4 2018 and the new Faster-Acting Response (FAR) service would be procured along with Primary, Secondary and High FFR products in a holistic manner. Since technical workshops were held in May 2018 there has been no engagement with industry on this matter. The 'Future of Frequency Response Industry update' was released in February 2019, this document did not give a full update of project deliverables outlined in the Future of Frequency Response Product Roadmap, which is greatly needed. Additionally, the ESO has stated that these products will replace FFR in the long-term, which would be detrimental to industry participants that have designed their portfolios for FFR.

Energy UK has been concerned with the lack of implementation of the extensively delayed Electricity Balancing System (EBS), affecting the level playing field of BM and non-BM providers. EBS should have been operational in 2016, however, severe delays have hampered this. Although EBS was made active in 2018 for Scheduling, we are concerned about the decision to not implement for Dispatch, and note that this does not satisfy the deliverables of the project. Further to Energy UK's response to the Call for Evidence of the ESO's Performance at mid-year stage, we note that the recent Modification Proposal P373 to "reverse the P297 changes", i.e. to "nullify the current P297 changes, such that they are not required to be implemented in the BSC and BSC Systems on 1 November 2018, or at any future date" served to give more clarity to industry around the accepted failure to fully deliver EBS. We must not overlook the fact that the ESO failed to deliver EBS and that this severely undermined the investments made to date by industry on the back of assurances made by the ESO. We also note that throughout the course of the EBS project, we have experienced a serious lack of clarity and understanding of the progress of the EBS project, and it wasn't until P373 was raised in 2018 did industry understand that EBS was not able to be delivered. It is crucial that the deliverables of EBS are not ignored, and a fully modernised, and automated scheduling/dispatch platform is still required. Energy UK must stress that this option to reverse a committed deliverable through code modifications must not be precedent setting.

We welcome the implementation of a dedicated Distributed Energy Resource (DER) desk at the ESO control room to dispatch to the relevant BMU's. However, we require more communication surrounding the desk, in particular, updates regarding its progress. This is needed to address concerns that some industry stakeholders have in regards to negative experiences of asset dispatch under this new desk. We also ask for clear understanding of the days and times that this desk is manned, the dispatch policy, and also the performance data of this desk to be published.

Following significant developments since the announcement of Great Britain's participation in the European Balancing projects (TERRE and MARI), we require a full, updated understanding of the benefits to the GB energy market and the expected impact on existing GB Reserve Services (Fast

⁵ <https://www.nationalgrideso.com/sites/default/files/documents/Auction%20Trial%20-%20Letter%20to%20the%20Industry%20-%20final.pdf>

Reserve and Short-Term Operating Reserve). Industry Stakeholders require an updated analysis of financial benefit to the GB energy system. Further, we understand that the ESO is on track to deliver project TERRE for go-live in December 2019, however, we need an update on the external factors that would impact on the delivery of the project and on-time participation. This would include whether other TERRE System Operators (SO's) would be ready to participate in December 2019.

An exercise of rationalisation of workstreams, is required to ensure that the ESO works towards its goal of standardising and improving its balancing services. Energy UK has been involved and contributed to a number of different workstreams in regards to restoration/Black Start. These are split across the ESO and also the Department of Business, Energy and Industrial Strategy (BEIS). In order for industry to appropriately allocate resource to input into the shape and design of each workstream, they require rationalising and explanation of what they are aiming to deliver and how they interact with one another. Further, there is confusion among stakeholders in regards to how new balancing services interact with existing ones, in particular, how the proposed FAR products will interact with current Frequency Response products.

Since the implantation of Balancing and Settlement Code (BSC) Modification P305 'Electricity Balancing Significant Code Review Developments' industry stakeholders have requested to be provided with visibility of the ESO actions that impact cash-out, notably for the despatch of non-BM STOR. This cash-out should be sending signals to parties, but a barrier to being able to adequately do this is not having ESO actions transparent and visible. Improving the transparency of actions outside of the Balancing Mechanism is urgently needed to maintain the transparency on which the market design was based.

Principle 4: Promote competition in the wholesale and capacity markets.

Energy UK supports the simplification of codes. Both the Charging Futures and Customer Seminars are useful and should continue. We encourage the ESO to maintain engagement with industry, Code Administrators and Ofgem, ensuring that with the increasing number of Code Modifications due to new projects, have realistic, yet appropriate timeframes. Energy UK believe that the Code Administration function of National Grid ESO over the last 12 months has not delivered to expectation and industry may see benefits in this role being tendered to a third party if the ESO's delivery does not improve. Below sets out a number of areas in which the Code Administration function is deemed to not be functioning as well as it could be, and where Energy UK would like to see efforts placed to enhance stakeholder experience:

Conflict of interest

The National Grid ESO Code Administration function may not be run in an effective and efficient manner due to a potential conflict of interest with the remaining functions of the ESO. Whether this conflict of interest is real or perceived, it hinders industry confidence in the ability of the ESO to perform its role effectively.

Resource

There are ongoing concerns that the Code Administration team is under-resourced. This was highlighted by a move to prioritising the modifications register which is not seen with other Code Administration functions such as the BSC. Some members have voiced concerns that the prioritisation seems to favour code modifications raised by National Grid further highlighting the point above. In addition, the ESO has raised CMP313 and GC0124 which aim to move the deadline for new modification submission to five working days prior to Panel papers day. This could show that the team is not properly resource or equipped to deal with the increased modification proposals.

Code Administrator Performance Survey

In the last few years, National Grid has come towards the bottom of the [Code Administrator Performance Survey](#) with little sign of improving.

Energy UK is also concerned by views that the ESO has deprioritised work related to the implementation of the European Network Codes. The amended proposal for Redispatch and Countertrading proposal for the Ireland-UK Region under the Capacity Allocation & Congestion Management (CACM) Guideline is now overdue from the Ofgem decision (excerpt below).

“In accordance with Article 9(12) of the CACM Regulation, the relevant GB TSOs must make the necessary amendments to the IU RD and CT amended methodology and to the RD and CT cost sharing amended methodology to address the points set out in the Regulatory Authority agreements and re-submit the amended proposals to us and to the Agency within two months of this decision i.e. by 14 March 2018”.⁶

Zero Carbon Grid by 2025

Whilst we welcome the ESO's ambitions for 2025, industry requires more information about the actions associated with realising the ambition.

The ESO have committed to providing a 'zero carbon grid by 2025'. Energy UK supports the continued efforts and ambitious aim of delivering against decarbonisation goals, however, industry needs to understand how this will be delivered and what the ESO's delivery plan is. The ESO does not have a role in setting policy, as this should be set by BEIS, but we do support the ESO improving its systems and processes to enable the decarbonisation agenda.

We acknowledge that from THE ESO's RIIO-2 Ambition document that it proposes taking over the Capacity Market (CM) Rule Change Process. Although a consultation period was available for this document, it was 4-weeks long, and over the Easter period, not providing appropriate time for sufficient responses to be prepared. When proposals such as this are put forwards, stakeholders require justification from the ESO why it would be a better delivery partner (over Ofgem) to provide this service.

Principle 5: Coordinate across system boundaries to deliver efficient network planning and development

Energy UK welcomes the ESO's commitment in the Electricity System Operator Forward Plan 19-21, and numerous other publications, to engage with Distribution Network Operators (DNO) to holistically develop the system. As the system becomes increasingly decentralised, it is crucial to the system's development that all potential resources are considered and all interacting parties are consulted. The optimisation of all resources can only be successfully achieved with the appropriate multi-level engagement between operators. We encourage the ESO to maintain this engagement and we welcome an open and transparent representation of the engagement strategy that the ESO intends to take forwards with the other Network Operators, including regular updates on progress.

Energy UK welcomes the proposals under RIIO- 2 Ambition to create a single Grid Code for distribution and transmission. This is crucial for the DNO to DSO transition and to ensure that DSO's provide services aligned to the same standards as the ESO.

As more Distributed Energy Resources (DER) and Demand Side Response (DSR) actively participates, the role of a Distribution Network Operator (DNO) and its responsibilities to provide the ESO with data and information will develop, and should be driven by the ESO and its concern with the wider network and its future system views. We welcome the ESO's initiatives to facilitate connections for flexible distributed energy resources (DER) to contribute to the resolution of network constraints. The ESO must obtain more data and forecasting around local system requirements, constraints and issues, allowing further understanding of impacts upon the network. This data and information should be published to industry where allowable under GDPR and commercial sensitivities. This will aid the sound decision making and cost-benefit analysis of when and how to commit to network reinforcement, considering all solutions available (such as DSR), minimising the possibility of sunken assets.

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https://www.ofgem.gov.uk/system/files/docs/2019/01/iu_decision_letter_rd_and_ct_methodologies.pdf

Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resources

National Grid engagement in the Open Networks project has been welcome to date, and is vital to ensuring successful delivery of the potential apparent in the project. Leadership of workstreams by National Grid representatives has been positive and unbiased. Energy UK would also note the additional bilateral meetings National Grid has held with stakeholders to discuss the progression of the various outputs of Open Networks, encouraging continued engagement.

Energy UK further welcomed the publication of Facilitating Whole System Outcomes, which clarified National Grid positions on future system operation arrangements. The paper could have been publicised further to gain a broader set of readers, but it has been a useful resource and reference for continued engagement from wider stakeholders in future DSO arrangements.

It is difficult to review the ESO performance in Power Potential until this initiative has been completed, but engagement to date has been positive. The willingness of National Grid to hold bilateral meetings and to present to conferences and stakeholder groups has had a positive impact on broader understanding of the project, and the ease of access seen on the website is a simple yet effective method of enabling simple access to information.

The series of dissemination events utilised by the ESO have been bolstered by the publicity gained by EFCC success at the British Renewable Energy Awards. Again, the openness of National Grid to bilateral meetings, presentations to stakeholder groups, and simple website interface have kept stakeholders engaged.

Principle 7: Facilitate timely, efficient and competitive network investments

When seeking reinforcement deferment, the ESO must aim to create a competitive market, where providers can bid in to provide the service. It is Energy UK's view that this should be delivered under the Competitively Appointed Transmission Owner (CATO) regime. In order to facilitate such a market and to allow for all technologies and potential providers to bid in, the ESO must communicate where and when network reinforcement is required and forecast areas where reinforcement is envisioned in the future. We would encourage these forecasts to be presented consistent with industry requirements, and note that at stakeholder events, it has been requested that the ESO produces constraint maps. These maps are consistent with what certain Distribution Network Operators (DNO's) already produce, and have been welcomed by industry stakeholders. If this is to be considered, we would encourage the ESO to communicate with DNO's that have already produced such documentation, and be ambitious in the design, consulting significantly with industry for the requirements.

Energy UK welcomes the inclusion of non-build solutions in the Network Options Assessment. We recognise this inclusion was due to 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.

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