![ofgem logo]
Making a positive difference
for energy consumers

Report

2019-20 Mid-Year Review Report of the Electricity System Operator's Performance

Publication date:	16 December 2019	**Contact:**	Maryam Khan, Alice Siri
		Team:	ESO Regulation, System and Networks
		Tel:	020 7901 7000
		Email:	ESOPerformance@ofgem.gov.uk

In 2018, we introduced a new regulatory and incentives framework for the Electricity System Operator (ESO) in order to encourage the ESO to identify proactively how it can maximise consumer benefits across the full range of its activities[1]. These arrangements include a defined set of role areas for the ESO[2]; a requirement to develop forward plans (in conjunction with industry consultation); the publication of regular performance reports; a Performance Panel; and a move towards a broader, evaluative performance assessment (with associated financial incentives).

We are publishing this report as the secretariat for the panel, detailing the panel's assessment of the ESO's performance at the mid-year review stage.

---

[1] https://www.ofgem.gov.uk/publications-and-updates/decision-modify-nget-s-licence-introduce-new-eso-reporting-and-incentives-arrangements-april-2018
[2] https://www.ofgem.gov.uk/system/files/docs/2019/03/eso_roles_and_principles_guidance_2019-20.pdf

Contents

Mid-year review

The mid-year review event was held on 13 November 2019. The day consisted of an open session for the ESO to provide an overview of its mid-year report; setting out its view on its performance to date along with justifications and evidence. Stakeholders also had the opportunity to raise questions and provide direct feedback to the ESO. The panel also had the opportunity to question directly or seek clarifications with the ESO.

On 19 November 2019, the panel reconvened to discuss and make its assessment of the ESO's performance over the first six months of the 2019-20 year. The panel used the evaluation criteria below to provide **mid-year scores** for each of the ESO's role areas. For the avoidance of doubt, the scores do not inform an incentive reward or penalty at this stage. These scores are indicative and are to inform the ESO on the areas where it is performing well and the areas where improvements need to be made over the final six months of the year.[3]

This report summarises the panel's assessment of the ESO's performance to date and some wider considerations to inform the ESO's priorities over the next six months, its Forward Plan for 2020-21 and its performance reporting going forward. This report reflects the views of the panel, not Ofgem.

The evaluation criteria

In determining a score for each role area, the performance panel used five key considerations to evaluate the ESO's performance:

      a) Evidence of delivered benefits

      b) Evidence of future benefits / progress against longer term initiatives

      c) Stakeholder views

      d) Plan delivery

---

[3] More details on the scoring and evaluation criteria can be found in Chapter 3 of the ESORI guidance document:
https://www.ofgem.gov.uk/system/files/docs/2018/03/esori_arrangements_guidance_document.pdf

e) Outturn performance metrics and justifications

Approach

The panel sought to use the evaluation criteria described above and the process described in Chapter 3 of the ESORI (Electricity System Operator Reporting and Incentive Arrangements) guidance document to assess the ESO's performance in relation to each role area, taking into account Ofgem's feedback in the formal opinion and stakeholder feedback collected to date.

Scoring

For *each* of the three role areas, the performance panel provided _mid-year_ scores for the ESO on a scale of 1 to 5, where:

     1 = Weak

     2 = Poor

     3 = Average ('baseline expectations')

     4 = Good

     5 = Excellent

Summary of ESO Performance Panel's assessment

Overarching messages

Overall the panel reflected that the ESO reporting was significantly more transparent and balanced in its mid-year performance report and at the mid-year stakeholder event compared to last year. The panel particularly appreciated the ESO's open reflection of its performance over the first six months of the year including what had gone well but also areas that hadn't gone so well and where improvements are needed. The panel reflected that this helps to improve transparency and increase the level of trust and confidence that industry has in the ESO.

The panel noted that over the first six months of 2019-20, a number of deliverables have been delayed. The panel reiterated their earlier feedback on the Forward Plan: that they expect to see progress against all deliverables outlined in the plan and they will consider carefully how these have been delivered by the end of the year. The panel's feedback has also identified several specific areas where they wished to see improvement in the second half of the year.

The panel also discussed the stakeholder feedback and, in particular, the concerns raised on the perceived levels of ESO resourcing and staff movement in some areas. In a number of cases, stakeholders expressed concern that the ESO didn't appear to have the resources in place to deliver fully the original Forward Plan commitments. The panel reflected that they expect to see sufficient resources dedicated to delivering the commitments in this year's plan and, in particular, improving the ESO's code administration activities.

Summary table of scores

We have summarised the scores agreed by the panel, following its assessment of the ESO's performance. Where possible the panel aimed to provide a consensus score, however where this wasn't possible, the panel settled on a range of scores. In some instances, the panel wanted to reflect more detail in their scores. For example, a score of 3 denotes that the ESO is meeting baseline expectations, but

the ESO's performance for a particular role may be, on the whole, just above expectations but not sufficient to be scored a 4. This is reflected throughout the report as a 'high 3' (or alternatively a 'low 3' to signal performance that was slightly below expectations but not considered to be a 2). This distinction provides further clarity on how the panel evaluated the ESO.

In all instances, the scores should be read alongside the detailed feedback. This report captures the breadth of views that were expressed and the reasoning provided by the panel members.

Role area	Role 1	Role 2	Role 3 & 4
Majority score	**3**	**high 2 / low 3**	**high 3 / 4**
(range)	(3-4)	(2-4)	(3-4)

Role 1: Managing system balance and operability

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

- Principle 2: Operate the system safely and securely, whilst driving overall efficiency and transparency in balancing strategies across time horizons

This role requires the ESO to help the market to balance the system as much as possible. Where it does need to step in to take any actions to secure the transmission system, it should be considering impacts across time horizons, to ensure the actions it does take drive overall efficiency.

Majority score	**3**
(range)	3-4

Overall the majority of the panel thought that the ESO was achieving baseline expectations for Role 1. After discussion, the majority of the panel gave the ESO a score of 3. One panel member felt the ESO was exceeding these expectations and gave the ESO a score of 4.

- The panel agreed that the ESO is moving in the right direction on this role and building on performance last year. However the panel reflected on stakeholder feedback received and felt that the ESO still needs to improve transparency and provide the market with better information – particularly in relation to explaining why certain ESO actions are taken and when planned deliverables are expected to be delivered.

- The panel reflected on the ESO's progress on the Loss of Mains Programme. The panel recognised that this programme isn't completely within the ESO's control but the panel would like to encourage the ESO to make sure it has a clear, economic and effective plan in place to progress this as quickly as possible. The panel will be looking for tangible progress against this programme by the end of the year, especially as this issue has been known for several years and the associated costs are significant.The panel reflected on stakeholders' mixed feedback on the PAS (Platform for Ancillary Services) system, noting some positive comments as well as some frustration with aligning their own systems to PAS and some confusion about what and when the ESO was expecting to deliver on PAS going forward. The panel also noted that the data explorer page appeared to demonstrate improvements in information provision, as did wider initiatives such as the programme of Electricity National Control Centre (ENCC) visits. The panel reflected that they would be looking closely at how well PAS and the data explorer page have been executed at the end of year stage.

- There were a range of views expressed by the panel on the ESO's balancing cost metric. The panel noted that the ESO had spent less than its benchmark but the majority of the panel echoed previous feedback provided to the ESO questioning the validity of the balancing cost benchmark and the associated adjustment factors. The panel expect to see a better justification of the benchmark to better understand the ESO's opinion of its baseline expected performance. The panel felt that there was also a lack of evidence provided to explain why costs were below the benchmark. For the end of the year, the panel would like to see a description of the actions the ESO has taken to drive balancing costs below the benchmark. One panel member noted they

would like to understand further the trends behind the different cost drivers behind balancing costs;

- The panel noted that the ESO has not met its benchmark for forecasting accuracy and one panel member wanted to to see evidence of what positive impacts improving forecasting accuracy has had on its operations, to the benefit of the consumer

- One panel member gave the ESO a score of 4 based on the ESO exceeding against its balancing cost benchmark so far this year and positive stakeholder feedback on the improved transparency compared to the previous year.

- Overall, the panel recognised that, in order to continue to meet expectations and to demonstrate evidence for exceeding expectations, the ESO would need to continue to meet delivery milestones over the final six months of the year, improve communication on issues around PAS and on early implementation, deliver strongly against the Loss of Mains Programme plan and receive positive stakeholder feedback on the planned improvements to aid transparency, such as the data explorer page (i.e., to demonstrate that these have been executed well and meet the needs of industry).

The panel noted that there is an ongoing investigation into the 9 August power cuts and that Ofgem has launched a separate investigation[4] into these events. Until this investigation concludes, the panel will not be factoring this into its assessment of the ESO's performance related to the events of 9 August.

---

[4] Investigation into 9 August 2019 power outage:
https://www.ofgem.gov.uk/publications-and-updates/investigation-9-august-2019-power-outage

Role 2: Facilitating competitive markets

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

- Principle 4 - Promote competition in wholesale and capacity markets

This role requires the ESO to encourage and facilitate competition in all markets that it can affect. This includes the balancing and ancillary services markets where the ESO is the lead and principal buyer and also includes the remaining markets that the ESO can affect (i.e., wholesale and capacity markets).

Majority score	high 2 / low 3
(range)	(2-4)

Overall the majority of the panel thought that the ESO hasn't demonstrated enough to be to meet expectations for Role 2. After discussion, the majority of the panel thought that the ESO reached a score of a high 2 or low 3. One panel member thought that the score should be 4.

- The panel agreed that the ESO could have provided more evidence of delivered benefits, however it was recognised that this detail may appear at the end of year stage.

- On future benefits, the panel agreed that the ESO's work on creating a market-based approach for the procurement of black start services is a positive milestone. Some panel members would like to know more about what the ESO has done to enable more non-traditional providers to participate in this market.

- On plan delivery, the panel noted that the ESO had delayed numerous deliverables. Panel members also noted that the ESO had recognised a number of issues and complexities in this area and welcomed this further explanation. The panel noted that the ESO appeared to acknowledge that it

had been over-ambitious in setting deliverables in this area, suggesting that it needs to give further consideration to resourcing and target setting.

- The panel recognised that the ESO's communication had been better compared to last year but it was noted that the overall stakeholder sentiment was that the ESO is not meeting expectations, particularly with regards to communication and delivery of the product roadmaps.

- The panel expect to see greater clarity on the ESO's delivery of the product roadmaps. The panel welcomed the fact that the ESO has been more open in its mid-year report and stakeholder feedback session on plan delivery. However, they would like to see tangible progress against the highest priority deliverables over the next six months.

- The panel reflected on the ESO's poor performance in the CACoP (Code Administrator Code of Practice) survey. The panel expect to see a robust and well evidenced action plan being implemented in order for the ESO to be meeting expectations. There was some discussion around how the ESO could do this, and some panel members suggested that more resources should be dedicated to these activities and the ESO should seek innovative/alternative solutions to improve the provision of code administration activities.

- Overall the panel concluded that in order to meet expectations the ESO should communicate and work toward a realistic strategy for delivering milestones in the product roadmaps (working toward the highest priority deliverables over the next six months). The panel will be looking for tangible progress at the end of year stage to get plan delivery back on track, supported by clear evidence of delivered benefits. The ESO should also make changes to improve its code administrator performance.

Roles 3 and 4: Facilitating whole system outcomes & supporting competition in networks.

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

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

- Principle 7: Facilitate timely, efficient and competitive network investments

Under this role area the ESO is expected to coordinate effectively with other parties to deliver the most efficient and economic outcomes for the whole system. This includes coordinating with others across network boundaries when undertaking network planning and development and coordinating with others in ensuring efficient whole system operation and optimal use of resources.

The ESO should enable competition in network investment to bring value for consumers in terms of capital and operational cost savings and drive innovation across the asset development and operations process, including financing. Competition may be demonstrated by, but not limited to, the creation of a strong competitive field through attracting new entrants and new approaches to ideas, design, financing, construction and operation of network infrastructure and alternative solutions.

Majority score	High 3 / 4
(range)	3-4

Overall the majority of the panel thought that the ESO is exceeding expectations on Roles 3 and 4. The majority of the panel gave the ESO a score of 4 or a high 3. One panel member gave ESO a low 3 score.

- The panel discussed the ESO's progress with its pathfinder projects and the panel agreed that this work was positive and will likely deliver significant future benefits.

- On plan delivery, panel members noted that recent milestones had been achieved (e.g., tenders have been published). However some panel members were still unclear about why some of this work had been delayed and what lessons the ESO had learnt on the pathfinder work so far that

would inform future delivery. It was agreed by the panel that the pathfinder projects are well regarded and panel members will be looking to see continued delivery of tangible outputs and results of the pathfinders by the end of the year.

- One panel member reflected that they expect to see more description of the consumer benefit the ESO is delivering through these roles. For instance it was unclear how the ESO planned to bring value to consumers in terms of optimising system costs. The panel noted that the benefits are well described in the ESO's draft RIIO-2 business plan and these descriptions of consumer benefit could be included in the mid-year and end of year performance reports.

- Overall the panel agreed that the ORACLE (Optimal Reinforcement And Constraint Level Estimator) tool appeared to be useful, but panel members did not have clarity on the level of benefits that the tool will deliver and who will most benefit from the tool. Further evidence of this at the end of year would be necessary.

- As the ESO hasn't delivered this year's Network Options Assessment (NOA) yet the panel were unable to comment on delivery of this at this stage. Another panel member reflected that the NOA process currently works well for TOs but the ESO's progress will be assessed at the end of the year against how well the NOA process is expanded to include DNOs and other market participants.

- On stakeholder feedback, one panel member recognised that the ESO has increased its interaction with stakeholders overall. However, based on stakeholder feedback received, there is still improvements to be made on coordination and cooperation with DNOs in particular.

- The panel reiterated feedback given previously on the performance metrics. Namely that some metrics have no benchmarks, other benchmarks haven't been explained and some of the metrics could have been more challenging. For the panel to rely on the outturn of the performance metrics the ESO

should provide more complete metrics, articulate why these metrics matter and how they demonstrate strong performance. The panel also noted that the ESO is falling behind its benchmark on getting connection offers right first time and will be looking to see the ESO improve in this area by the end of year.

- The panel recognised that the ESO performed well under this role area.To maintain this score and improve by the end of the year, the ESO is encouraged to improve performance on connections, continue timely progress of the pathfinders and receive strong feedback on this year's expanded NOA process. One panel member commented that the ESO appears to have positive ambition for this role area but there is limited evidence of this translating into tangible changes so far this year. Therefore over the next six months, the panel expect continued progress against the deliverables and at the end of year will consider carefully how the deliverables have been executed.