

Energy UK response to the Call for evidence on ESO performance over the 2019-20 regulatory period

23rd October 2019

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

Executive summary

Energy UK welcomes the opportunity to provide evidence of the ESO's performance, allowing it to consider this stakeholder feedback to meet its needs over the rest of the 2019-20 incentive year. Generally, we believe that the ESO has improved since separation from National Grid Electricity Transmission plc, and are encouraged by the steps taken to date. We generally welcome its plans under RIIO-2, and deem this incentives regime as the appropriate way to ensure that its ambitious goals can be met. It seems as though a lot of the deliverables outlined in the ESO Forward Plan have either been met, or on target to be met. However, there are areas where deliverables have not been met and stakeholders have not received appropriate communication. Energy UK is committed to providing ongoing feedback to the ESO, and facilitating collaboration with industry stakeholders, to provide the information that it needs to understand priorities and requirements.

We note that the ESO's transparency has shown signs of improving. This improved transparency has been delivered through increased data and information publication, as well as commencing the task of simplifying data dissemination, and its website design. This will allow industry to more easily understand electricity system needs, both now and in the future, to prepare its assets to provide these services. It will also enable the informed investment of capital in assets and solutions that will be a future requirement. This is further facilitated through the ESO's improving forecasts. However, we believe that this could be further improved through further simplifying the website, providing a single repository for publications, chronologically ordered, and by assessing whether the data format is suitable for all participants.

We acknowledge the ESO's performance in reducing balancing costs, and associate this with its work in wider access to the Balancing Mechanism (BM), and reducing barriers to entry. This increased competition should reduce expenditure through normal market principles. However, we would now like to see progression on both the Response and Reserve, and the Reactive workstreams, which seem to have stalled, without wide communication or update. Communication has been a recurring theme and concern of stakeholders. We would also welcome more extensive consultation on proposed changes and redesign of products, and design of new products. This will ensure that any changes and modifications are fit for purpose and appropriate. This could be achieved through the introduction of product working groups. These working groups could provide a suitable forum for the ESO to overcome barriers encountered to complex workstreams, such as reactive power.

Of note are the improvements in the ESO's administration of Codes. Although this is still not meeting its benchmark, and performing poorly in its Code Administration Code of Practice (CACoP) score, we recognise significant effort has been made to meet and exceed customer expectations. This is welcome and encouraging.

Role 1

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

We recognise the increased transparency and data publication by the ESO over the past 18 months in some areas of their operation. This has greatly assisted industry in understanding the balancing actions being taken and why. We welcome the introduction of the data finder and explorer on the ESO website. This has significantly eased the burden of navigating the website for data which greatly aids industry participants. This is something that has long been called for by stakeholders and we are encouraged by the wider movements towards reducing the burden of a currently extensive and convoluted website. We do note that the website can be further improved to assist with navigation of both data and information. We acknowledge plans for a further information portal which we believe, if designed appropriately, will significantly improve the usability of the website. This has been long required by stakeholders in order to easily monitor developments and updates from the various workstreams of the ESO (e.g. the individual balancing services products). It should be noted that something long called for by industry is a single document repository where every consultation or update/information paper should be published. This feedback, however, should not detract from the positive steps taken that have improved the experience and effectiveness of participation in ancillary services. We would expect the scope of these portals and solutions to be appropriately designed in collaboration with stakeholders, to ensure that needs are met. This will avoid a product that is not fit for purpose.

Following feedback from stakeholders over the previous years, we are pleased to see the publication of day-ahead flows and limits, and the producing of an outrun system thermal costs map. As it has only recently been released, its suitability remains to be ascertained, however, we acknowledge the delivery date being met against the forward plan.

As feedback for the ESO, in addition to the data and information currently made available, we believe:

- There is merit in **forecasting long-term future service requirements**, and how these requirements are likely to evolve. The current publications such as Future Energy Scenarios (FES), Network Options Assessment (NOA) and System Operability Framework (SOF) do not sufficiently cover this. This information will better facilitate informed investment decisions that will enable the development of markets, minimising costs for end consumers in the long-term.
- There is a **lack of transparency regarding balancing actions and why certain operational decisions are taken**. For example, there can often be plant running out of merit order because of actions taken by the ESO, yet the reason why is not clear to the market. Disclosing the identity of assets, the ESO has transacted through 7A trades would be a “quick win” and we would support further development in this area.
- In 2018/19 we acknowledge that there were improvements to the reporting of Balancing Services Use of System (BSUoS) costs through the Monthly Balancing Services Summary (MBSS) and daily reporting. However, **we believe that these publications can be further improved and made more useful for market participants**. We would welcome a review of these publications utilising feedback from industry. For example, there could be appetite for more granular historic cost reporting, which would better illustrate the cost of certain services and system requirements.

It is worth the ESO reviewing the format of some of this data dissemination. This can be in a format that is only generally interpretable to the larger industry participants who have more experience of the working practices of the ESO. Therefore, it would be worth reviewing this practice, appropriately engaging and consulting on specific data. Industry has asked for this in the past, but now seems like an opportune time to progress this.

We are encouraged by the improving accuracy of the forecasts provided by the ESO, and also the frequency of them. However, we do note that in the first half of the 2019-2020 incentives year, the demand forecast error target was not met. Industry participants rely on accurate and regular forecasts from the ESO to make appropriate commercial decisions on what services to provide to the electricity system. We are aware that previously, there has been a disconnect between some stakeholders and

the ESO in regards to which demand forecast is relied on by industry, and which demand forecast accuracy performance is being presented to the ESO Performance Panel. Although we recognise that it will take a period of time for these improvements to be replicated into lesser post-gate closure trades being made, as a metric, the proportion of these should be reported so that they can be used to assess the savings made against the cost expenditure going forwards. We would also expect appropriate engagement with stakeholders on how to incorporate these new processes into their business as usual activities to ensure that these benefits are appropriately realised.

The Ancillary Services Dispatch Platform (ASDP) has been well received by industry participants for Fast Reserve. We would appreciate clarification on how this interacts with the Platform for Ancillary Services (PAS) and whether this is an evolution, renamed or part of a wider work project. We do acknowledge difficulties with such large IS projects being implemented, however, we note that in the Reserve and Response Roadmap PAS was due to be delivered in two phases, initially for Fast Reserve in Q3 2018 and the second phase for STOR in Q4 2018.¹ We understand that the second phase went live in Q3/4 2019/20. This delivery was in line with the Forward Plan, however, inconsistent with the Reserve and Response Roadmap. We would therefore encourage the updating of all deliverables in the roadmaps, as they would now be out of date, and are a key reference for stakeholders. The clarity around ASDP and PAS interaction would be welcomed for understanding of the wider deliverable's performance against targets in the Forward Plan.

There is also feedback from industry participants that they are experiencing difficulties creating their own systems to appropriately marry up to the ESO's PAS/ASDP. This is due to updates and iterations being released of the platform, and therefore making industries programmes redundant or in need of adaptation. Regardless, it is our view that this project will deliver significant benefit by minimising unconscious bias in the ENCC, and easing the process of dispatching units to provide relevant services. In general, it is understood that the ESO has not necessarily performed to a particularly high standard when delivering IS projects, however, we are encouraged by the proposals under RIIO-2 to improve these by moving from an IS to an IT framework, and by employing an IT project team directly.

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

The visits to the Electricity National Control Centre (ENCC) have been well received by stakeholders, and provide an ideal opportunity to understand the workings of the ESO, particularly for new entrants to the industry. However, it is our view that engagement has lost momentum over the first half of this year and is less than it was in 2018-19. We recognise that this is likely due to the redistribution of resourcing for unforeseen priority projects (such as the 9th August 2019 power interruption review and RIIO-2 planning), however, we would welcome a second drive for the re-engagement on forward plan focussed work. We do, however, reflect that the engagement structure of RIIO-2 events has been very well received by industry. These events have met expectations by providing smaller group roundtables, well steered by the ESO facilitator, providing easily digestible material beforehand and on the day. We would welcome this structure being replicated across the different ESO's workstreams engagement strategies where appropriate.

We also recognise the ESO's performance against its benchmark to reduce balancing costs. We attribute this to the increase in competition in balancing services products, so more detail is provided in Role 2. However, we are concerned about the increasing BSUoS cost, and believe that this should be addressed through appropriate channels. Although we acknowledge that this is out of scope of the benchmark for which it is assessed against, the ESO should note this as general feedback.

Role 2

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

1

<https://www.nationalgrid.com/sites/default/files/documents/Product%20Roadmap%20for%20Frequency%20Response%20and%20Reserve.pdf>

We recognise (under Role 1) the performance against the ESO's benchmark for reducing balancing costs in the first half of 2019-20. We believe that the progression of wider access to the Balancing Mechanism (BM) has driven this and the increased competition has resulted in the reduction of balancing costs which are reflective of the market conditions at that time. We would encourage an update on progress by the ESO on its expected regression of the use of opaque bilateral contracts (or contracts with variable terms & conditions for some market participants) and the performance against that position to date. Unnecessary bilateral contracts which cannot be agreed transparently and competitively following an open tender process (unlike those in certain Pathfinder projects) act counter to the competition principle in which the energy market is based upon. These maintain a higher price which, in turn, leads to higher costs to end consumers. For those services that the ESO says it cannot tender for, we would expect these to be justified for in the statistics. We would welcome the ESO to commit to a target date for this, and break this down by product.

The delayed weekly Frequency Response auction has been well received, allowing a wide range of new technologies to enter and compete for contracts. We now encourage clarity from the ESO around the progress of this trial, and how and when it will be able to move to a daily auction, as originally hoped for. If this is also delayed due to the late delivery of the trial, early advice would be necessary. We look forward to these auctions progressing as a commercial alternative to procuring mandatory frequency response. In order to meet the RIIO-2 deliverable of daily auctions, which will be better able to unlock frequency response from DSR and renewables, there needs to be a clear and ambitious roadmap to implementation. A daily auction (or as close to real time as possible) will act as a key enabler to ensure that all technologies have the opportunity to provide services to the energy system, when their availability can be better forecast (eg. weather forecast accuracy is increased).

We acknowledge that the inability of the French TSO (RTE) to be ready to participate in Project TERRE on the original 'go-live' date in December 2019 has had the consequence of preventing Great Britain from participating. The ESO has not indicated whether wider access (via VLP and the API), which we expected to go live in December 2019, will be completed on schedule. If the ESO anticipates this will be delayed, we encourage it to communicate this to market participants. We withhold comment on the ESO's Project TERRE performance until Ofgem has published its decision on the ESO's derogation request and further information is available.

There has not been an update from the ESO in H1 as expected regarding its reserve reform. Whilst we understand there is an update forthcoming detailing a justifiable delay, we note that this will be published in H2, with no communications regarding delays. We encourage the ESO to proactively engage with market participants on the development of these proposals and we encourage the ESO to keep industry updated on developments ahead of deliverable due dates. We would hope for GB's domestic Frequency Containment Reserve, Frequency Restoration Reserve or Replacement Reserve products to be progressed without further delay. We note the planned Faster Acting Response (FAR), and wider review of response products seems to have fallen off of the ESO's plans and updates. We would welcome an update as to the progress of these products developments, and whether these are progressing. In support of product development, Energy UK is committed to assisting the ESO by facilitating working groups, and forums for feedback. All product design should be appropriately consulted with industry.

We acknowledge that the Reactive Power workstream has not met its deliverable targets outlined in the Forward Plan. This is disappointing, and we note that this delay by the ESO has adversely impact on industry progressing CMP304 (and CMP305) which is looking to develop more stakeholder friendly Reactive Power products. We note that some progress was being made through the Mersey and Pennines voltage pathfinder projects and there was a level of acceptability from industry participants of this, as the wider reactive work (including CMP304) was expected to be informed by these projects. We now understand that the tender dates for the two voltage pathfinders has also been delayed. We acknowledge that this workstream may have proven to be more complex than originally understood, however, this has caused general frustration from industry. We encourage the ESO to provide a fuller explanation of the delays, and scope of the reactive workstream as soon as possible for industry participants to prioritise both internal workstreams and external work (such as in terms of CMP304 and CMP305) as appropriate. The reactive workstream is a priority area for improvement, and industry requires clarity from the ESO as soon as possible, including a plan on the necessary industry code change in this space.

The stability pathfinder has been well received by industry and we note that the request for information stage has been delivered in line with the forward plan commitments. This type of product has been long called for industry and we welcome its progress.

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

The ESO has historically not necessarily performed well in its administration of its Codes. This is reflected in Ofgem's most recent Code Administration Code of Practice (CACoP) scores, where the ESO's performance has been poorly ranked by its customers. We note that benchmark from the forward plan has not been met in this regard, and that Grid Code performance perceptions have declined to previous years.² We have, however, noticed early signs of improvement in the ESO's administration and in general customer seminars and engagement around Balancing Services Use of System (BSUoS) and Transmission Network Use of System (TNUoS) are well received by stakeholders. The deliverables actioned to date have enabled this. We have welcomed the bilateral engagement from the ESO, as an information finding exercise to ascertain where improvements need to be made and are encouraged by its progress.

Role 3

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

Energy UK would welcome renewed efforts from the ESO to coordinate across the DNOs (additionally, wider Independent Distribution Network Operators (IDNOs)). As the ESO holds the widest view of the whole system, it would be helpful to see how the various DNO's development of local 'Future Energy Scenarios' is receiving input and direction from the ESO. Industry eagerly awaits these analyses, but the individual approach, by each of the DNOs (and IDNOs), to delivery may result in a lack of coordination, harmonisation and standardisation. This would increase the difficulty for customers and market actors of reacting to that information and offering a competitive response to the ESO, DNOs and IDNOs. A clear signal of the intended role of the ESO in that process would reduce this concern and lend a level of certainty to the process.

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

The work of the ESO in developing positions on how to achieve whole electricity system outcomes has been a welcome addition to the discourse on the evolving nature of system operation. The ESO will continue to play an integral role in whole system operations, regardless of the approach taken to the DSO functions. As such, it is welcome to see the ESO taking a leading role in the discourse to ensure coordination is key to all outcomes. The ESO's wider engagement in Open Networks has also been welcome, and Energy UK would welcome continued bilateral engagement in this area with the ESO.

We believe that the ESO could adopt a more holistic approach regarding the development of its system requirements and products, placing more focus on the interactions between the ancillary services markets and other markets. For example, the ESO could consider aligning the procurement of certain ancillary services with the Capacity Market timescales. If stackable long-term ancillary services contracts were tendered and awarded ahead of the Capacity Market auction, then this would enable the right type of capacity to be procured in the right locations. This would promote more efficient investment decisions, as opposed to considering available capacity and system stability in isolation.

The ESO should place more emphasis on whole system outcomes when considering interactions between system support products. In some circumstances service requirements can be met more economically if these service requirements are bundled together into a unified product. We suggest that the ESO considers the interactions between the proposed future products and, where economically and

² https://www.ofgem.gov.uk/system/files/docs/2019/10/code_administrators_survey_2019_-_gridcode_report.pdf

technically possible, service requirements are integrated into a single product. This would reduce whole system costs and demonstrate how the ESO is reducing costs for end consumers

Energy UK finds that progress made in ensuring the appropriate systems, contractual framework and resources are in place to enable greater integration of smaller assets into system balancing efforts to be below what we would hope to see. Ancillary service reform cannot be effective unless the ESO is capable of calling upon a wide range of resources in a range of ways, and without an effective EBS in place, DER and smaller assets may not be able to compete effectively with larger assets. To allay these concerns, we would welcome ESO feedback and statistics on dispatched embedded plant through PAS and the Distributed Energy Resource Desk in the ENCC.

Principle 7 - Facilitate timely, efficient and competitive network investments

We encourage wider engagement from the ESO on NOA. It is deemed that this is generally a process that has been run and developed away from stakeholders prior to the tender process. Greater understanding for stakeholders of the development process would be preferable. We support the NOA process, however, believe that it could be improved by providing more transparency around the assumptions to justify transmission investment (as opposed to addressing constraints through other options).

We urge the ESO to develop a framework that enables market and network solutions to compete on a level playing field. Under the current regime, networks can amortise their costs and recover them in a regulated fashion over a period of 30-40 years, whereas market solutions need to price all the relevant costs and risks into a shorter contractual period (e.g. approx. 7 years).

Additionally, it's not clear when contracting opportunities are open to non-network companies or how these are assessed through a competitive procurement process. The ESO could improve its communication and engagement with market participants, supporting them to participate in the NOA process. All parties should have the same level of information and be involved at the same time in potential commercial opportunities.

Matthew Deitz

Policy Manager, Power

Energy UK

26 Finsbury Square

London EC2A 1DS

Tel: +44 20 7747 2942

matthew.deitz@energy-uk.org.uk

www.energy-uk.org.uk