

Report

ESO Performance Panel response to the Electricity System Operator's draft Forward Plan 2020–21

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Under the Electricity System Operator (ESO) regulatory and incentives framework, the ESO must engage with its stakeholders and publish a forward plan before the start of each regulatory year. This forward plan should outline the key actions the ESO intends to take to maximise benefits for consumers and to meet the expectations described under our three roles. The ESO will then report on its performance and provide evidence throughout the year. The ESO Performance Panel plays a central role in this framework. It will challenge the ESO's plans before the start of the year, evaluate its performance after six months and then perform a final evaluation at the end of the year. This forms a recommendation to the Authority, who decide on the financial reward or penalty.

In January, the ESO Performance Panel held a session to discuss the ESO's draft forward plan for 2020-21.

Ofgem is publishing this report as the secretariat for the panel. This report details the panel's views on the ESO's draft forward plan for 2020–21. The ESO should take into account these views when producing the finalised version of its forward plan for 2020–21.

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Overarching Messages

The panel noted that the ESO had used its ‘ESO mission’ and ‘four ambition statements’ to describe what success will look like for the ESO in 2025. The panel welcomed the continued use of these ambitions, but would appreciate more elaboration of what these mean in practice; for example, what exactly does “competition everywhere” mean, how will the ESO get to this point and how will it address the inevitable trade-offs between the four ambitions.

The panel would also like to see a clearer link, or ‘golden thread’, between the ESO’s mission/long-term vision, its strategy to deliver the vision, its chosen deliverables and consumer outcomes. The ESO could do this by providing further narrative on the diagram in the forward plan executive summary (p8). The panel also encouraged the ESO to discuss consumer benefits in more detail throughout the plan – and how the deliverables (particularly those noted as priorities) for 2020–21 are prioritised to provide the most consumer benefit.

The panel reflected on the ESO’s year-on-year progress that it has made since the introduction of the regulatory and incentives framework in April 2018. The panel welcomed the more concise and accessible nature of the plan, when compared with previous years. The panel noted that the ESO has included a greater number of deliverables in its forward plan, which has increased transparency with industry. The panel also felt that the ESO Forward Plan event was helpful in providing more detail on deliverables and describing the link between different role areas.

Panel members felt that the coverage of the draft Forward Plan 2020–21 is wide, but lacking in stretch. The panel felt that too many deliverables within the plan were business as usual, or high-level and lacking in detail. Overall, the panel would welcome a very clear articulation of what tangible changes or progress should be evident at the end of the 2020–21 period, how the proposed deliverables will help to achieve these and how this 2020–21 delivery period enables the ESO to take meaningful steps towards the long-term vision in 2025.

The panel noted that some deliverables have been marked as priority deliverables. The panel would welcome fewer, more challenging and well-articulated priority deliverables that are given a greater profile in the plan. The panel felt that this would enable stakeholders to identify and better understand these key priorities. They would welcome further commentary around:

- why specific deliverables have been selected as a priority over others;
- how/if priority deliverables will be treated differently to other deliverables (e.g. non-negotiable deadline and criticality of delivery, more frequent updates regarding progression, etc.);

- what additional benefits will be delivered as a result of this prioritisation and;
- how these priorities will enable the ESO to progress towards their outlined vision for 2025.

In general, panel members would welcome more specificity around the deliverables and, where appropriate, interim milestones so that progress can be tracked throughout the year. Panel members also noted that, on the whole, there was a lack of justification for delays to deliverables outlined in previous plans. The panel will be looking to see tangible progress made against these past commitments. In addition, the panel would like the ESO to bring forward some deliverables that are currently proposed in the ESO’s RIIO-2 business plan, particularly those activities focused on engagement and early-planning.

The panel felt that commentary around metrics was either absent or lacking in detail – particularly regarding performance benchmarks and associated analysis/methodology. The panel noted the requirement, under Ofgem’s ESO Reporting and Incentive (ESORI) guidance, to consult on all methodologies and performance benchmarks for metrics at the draft forward plan stage. Therefore, the panel will be looking for this detail in the final forward plan.

To conclude, the panel would like to see:

- More narrative on what the ESO’s mission is and the ESO’s rationale for this;
- A clearer link between the ESO’s mission, its chosen deliverables and consumer outcomes;
- Fewer, more challenging and well-articulated priority deliverables with a clear focus on how these will allow the ESO to deliver demonstrable benefits over and above business as usual;
- Further detail on deliverables, including more interim milestones and justifications for delays (bringing forward RIIO-2 engagement/planning deliverables where possible);
- A description of the changes/progress that will be evident at the end of the 2020–21 period;
- And further detail around metrics, including all performance benchmarks (and justifications/supporting analysis).

1. Role 1: Control Centre Operations

Deliverables

- 1.1. Generally, the panel would like to see more detail regarding the proposed deliverables. The panel have previously fed back that they would like to see strong evidence of clear industry leadership from the ESO in solving operability challenges, as well as greater levels of innovation. These comments still stand for 2020–21.
- 1.2. The panel would like more information on what the ESO will do in this upcoming 12-month period to drive down balancing costs. The panel noted that this comment extends to all balancing costs, including the costs that the ESO deem outside of their control (e.g. the Western high-voltage direct current (HVDC) link). The panel noted that during the draft forward plan event on the 23rd January 2020, the ESO highlighted that the Pathfinder projects are key to delivering a reduction of balancing costs in the long-term. However, the panel felt that there was little detail in the forward plan around what *explicit* effect(s) these projects (and other deliverables/activities) will have on balancing costs.
- 1.3. Regarding the deliverable relating to the clarity of operational decision making, the panel noted that the ESO recently launched its Data Portal and is asking stakeholders what data they would like to see on the portal. The panel welcomed the steps the ESO has taken towards being more transparent in their data and actions. However, the panel felt that the ESO could be more ambitious in this area. The panel urged the ESO to publish all the data that the Electricity National Control Centre (ENCC) uses to make decisions as a default, instead of relying on stakeholders to come forward and request data. This is because there may be “unknown unknowns” in stakeholder requests: stakeholders may not fully know what data the ESO uses/consults when making decisions. The panel felt that data transparency is a key area for progression: by making all non-confidential ESO data available, stakeholders and third-party analysts/developers would make use of the additional information in ways beneficial to the industry as a whole, that are not immediately apparent to the ESO.
- 1.4. The panel noted the deliverables relating to the Project for Energy Forecasting (PEF) and the implementation of an inertia measurement tool. The panel would welcome commentary around what benefit these initiatives will deliver. For example, the panel would like more elaboration on how these two deliverables will reduce balancing costs for the 2020–21 incentive period and beyond.

- 1.5. The panel discussed the deliverable relating to the roll-out of the Loss of Mains protection settings programme. The panel noted that this deliverable is not a priority for Role 1, but is for Role 3. The panel would welcome an explanation as to why this is, and also noted that it is not clear what interim deliverables/milestones are associated with the programme. Because this work has been ongoing, and has been pushed back by one year already, the panel expect to see more visibility on this programme’s progress. During the ESO forward plan event, it was clearly stated that this work would lead to significant financial benefits. The panel would welcome further information around the project’s implementation costs and delivery of annual benefits.
- 1.6. Regarding the deliverable relating to deeper access coordination of major infrastructure projects to commence in the RIIO-1 period, the panel were unsure about what this deliverable would entail in practice. The panel would like more detailed information around what this new process will be, what the interim milestones will be and how success will be measured.
- 1.7. The panel also thought that the plan contained a lack of detail around European and cross-border effects on the GB electricity market and associated deliverables in Role 1. One deliverable of note that was lacking in this detail was “Interconnector programmes”. The panel felt that the connection and integration of new interconnectors was business-as-usual work. Therefore, the panel would welcome more detail evidencing innovation and stretch in this area.
- 1.8. The panel noted that throughout the commentary provided for Role 1, there is a lack of information regarding how the ESO will collaborate with network operators (particularly DNOs and DSOs) to ensure that the work undertaken by the ESO will benefit the electricity system as a whole. The panel understand that the roles of DSOs will continue to evolve, but believe that this presents an opportunity for the ESO to be proactive in their engagement with all network operators and approach to whole-system projects. Therefore, the panel would like to see how the ESO plans to engage with network operators over 2020–21 – especially in relation to their whole-system strategy for supporting net-zero by 2050.
- 1.9. The panel felt that the deliverables within this role do not allow for sufficient progression towards the ESO’s proposed RIIO-2 deliverables. The panel consulted the ESO investment maps for RIIO-2, and felt there was a delivery gap for 2020–21 and the first two years of RIIO-2. For example, the panel noted that the ESO included the deliverable “Publish plan for day-ahead frequency response market” in its RIIO-2 Final

Business Plan, scheduled for Q3 2020–21. However, this is not mentioned among the deliverables in the draft forward plan for 2020-21.

Metrics

- 1.10. Overall, the panel struggled to see how the metrics were linked to Role 1 deliverables and how they tracked performance against the outlined priority deliverables. The panel noted that the balancing cost metric description lacked important details, such as the adjustment factor values for ElecLink and IFA2. The panel would welcome the opportunity to scrutinise the full details of this metric, and the ESO’s rationale, prior to the publication of the final Forward Plan for 2020–21.
- 1.11. The panel also noted that during the ESO’s Forward Plan event the ESO described the short- and long-term challenges relating to balancing spend. The panel would welcome more commentary in the plan around how each of these challenges affects balancing costs, and what measures are to be put in place to address these challenges and ultimately reduce balancing costs. The panel would also welcome some insight into how the ESO plans to reduce balancing costs, whilst working towards operating a carbon-free network by 2025. The commentary in the plan focuses on upward cost drivers, but the panel would like to see what the downward cost drivers would be, in relation to the ESO’s wider array of deliverables. The panel noted that, despite the importance of the ESO’s goal of being able to operate a carbon-free system by 2025, no metrics were included to measure progress towards this goal.
- 1.12. Regarding the CNI system reliability metric, the panel questioned its usefulness and ambition in going above and beyond what is currently standard reporting for the ESO.

2. Role 2: Market Development and Transactions

Deliverables

- 2.1. The panel felt that a large number of deliverables in this role are publication/strategy-based, but there are limited actions around solving actual, on-the-ground issues that exist in the market (such as code administration, improving accessibility to markets for new entrants and encouraging their participation). The panel would welcome more commentary around the tangible results the ESO plans to deliver in this role for 2020–21, alongside a clear articulation of the process and any associated milestones the ESO are planning to meet. Previously, panel members considered that delivering reforms on time would be a key measure of performance under this role, with a large emphasis on stakeholder feedback.
- 2.2. The panel considered that Role 2 should take a medium-term view of solving issues identified in Role 1, and that there should be a clear link between Role 2 and Role 3 (longer-term network planning). The panel would like to see a clearer link between the deliverables outlined in Role 2 and the other deliverables that make up Roles 1 and 3. Because of this lack of clarity, the panel questioned if the Role 2 deliverables are appropriate to enable the ESO to achieve their overall vision.
- 2.3. Similar to other roles, it was not clear to the panel why some deliverables are being prioritised over others under Role 2, how this prioritisation will maximise consumer benefits and how the priority deliverables link to the ESO’s long-term strategy and vision. The panel would like to see more rationale as to why the ESO has concluded that their chosen approach is the best course of action to deliver the maximum benefit to consumers.
- 2.4. Furthermore, the panel felt that the descriptions of many of the deliverables were a continuation of what the ESO already does – therefore reflecting business as usual activity. To earn positive incentive rewards in this area the ESO must evidence *how* these have been well-delivered at the end of year stage.
- 2.5. The panel discussed the delays to numerous deliverables that were originally outlined in the 2019–21 ESO Forward Plan. The panel would welcome further explanation as the current justification was not deemed to be sufficient. In light of the delays and the panel’s previous feedback on Role 2 (that they would like to see tangible progress

in this area), the panel would welcome interim deliverables that would help track the ESO’s progress throughout the year.

- 2.6. The panel noted the recent derogation in relation to implementation of the Clean Energy Package (CEP) obligations. The panel would welcome more commentary/a clearer plan for how the ESO will address and remove this derogation – thus becoming compliant with the obligations contained within the CEP and European Union (EU) law during the 2020-21 period.
- 2.7. The panel also noted the work that the ESO is proposing to undertake as part of the Electricity Networks Association (ENA) Open Networks project. When the ESO is leading on activities within workstreams, the panel encouraged the ESO to engage with non-network stakeholders throughout the duration of the work to ensure solutions are appropriate for the whole industry.
- 2.8. Regarding the deliverable relating to Optional Fast Reserve, the panel would welcome commentary around what strategy the ESO has decided for Q1 2020–21, and what feedback/factors they considered when forming their strategy. The panel would also welcome commentary on what the ESO’s plans are for the product after Q1 2020–21. The panel noted the recent suspension of January’s Fast Reserve tender round, and questioned how this would affect the relevant roadmap(s).
- 2.9. The panel noted the proposed deliverables relating to facilitating code change, and felt that they did not appear to address the root causes of the poor code administration satisfaction scores seen in 2019–20. Therefore, the panel would welcome an elaboration as to what were the key takeaway points from the feedback given to the ESO, how they translated to the proposed deliverables and what effect the ESO expects these deliverables to have.

Metrics

- 2.10. Overall, the panel felt that the coverage of the proposed metrics did not meaningfully reflect progress in the role and that the metrics do not align with the priorities outlined for the role. As a result, the panel will likely place greater emphasis on the timely delivery of clear, well-defined deliverables that develop markets and encourage new participants to participate in them.

2.11. The panel noted the metric around reforming balancing service markets, which reports the proportion of products procured via an open and competitive process. The panel supported this metric, but would like to see a justification for the proposed performance benchmarks. Furthermore, the panel would welcome the publication of procured volumes – as well as market spend and market price in each market – as part of this metric.

3. Role 3: System Insight, Planning and Network Development

Deliverables

- 3.1. The panel noted that, similar to the previous two roles, there is a lack of rationale as to why some deliverables were prioritised over others. Furthermore, the panel felt that there is a lack of dialogue around what the interim milestones are for the priority deliverables – and how the priority deliverables aid the ESO in achieving their long-term vision.
- 3.2. During the ESO’s draft forward plan event, the panel welcomed the fact that the scenarios outlined in the most recent Future Energy Scenarios (FES) publication informed subsequent publications, such as the Operability Strategy Report. However, the panel would have welcomed this process outlined in the draft forward plan.
- 3.3. The panel welcomed the ESO’s ongoing work on the multiple pathfinder projects, especially as the benefits will feed into the other roles. The panel noted the delays to these, but understood that this is partly due to making tender timelines longer in order to allow potential bidders more time to respond. The panel questioned the other delays and will be looking to see tangible progress throughout the year. The panel would also like the tender/application process to be as transparent as possible in order to identify all opportunities. Furthermore, one panel member noted that the pathfinders were launched without sufficient engagement with network operators. The panel would therefore like to see more evidence of engagement and collaboration with a wider number of stakeholders going forward (e.g. TOs and DNOs).
- 3.4. In relation to the Early Competition Plan deliverable, the panel would welcome more commentary regarding the aims of the Early Competition plan, as well as any interim milestones prior to the existing Q4 2020–21 deadline.
- 3.5. The panel also noted the deliverables relating to whole electricity system thought leadership, and would welcome more elaboration as to what this deliverable will actually entail in practice. Panel members would also welcome more commentary around how the ESO plans to work towards facilitating net zero by 2050, how this ambition is captured in the FES publication and other strategy documents and how the ESO’s Role 3 deliverables are linked to this ambition.

- 3.6. The panel also noted the lack of information regarding the Network Options Assessment (NOA) process in the draft forward plan. The panel considered that the NOA should be linked to proposed market developments, including Pathfinders. Considering the ESO has decided to retain the metric relating to NOA (NOA Consumer Benefit) for 2020–21, the panel questioned why there is a lack of deliverables relating to the progression of the NOA process.

Metrics

- 3.7. The panel felt that on the whole, there was a lack of connection between the metrics proposed and the ESO’s activities under Role 3. Therefore, the panel struggled to see how the proposed metrics effectively track progress for this role.
- 3.8. Previously, the panel fed back they that wanted to see a metric included in the plan which encourages close working between the ESO, TOs and DNOs to secure reduced network-build solutions – as well as with other stakeholders and market participants. The panel noted that a more collaborative approach to system analysis work had been suggested at the 2019–20 ESO Mid-Year Review. These comments still stand, and the panel would have liked to have seen this metric included in the Forward plan for 2020–21.
- 3.9. The panel recognised that it is difficult to design metrics for longer-term activities. As a result, the panel will be looking to see clearer and more specified Role 3 deliverables, with interim milestones so that progress can be tracked throughout the year.