

Energy UK response to ESO Draft Forward Plan April 2019 – March 2021

18th February 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 Electricity System Operator's (ESO's) Draft Forward Plan April 2019 – March 2021. The legal separation of the ESO from National Grid provides an opportunity to create a transparent and open company culture, working to facilitate a competitive market open to a wide array of participants. This will ultimately bring down costs for consumers. Energy UK recognises the steps taken to date to deliver on the overall principles of the ESO, including simple and more appropriate data dissemination. The delay in delivering SNAPs and greater transparency is disappointing, we now encourage the ESO to start implementing these deliverables, and seeking feedback from industry, adapting ex-post. We would also ask that the ESO justifies how they deem their benchmarking to be exceeding expectations and how this is defined. We welcome the inclusion of metrics as a basis to measure the ESO against their deliverables and objectives for the April 2019- March 2021 period, but some lack ambition and we highlight these in our response. We welcome the more focused Stakeholder interaction and the increased personal interaction with project owners. We also recognise that current external pressures could result in some objectives being difficult to deliver on time, we encourage the ESO to review their resourcing situation to ensure that it is appropriate.

We would expect the ESO to remove all Bi-Lateral contracts from their procurement process as a deliverable (as outlined previously by the ESO) in the coming year and be replaced with a competitive tendering process. Until all Bi-Lateral contracts have expired, the frequent publication detailing the costs and number of these types of contracts by product, would be an appropriate way to update industry on the ESO's progress in this deliverable. Energy UK also believes that Information Technology (IT) and website development should be deemed as baseline in the Forward Plan, unless of advanced specification. Additionally, a one-month consultation period is not long enough given the size and importance of the forward plan document and may have restricted the ability of some stakeholders to provide a full and comprehensive response.

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Principle 1: additional trades information provision (page 15)

Energy UK welcomes the ESO's ambition to provide industry with greater transparency and more appropriate and targeted information and data. This will allow prospective and existing market participants alike to invest their capital in a more informed way to that of the system's needs. This will facilitate a more competitive market allowing for the most cost-effective and appropriate product to be procured. However, it is worth noting that many documents by the ESO could be rationalised to prevent repetition, unless a suitable update is available.

We welcome the continued publication of the ESO's insight documents. These provide market participants with some awareness of the ESO's view of Great Britain's electricity system, markets and what could be expected from the long-term and short-term horizon. We urge the ESO to go further, clearly setting out long and short-term locational forecasts of system requirements, accompanied by the types of actions the ESO may take in order to maintain system security. We strongly recommend that the ESO takes forward a consultative approach in regards to all insight documents, where they apply ongoing stakeholder engagement and feedback to adjust the data and information to remain relevant to needs. Industry would find useful a database that provides raw, aggregated data, for them to draw their own reports and select relevant data to themselves.

Operational Insights are well received by industry, providing greater transparency around system needs. We would encourage the ESO to reduce the publication timeframes of the Operational Insight documents. For example, Daily Balancing Cost reports must be published as soon as possible after day closure. This allows for market participants to have a greater understanding of the rationale behind balancing actions that are being taken closer to the period. Insight on constraint boundaries is also welcomed, allowing industry to be actively involved in providing constraint solutions to the ESO. Facilitating this market benefits consumers by actively encouraging competitive, potential cost saving solutions opposed to traditional network owned assets providing network reinforcement. Whether this is deemed as baseline or 'Exceeding Expectations' will be wholly reliant on the quality of the final product and the scope of works. Industry would welcome greater transparency and more information on reactive need by time of day/location, both current and future. This is a current barrier to the planning and development of economic market solutions.

The consultation notes that improved availability of the west coast HVDC link next year should reduce BSUoS by £136.4m. As availability of the west coast HVDC link is clearly a material driver of BSUoS, information comparable to REMIT and other information for generators, further information should be published, including availability, flows and forward availability forecasts.

The ESO's ambition to provide insight on trading activity is welcomed. Details of 7A trades, including why they were executed and with whom, would help provide greater clarity on market dynamics. There can often be plant running out of merit order due to actions taken by the ESO, yet the details are opaque and market participants are left guessing. Full details of trades taken by the ESO would promote transparency, leading to efficient operational decisions and investment signals.

In order for the information to be appropriate to industry needs, Energy UK would encourage the adoption of an ongoing feedback basis for the data and information being provided, to allow for this to be market led and feedback driven. Output needs to be a report that provides level of information that the market has asked for and given to you in feedback sessions. As a matter of urgency, the market needs to see when non-BM STOR actions are taken and are feeding into cash-out. This lack of transparency is a serious issue which needs addressing urgently.

Energy UK strongly encourages the continuation of the Electricity Operational Forum, and it is generally well received by industry. The introduction of 'shorts' for individual workstreams worked well and provided a good opportunity for market participants to actively interact on a personal basis with the relevant project owner at the ESO. We are also welcoming of the ESO making Electricity National Control Centre (ENCC) visit days more readily available to industry. These visits will provide greater clarity and understanding of how system decisions are made by the ESO.

Energy UK welcomes the improved quality of the ESO's Forecasting. However, we encourage the ESO to further investigate how they can provide reassurances to industry of the accuracy of the

Forecasts, notably BSUoS. With the increasing prevalence of intermittent and embedded energy sources, the uncertainty this provides must be addressed by the ESO reviewing how it can collect relevant data to address these concerns. This has been an issue for years and we are concerned that the ESO seems to have made such little progress on securing better data. It is unclear if the ESO is making full use of the registers of renewables, CM register, etc., or seeking better data from the DNOs. We would encourage the ESO to publish data accuracy information, giving a quantified confidence level, along with target to meet going forwards.

Metric 1: Information provision scorecard

Publishing forecasts on time is critical, if published late they can be of little use to market participants. Although, we think this is business-as-usual and having a performance metric based on timely publication of information is not ambitious and should not be a measure of performance.

Metric 4: Balancing cost management

Historic data should not be used to measure performance and could result in easily achievable targets. For example, due to changes in system infrastructure or generation mix, a large reduction in balancing costs could be realised the following year. Performance benchmarks should be reviewed annually, considering any changes to drivers of balancing costs.

Metric 5: Provide journey feedback

We agree that a survey is a good way to quantify customer satisfaction. However, we would suggest the following more ambitious metrics:

Exceeds benchmark: Average above 4 out of 5
In line with benchmark: Average between 3-4 out of 5
Below benchmark: Average less than 3 out of 5

Metric 6: Reform of balancing services (page 36)

Energy UK supports the ESO's implementation of Metric 6, and the ambitions of facilitating a more competitive balancing market. The ESO must now ensure that these timeframes are adhered to, and should provide regular updates on the progress of these deliverables. Greater clarity of the deliverables timing for Black Start and Reserve should be provided as soon as possible. We would also further clarification over the differences between:

- Amber – Interim Solution implemented,
- Green – Interim solution implemented to enable commercial access.

It is the view of Energy UK currently that is an interim solution if implemented then commercial should be enabled, therefore, amber should be unnecessary.

Metric 7: Code administrator stakeholder satisfaction survey

Whilst supportive of efforts to measure stakeholder satisfaction of code administration services, we believe that the basis for measurement (Ofgem CACoP survey) is a poor metric. This can be illustrated through an example: at present if the stakeholder satisfaction score is particularly low for a given period, then the code administrator need only outturn marginally higher results to deliver a score of 'Above Target' for the following period. In reality, the satisfaction level may still be very low.

Bespoke benchmarks should be developed for each period with "exceeds benchmark" only being awarded where there has been a clear step change and improvement in code administration satisfaction.

Metric 9: Year ahead forecast vs outturn annual BSUoS

Due to its market position and depth of resource, the ESO is best placed to produce a robust BSUoS forecast. It's appropriate the ESO is incentivised to forecast BSUoS as accurately as possible, but this metric lacks ambition. An Absolute Error Percentage (AEP) of 20% could mean forecasts are as much

as £220 million out for the year and the result still being satisfactory against the metric. Market participants make commercial decisions based on the BSUoS forecasts and inaccurate forecasts can lead to unnecessarily high costs being incurred and resulting risk premia being passed on to consumers. We suggest the following:

Exceeds benchmark: under 8% AEP

In line with benchmark: between 8 -14% AEP

Below benchmark: greater than 14% AEP

Metric 10: Month ahead forecast vs outturn monthly BSUoS

We appreciate that in the shorter term BSUoS is more volatile and month ahead forecasting is challenging, but this metric still lacks ambition. We suggest:

Exceeds benchmark: 8 or more monthly forecasts under 10% AEP

In line with benchmark: 8 or more monthly forecasts between 10-15% AEP

Below benchmark: Less than 8 monthly forecasts under 15% AEP

Metric 15: NOA consumer benefit (page 72)

Energy UK does not have any comments on the Metric.

1. Do you have any comments on whether our plans are heading in the right direction to meet current and future market needs?

We are encouraged by the steps that have been taken by the ESO to date, and welcome the ambition to deliver on facilitating an energy system where ESO's needs are provided in an open and transparent way, whilst the ESO effectively supports and promotes competition in the wholesale markets. However, we believe that the forward plan should give more emphasis on the 'whole system approach'. Working alongside DSOs (when they are created) is crucial to developing consistent and comparable markets across all networks. Participants need to be able to understand whether they can revenue stack across national and regional balancing/flexibility markets as well as being able to quickly and easily see which market at that moment offers the best returns for their flexibility. Energy UK welcomes easing data and information dissemination from ESO. These actions are key to providing potential market participants the knowledge to understand how they can provide services to ESO and compete in the relevant markets to their assets. This should deliver good results and outcome for the system. The data provided needs to be published in a consistent format, on a single platform and provided with data analysis by an ESO service. Complete and more granular data will be a key driver towards increasing participants' understanding of the market and driving competition. We urge the ESO to be more ambitious with their Metrics and delivery dates, particularly in relation to SNAPs.

The Firm Frequency Response Week-Ahead Auction is widely welcomed by the industry. Energy UK has noted that this has been deemed 'Exceeding Expectations' in the Draft Forward Plan. Although we do not necessarily disagree that once delivered it should be deemed as Exceeding Expectations, this should be defined as commencing a suite of works with the ultimate deliverable to be that of a day-ahead auction, as outlined in the Product Roadmap for Frequency Response and Reserve¹.

2. Please give us your view on whether we are targeting the right activities, for example those that will deliver most benefit for consumers?

Energy UK welcomes the current ESO Forward Plan 2019-2021 and its proposed objectives. The ESO must now focus on delivering against these objectives in a timely manner. We note that on

¹Future of Balancing Services – 'Product Roadmap for Frequency Response and Reserve'
<https://www.nationalgrideso.com/sites/eso/files/documents/Product%20Roadmap%20for%20Frequency%20Response%20and%20Reserve.pdf>

previous occasions, the ESO has not been able to deliver against the timeframes originally committed to. Ambitious timeframes are crucial, we would encourage the ESO to ensure that it has back-up plans, such as more manual activities, if they cannot deliver IT solutions for time critical systems like EBS. The industry makes commercial decisions based on these timeframes, and therefore, these delays can be very damaging to market conditions that ultimately impact end consumers.

3. We present in our plan, how our activities will meet and exceed baseline expectations between 2019-21 (see page 5 for definition of exceeding baseline expectations), do you have any comments on this?

All deliverables outlined by the ESO must be those that go beyond 'business as usual', and are proof of the ESO being appropriately ambitious and can be measured against on the ESO Performance Panel. We also note that many activities defined as "exceeding expectations" are in fact above the activities foreseen in 2011, not activities that the ESO has achieved above what was both needed and expected by the market. We welcome the inclusion of benchmarking performance in the ESO Forward Plan. However, there has been some doubt from industry as to whether these were going beyond business as usual. It is believed that the definition of 'Exceeding Expectations' has been applied from '[The Electricity System Operator Reporting and Incentive Arrangements: Guidance Document](#)'. This clarification would be welcome, and an explanation as to how this decision was agreed with Ofgem, where other interpretations of 'baseline' are available.

Further, we understand that some deliverables have rolled over from the 2018-2019 Forward Plan, into the 2019-2021 Forward Plan. We do not deem it appropriate for the ESO to be judged in a new Forward Plan on either missed deliverables, or reviewed on deliverables again in a new Forward Plan, on deliverables met early. We would encourage the use of 'active benchmarks. In the case where a benchmark is met or exceeded early, then the benchmark should be revised to encourage continued over-performance, rather than being recognised as continuing to exceed the existing performance benchmarks. This is justified by the Ofgem document stating that: "*Incentive baseline expectations should evolve each year and be tightened where there is outperformance (i.e. outperformance should be 'bankable' for consumers and not rewarded twice)*"

Although every effort should be made for the ESO Forward Plan to encompass all deliverables in the period, there is the likely possibility that ad-hoc and new objectives will manifest. Although these will not be included in the Forward Plan, this should not prevent the ESO from delivering them and appropriately rewarded in its performance review for these activities. This view is outlined by Ofgem.²

4. Do you agree that our metrics will allow us to track our performance as we deliver against our plans?

We welcome the principle of metrics being put in place, but they must be sufficiently ambitious. These will allow for an appropriate measure of performance on an ongoing basis for the ESO's annual performance panel review. The appropriateness of these metrics should be agreed by Ofgem and the ESO Performance Panel in advance, and should not be ESO defined.

General Comments

We are aware of other consultation responses running in parallel to the ESO's Draft Forward Plan Consultation, such as, the C16 Annual Industry Consultation 2019-20. Energy UK notes that the length of the consultation period for the ESO Draft Forward Plan April 2019 – March 2021 is less than 5 weeks. We would encourage the ESO to mirror the standards set by Ofgem to allow a consultation period policy³. 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.

² The Electricity System Operator Reporting and Incentive Arrangements: Guidance Document - https://www.ofgem.gov.uk/system/files/docs/2018/03/esori_arrangements_guidance_document.pdf

³ Ofgem Consultation Policy - <https://www.ofgem.gov.uk/consultations/our-consultation-policy>