

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

Meeting 10 – 20 May 2020

Meeting held via WebEx with revised format, pre-read material circulated beforehand, presenters summarised only before opening for questions and feedback from the panel.

Minutes

Attendees

ERSG members

Elizabeth Allkins	Ovo
Ed Rees	Citizens Advice
Joanna Hubbard	Electron
Alan Kelly	Scottish power Transmission
Eddie Proffitt	Major Energy Users Council
Simon Roberts	Centre for Sustainable Energy
Nina Skorupska	Renewable Energy Association
Jamie Stewart	Strathclyde University
Nigel Turvey	Western Power Distribution
Chris Veal	Transmission Investment
Andy Manning	Centrica
Charlotte Morgan	Chair
Fintan Slye	ESO – Company rep
Angelita Bradney	ESO – Company rep
Kayte O’Neill	ESO – Company rep
Sophie Corbett	Technical Secretary

ESO Support

Roop Phull	ESO-Observer
Robyn Jenkins	ESO-Observer
Craig Dyke	ESO-Presenter (ESO business prioritisation and engagement strategy)
Gavin Lochhead	ESO-Presenter (RIIO-2 business readiness)
Cecile Marion	ESO-Presenter (RIIO-2 business readiness)
Joseph Donohoe	ESO-Presenter (RIIO-2 business readiness)
Nikki Jamieson	ESO-Presenter (technology delivery in RIIO-2)
Pirvinder Bansel	ESO-Presenter (technology delivery in RIIO-2)
Gary White	ESO-Presenter (technology delivery in RIIO-2)
Graham Dolamore	ESO-Presenter (Design Authority proposal)
David Bowman	ESO-Presenter (Design Authority proposal)

9:05-9:10

Conflict of interest review

No new conflicts of interest identified.

9:10 – 9:20

Introductions, minutes and actions

One new member, Ed Rees introduced himself to the wider group.

Actions

The Chair raised the cancellation of the open hearings as a number of the previous actions were related to the preparations for these.

The ESO clarified that following the cancellation of the open hearings, we are not expecting any replacement sessions to be scheduled before draft determinations, but that Ofgem are reserving the right to schedule something in lieu of the cancelled open hearings in between draft and final determinations.

In the last week, Ofgem contacted The Chair on behalf of ERSG as well as the Challenge Group to have a more informal session to check the thoughts of both groups, and to chat through any significant differences in opinion between user group and Challenge Group opinions on the ESO Business Plan. The Chair clarified that for the most part, the parties were on the same page in relation to the topics raised, and they had a good discussion around the ESO's engagement with customers and stakeholders; the overwhelming view was that this has been managed well by the ESO. There was some discussion on the costs of the Business Plan, and while the user group had not looked into this, the Challenge Group shared some views with Ofgem. The parties also discussed major IT projects, and the Challenge Group raised concerns on governance and the shared services model.

The ESO asked whether Ofgem had responded or shared their thoughts on any of the feedback raised, and The Chair clarified that the conversation was primarily Ofgem asking questions and the user group and Challenge Group responding, and that no responses to the feedback were made.

There was an outstanding action for the ESO to circulate information on Ofgem's review of system operation. It was noted that Ofgem had advised the ESO during the early phases of COVID-19 that work would be impacted in this area. The ESO noted however that in the last week, Ofgem had been in contact to discuss restarting this process. The ESO believe that the absolute earliest that this information would published would be June. The group clarified that BEIS would be 'consulted' rather than working in collaboration with Ofgem.

The ESO noted that they are working to understand what Ofgem want from a System Operator over the longer term, and that although the Business Plan is extremely ambitious, the ESO view is that it can be achieved under the current model of legal separation. The ESO also noted that they are happy to engage in this process, and that regardless of how the conversations progress they need to continue to support delivery of the nation's zero carbon ambition, reiterating that their view is that this can be done under the current arrangement.

It was also noted that from the ESO's perspective, the governance, remit, and roles of its organisation are structured to successfully deliver on the net zero and 2025 ambitions, and to do so in a way that provides value for end consumers and security of supply.

9:20 – 9:50

Update on ESO business prioritisation projects and stakeholder engagement strategy following COVID-19

The presenter gave an overview of how the ESO has been making changes and prioritising since March, to secure business activities and protect people in light of COVID-19. Stakeholder views are key, and the ESO understand the need to be transparent with decision making. The presenter discussed a six-step process for decision making before summarising some of the decisions that were made early on, noting that no impacts to RIIO-2 delivery had been identified yet.

The ESO noted that they have agreed new business priorities in light of COVID-19, which are:

1. People safety and wellbeing
2. Keeping the lights on
3. Financial management
4. Licence obligations
5. Manage and meet expectations
6. RIIO-2 enablement

These have been discussed and agreed with BEIS and Ofgem, and have been shared with wider stakeholders via webinar.

The presenter covered a list of deferred or delayed projects as per the pre-read materials. The decisions to delay these were made based on the following factors:

- To release resource to support the control room, directly or indirectly.
- Where a new project would have required control room training – as it wouldn't be possible to safely social distance in the training units.
- In recognition of the demand drop, and to divert resource to managing the short-term operability challenges caused by COVID-19.
- Where third party access to site is required for projects.

The presenter noted that across the whole portfolio of ESO works and projects, only eight had been impacted with defer or delay decisions. The presenter also shared a list of projects that may be considered next, which has also been shared externally, before opening to questions from the panel.

The Chair asked whether the ESO was finding operating significantly more difficult. The response was that the vast majority of employees are working from home, and are likely to be for the next few months at least, on the whole this is working well, but they are cognisant of maintaining engagement with those at home. As a result, there is a fundamental focus on the control room and key operational support – a decision was made early on to segregate the control rooms to reduce the risk. The ESO sees the main challenge to be the return to the office when the time comes, and a recovery group has been set up to address this.

The Chair noted that for a lot of companies, one of the key issues is impact on revenue, and asked the ESO whether any impact on revenue had been noted or whether the business model is sufficiently robust.

The ESO noted that a huge amount of work is ongoing to understand the impact on TNUoS and BSUoS, and considering both to what extent the ESO is either potentially impacted itself and the capacity needed to manage it, as well as considering what support may be possible for industry. The ESO noted the expectation that BSUoS costs may increase over summer, and noted that they are keen to engage in conversations with industry on how they can support in relation to TNUoS and BSUoS.

One member asked whether the ESO has had any discussion with Ofgem regarding deliverability of RIIO-2 and whether it should be delayed, or whether quality might be impacted, given the resource requirement on network companies and industry.

The ESO noted that there hasn't been a specific conversation regarding this, but note that Ofgem are working hard to get their draft determinations out as planned, and are very keen to stay on track with the current timeline. The ESO noted that ideally, their preference would be to meet the original timelines too, and that they would be reluctant to delay if possible, but that they would consider this over the course of the year to get a better sense of the impact of COVID-19 on RIIO-2.

One member noted the remarkable way that new ways of working have enabled acceleration of delivery, for example, cultural changes like working from home that typically would be delivered over a year or longer, and asked whether the ESO would be considering any learnings from this, and whether or how they might take advantage of it when considering new ways of working for RIIO-2.

The ESO agreed that having had a single point of focus, teams have managed to deliver in an accelerated way, and that they could consider what could be learnt from this and applied to implementing new ways of working for RIIO-2, but noted that this needs to be balanced with the toll it could take on people and wellbeing.

9:50-10:05

RIIO-2 Business Readiness – Sharing our updated approach to delivery planning and the corresponding people & capability effort

The presenter gave a short summary of the approach to people capability and delivery planning and noted that the delivery plan had been provided as pre-read.

One member noted that there was a good description of what business capabilities were required, but asked for more detail about what markets they would need to access resource from, whether there is competition for this resource, how difficult it would be to recruit and how much it would cost.

The ESO responded that their experience in recruiting for these capabilities varies, and that they are very used to recruiting for some, and less so for others, but don't feel that there are market constraints at the moment. They did note that onboarding and training would require a step change, and that they have commenced discussion with recruitment partners to consider all options (including offshoring) and to accelerate the recruitment process.

One member asked whether home-working as a result of COVID-19 has affected hiring plans, whether it opens up new recruitment pools, and whether ESO anticipates more flexibility going forwards permanently?

The ESO responded that although they are early on in the thought process, it has highlighted different ways of thinking about where people need to be and how they might work. They have seen real success with current employees showing creativity in finding opportunity in new ways of working, even for those who are finding it more difficult than others, but noted that they need to continue to focus on improving collaboration with colleagues working from home. The ESO noted that there has always been a challenge with the size of the London office, and the location of the others, but the current circumstances have highlighted possibilities for recruitment.

Another member asked the ESO whether and how they would embed the "product" mindset as part of the onboarding process, and whether the intention would be to embed agile plans and implement the agile framework as part of recruitment, or to recruit first and then go through agile implementation.

The ESO commented that they would need to consider the agile process first and understand what skills and capabilities are needed, to enable recruitment of the right people, and of people who want to work in a certain way and in an agile environment. ESO noted that the level of ambition in the business plan and scale of change needed doesn't and won't come easily; it is hard to change the culture of an existing workforce, and similarly, recruitment of a group of people won't be sufficient in isolation to embed use of agile techniques. The ESO commented that there are already colleagues in the business who can be upskilled and developed to accelerate this, and that a combined approach would be used to embed cultural changes and agile methodologies.

The ESO noted that there would be further opportunity for the group to consider how they might create IT delivery capability in a later agenda item.

A different member commented that it would be harder to drive these cultural changes remotely, noting impacts in particular on; new hires – induction and relationship building, serendipitous office contact, and the reinforcing effect working remotely has on siloed working and hierarchy. It was discussed that these challenges need to be given real consideration, which was echoed and agreed by the ESO. The ESO asked the panel for any examples of best practice with regards to recruitment and culture change, in a remote working environment, and received the following input:

- One member noted from their experience that they found having a clear sense of identity and ways to communicate it helpful. By having snapshots of people across the business talking about what the company means to them, they could capture the essence of what they were trying to do, and use this to communicate out, but also to highlight where the areas of overlap and inconsistency were. This made it easy to communicate to all employees and stakeholders 'who you are and why you're there'.

One member questioned what planning tools were being used, and the ESO confirmed that a number of tools were being used in different areas, and that the delivery plan shared was used to bring all of these together for demonstration.

10:05-10:15

BREAK

10:15 – 10:30

Approach to technology delivery in RIIO-2

The presenter gave a brief summary leading on from the pre-read, and noted the objective of discussing with ERSG the amendment of delivery models to move to more agile methodologies. The presenter noted that the ESO is looking to build people capability, and to adapt roles to become more product centric. These roles will be mobilised across the investment portfolio, and mobilised in RIIO-1 to support enabling works for RIIO-2.

The presenter noted that the ESO is continuing to work with Ofgem around concerns raised by ERSG, and that further insight on engagement will come in the subsequent session on the Design Authority, before opening up for questions.

The Chair referred to the discussions with Ofgem, and asked if the intention of these was to incorporate changes to plans or more so to develop understanding, and the ESO responded that they are working to support Ofgem's understanding of the model, to understand their concerns, what good would look like, and what they would like to see in the future.

The ESO noted that Ofgem have been clear on their concerns around the current shared services model, and noted three areas in particular: the level of decision making rights that should sit within the ESO; having the right capability within the ESO (currently with the partner model, this sits outside the ESO); and the ability to hold the service provider to account. Ofgem have asked the ESO to look at alternatives to this model to mitigate these. The ESO won't be able to propose new models before draft determinations, but expect that before final determinations, the Business Plan will require some changes, the scale of which is not yet certain.

The presenter discussed that traditionally, requests would come from the business and an IT team would respond and manage end to end change activities, which is very transactional in approach. Over the last two years, they have been trialling moving towards a digital delivery model, leveraging agile techniques and product ownership by using cross-functional, business-led teams, formulated with individuals from the business, IT and suppliers. These models are what the ESO will use for FY21 investment and through RIIO-2.

One member asked the presenter to further explain this using salesforce integration as an example. The presenter explained (using the example), that there would be a dedicated salesforce product manager, with a team of product owners, combined with dedicated support from delivery partners on testing, integration, and technical delivery roles. This creates a cross-functional, product-led model; whereas traditionally there would have been a business subject matter expert part time, providing their input at various stages, new models are more iterative, and the roles are full time so are colleagues are invested in the product from the outset.

The group noted that the ESO are moving away from a waterfall approach and towards digital, agile models, but that there are some exceptions to this for older projects.

The presenter noted the need to build the competence within the IT organisation around the platforms being used, investing in dedicated development and technical roles, and in testing and integration for operational platforms.

The ESO noted that in a few weeks' time, they should be able to share some additional content to support a meaningful discussion on the shared services model, and would welcome thoughts on whether the group would want this.

Action: ESO to share content on shared services model with members once available, and facilitate one-to-one conversations with members who would like to be involved.

One member shared their thoughts on the shared service model, and discussion led to group consensus on four different categories of IT capability, each with differential risk issues in relation.

- Dev ops – the view/concern is that wherever these sit within the model, they cannot be diverted, and the group would like more certainty over this.
- BAU - sits within the ESO.
- New projects – the view/concern is where this team would fit into the shared services model, and whether there will be competition for this resource from the wider group. The group would like further reassurance on this element.
- Commodity IT capability – genuine benefit when delivered as a shared service.

A question was raised in relation to how stakeholders would be kept informed, when considering a microservices structure, where decisions are being made in much shorter timelines and more frequently. The group agreed to pick this up as part of the agenda item covering the Design Authority.

10:30-10:45

Design Authority proposal

The presenter gave a brief summary of the pre-read, outlining the proposed role of the Design Authority in helping to set the strategic direction for technological transformation, and in providing independent challenge and guidance. The presenter relayed wider stakeholder feedback on the proposal, noting that generally stakeholders have been supportive, tended to agree with the remit, and like the exposure, transparency and accountability it should provide. The main concerns raised are in relation to the need to capture a broad range of viewpoints, and that the ESO should consider the most appropriate way to do this, particularly considering those who may not have the time or resource to attend or participate in meetings. The ESO noted they are considering the use of trade associations, live streaming and publishing minutes to mitigate this. The presenter asked the panel for comments and questions on the proposed scope and membership of the Design Authority.

One member raised that perhaps the Design Authority should also support with prioritisation of strategic outcomes.

One member commented on the resourcing of Design Authority members, and asked the ESO how this would be managed, noting that they would need to balance achieving well-rounded views, with

‘volunteered’ participation based on self-interest, and also questioning what the relationship would be with ERSG.

The ESO agreed to take this point away for further consideration, to ensure that engagement of ERSG is not diluted, but that the Design Authority is appropriately resourced too. ESO highlighted the need to provide a full and holistic view of all of the opportunities for stakeholder engagement, and to test this with the ERSG group as individuals to see where they best fit, then review proposals with ERSG.

Action: ESO to set out range of opportunities to participate in stakeholder engagement, and set out plan for resourcing (including discussing with individuals and testing proposals with ERSG).

A panel member noted that the pre-read material didn’t include the specific authority of the group, and questioned how this would interact with the authority of the product owners. The ESO clarified that the actual decision making authority of the group has not been finalised, and that their proposal is to develop the terms of reference with the group as opposed to stating them outright from the offset. It was also noted that product ownership wouldn’t be diluted, and that the remit of the group would be to act as ‘guardrails’ for strategic priorities.

The group requested an update at the next ERSG meeting.

Action: ESO to provide update on Design Authority developments at next meeting.

Action: ESO to circulate draft ToR for the Design Authority once available.

Members to refer to the Technical Secretary to report concerns in relation to membership of both the DA and the ERSG.

10:45-11:00

Regulatory Framework

- Update on funding model discussions
- Feedback from ERSG members, following discussion with Ofgem incentives

The presenter summarised the key points from the pre-read materials:

- On additional remuneration, Ofgem expect this to be non-zero, although further discussion is needed to explore what might be an appropriate level. The ESO understand Ofgem’s expectation here is lower than the low end of the range in the business plan.
- On cost of capital, the CMA review of NERL’s price control may place downwards pressure on Ofgem’s working assumption.
- On the cost pass through model, Ofgem will set an ex ante benchmark for efficient level of spending
- Incentives – Ofgem has taken a positive step to consider developing an ex ante scorecard which would detail strong, medium and weak performance for each activity, though there will still be an evaluative component, and the upside/downside remains unconfirmed.

The group discussed that Ofgem has put in a third party response in respect of CMA determinations, and asked whether there had been any discussion with ESO about this. It was noted that the focus of

discussion had been on the NERL price control, and that this could influence Ofgem's view of the price control measures. ERSG suggested that the ESO should consider the CMA review of price controls in the water sector for reference.

The panel members who had recently contacted Ofgem in relation to incentives performance summarised the conversation, noting that there had potentially been a level of misunderstanding in terminology used, and that Ofgem agreed the business plan contained ambitious plans, delivery of which would go beyond 'average' performance.

It was noted that the issue remains that the process of 'calibrating' the level of stretch throughout the business plan could be quite difficult, but remains essential to reduce uncertainty, create a stronger predictability, and a narrower set of outcomes on performance and reward.

It was also noted that it may be of benefit to further explain to Ofgem the cause and effect link in how the ESO operates as a result of the regulatory framework.

The group were pleased to hear that Ofgem's thinking seems to have progressed, and that for each of the 'big' activity sections in the business plan, Ofgem are going to try to detail what they think good performance looks like. The group discussed that the details of this will be crucial, and that the assessment should be timebound; that 'strong' performance in year one might not be 'strong' in subsequent years, to plot out a trajectory for performance. It was also noted that this remains difficult because there isn't a yardstick or global example to easily reference or apply.

The Chair asked the ESO whether there was an expectation to have any further discussion with Ofgem prior to receiving their proposals, and commented that in the past there had been a focus on incentivising performance in the early stages of the business plan.

The ESO responded that pre-COVID-19, they were hoping to see firmer proposals in relation to the funding model, but now do not expect to see anything further ahead of draft determinations. In relation to early deliverables and outcomes, the ESO is keen to establish more regular and earlier feedback, to enable early action to respond to stakeholder feedback. The ESO is trying to understand what approach might be best to establish this.

In relation to the frequency of performance panel feedback, a panel member noted that Ofgem may need to balance the cost of resourcing the panel against the value of the incentives, and also noted for consideration that the ED2 process may draw focus away from the RIIO2 discussions, suggesting that the sooner finalisation can happen the better.

11-11:10

AOB

Fintan gave thanks for time and attention, and confirmed that the ESO will reach out for advice and input on IT delivery model shortly.

One member commented that on the similarity between 'Design Authority' and 'System Architect', for the ESO to consider.

The Chair noted that it would be useful to understand the next steps for the next sessions, particularly in light of the timing of Ofgem releasing their preliminary views.

Action: ESO to confirm the how they see the group working over the next couple of months.