

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

BP2, Meeting 1 – 22 September 2021

Hybrid meeting held at The Clermont, Charing Cross and via Microsoft Teams

Minutes

Attendees

ERSG members

Stuart Cotton	Drax
Ed Rees	Citizens Advice
Eddie Proffitt	Major Energy Users Council
Simon Roberts	Centre for Sustainable Energy
Peter Emery	Electricity North West
Elizabeth Allkins	Ovo
Rachel Fletcher	Octopus
Nina Skorupska	Renewable Energy Association
Marko Grizelj	Siemens Energy
Gregory Edwards	Centrica
Patrick Hynes	National Grid
Barry Hatton	UKPN
Robert Lowe	University College London
Lai Fong Chiu	University College London
Andy Manning	Chair
Fintan Slye	ESO-Company rep
Matthew Wright	ESO-Company rep
Gareth Davies	ESO-Company rep (Presenter – Ofgem guidance and ERSG forward programme)
Sophie Corbett	Technical Secretary
ESO Support	
Kayte O'Neill	ESO-Presenter – FSO
Josh Jones	ESO-Presenter – BP2 Stakeholder engagement
James Kerr	ESO-Presenter – Consumer strategy
Lauren Stuchfield	ESO-Presenter – Consumer strategy (Energy insights)

13:00 – 13:20

Welcome from Fintan, Matthew and Andy

The ESO opened the inaugural session to cover the development of the ESO's second RIIO-2 Business Plan (BP2), covering housekeeping and the agenda.

The ESO thanked attendees for joining, welcomed new members and existing members and thanked Andy Manning for stepping into the role of Chair of the group.

The ESO commented on the huge value of the input from the group on the ESOs first business plan, and the critical role the ERSG played in challenging the ESO to make the first plan as stretching and

ambitious as possible, resulting in the formation of the ambition to be able to operate a carbon free system by 2025. The ESO noted that they hope to get the same input and challenge from the group for the second business planning period.

The ESO noted that that the second business plan shouldn't just be a rearticulation of the first, and that there is a huge amount of change occurring that will need to be captured, including in relation to: introduction of competition in on-shore transmission, coordinated offshore plans, the FSO consultation, and the need to step back and consider the whole market plan.

The ESO continued to highlight that there is no longer a formal obligation to maintain the ERSG, and that they are continuing to do so because of the significant value the group brings. The ESO asked that the group use their experience to shape the ESO's stakeholder engagement so that the second business plan will be thoroughly understood and endorsed by stakeholders.

The new Chair introduced himself, and welcomed the group, noting that he sees his role as Chair as harnessing the intellect and insight of the group, to provide challenge for the ESO in their next planning cycle. He noted the importance of forming a relationship between the group, the performance panel, and Ofgem, in order to ensure accountability for the ESO in taking on board the group's feedback and challenge. The Chair noted that his personal hope for the group would be to look back at the end and point to tangible impacts on the delivery of reliable and affordable energy in the UK.

13:20 – 13:40

Introductions

The members introduced themselves to the group including their hopes for the ERSG. One member noted the lack of Scottish representation.

Action – The ESO to investigate acquiring Scottish representation within the group.

13:40 – 13:50

Terms of reference (ToR) and the ongoing role of ERSG

The chair referred to the updated ToR, noting that the group were invited as individuals, and were not expected to canvass views across their industry sectors.

It was noted that the ongoing role of the ERSG could be broadly categorised into two areas. Firstly, as a critical eye on how the ESO is approaching stakeholder engagement and well that is reflected in BP2. Secondly, using their individual expertise to stretch and challenge the ESO.

The Chair asked the group whether there were any conflicts of interest for the members relating to the topics on the agenda. No particular conflicts were raised.

13:50 – 14:20

BP2 Guidance and stakeholder approach

BP2 Guidance discussion

The ESO gave an overview of the slides and summarised the guidance provided by Ofgem on what is expected of BP2.

The presenter noted that Ofgem are keen to keep updates streamlined and that if BP1 activities are being delivered to plan and achieving the benefits as described, then only a light touch update will be required. Where more detail will be required is in respect to new activities or activities that have materially changed. The presenter continued that Ofgem want the ESO to remain flexible and able to adapt the plan to drive activities that will deliver significant consumer benefit, and that changes mid-plan to enable this should be facilitated. Guidance is yet to be provided on Ofgem's expectations for IT delivery.

A member commented that the delay to guidance on IT delivery was disappointing given how being technology driven was a key part of the first business plan. It was also recognised that the ERSG may not have the expertise to fully scrutinise the ESO's plans. The ESO highlighted that a Technology Advisory Council (TAC) engagement group has been setup to challenge and help set the strategic direction of the ESO transformation journey in systems development.

Action – ESO to investigate how the TAC and ERSG can compliment each other to scrutinise the ESO's IT plans

The ESO continued that for shared services, there would be no need to update the cost benefit analysis (CBA) for the existing deliverables, but that a CBA would be required for new or materially changed activities. The presenter noted that there was a £20m allowance for innovation funding over the five-year RIIO-2 business planning period, and that Ofgem will be keen to understand progress made on Network Innovation Allowance (NIA) funded activities in BP1.

The presenter summarised that although Ofgem want the update to be streamlined, there will still be some significant pieces of work to be done, and then opened for questions from the group.

A member noted that Ofgem have made it clear they want to understand deviations and what is different from the first business plan, and asked if the ESO could elaborate on what this might include.

The ESO responded that they are starting to collect information on progress for the first six-monthly report (due in October), and that while it might be too early to state for certain what would be different for BP2, they noted that some of the key themes would likely include new activities such as: network planning, offshore coordination and impacts on shore, the ED2 process and DSO transition. The ESO also referred to the possibility that some of the IT programmes may outturn to be harder and more complex than originally thought. The ESO offered to share the contents of the six-monthly report with the group when available.

Action – ESO to share the ESO six monthly report when published

A member asked the ESO how they expect to keep BP2 current, noting in particular the developments likely to come out of COP26 and the FSO consultation, and the ESO noted that they are undertaking horizon scanning activity and a strategy refresh to contemplate proposed new roles.

A member commented that some of the individual topics are immense in their own right, and the ESO responded that for all substantial new activities, they will analyse where there is a material impact, and take into account whether there are existing stakeholder engagement processes to remove the risk of duplication, but capture the engagement within the plan.

Action – ESO to share their best view of what activities may impact the business planning process

The Chair noted that as the group was no longer a mandatory obligation, it is within their gift to decide how best to operate, and discussed the option of forming sub-groups to consider focussed issues.

A member asked whether it is up to the ESO to coordinate an offshore network, and the ESO responded that work is already ongoing in this respect, and that the ESO is the lead for this.

A member asked how to coordinate some of these broader activities, and the ESO discussed that there is a need to link in with the NOA and the onshore methodologies, noting that Ofgem had launched some of these separately, perhaps not initially realising the need for them to be considered as a whole. The ESO noted their hope to have further clarity on this by the time the draft plans are developed in April. There was also a discussion on the significant breadth of some of the subject areas, especially in role 3. Members asked that the ESO be clear on its presentation of these subjects and to be succinct on the areas for discussion. The ESO should also look to rationalise role 3 and provide a compelling narrative as to how they all weave together.

A member asked a question in relation to the FSO transition that the group decided to pick up later in the agenda.

Stakeholder approach discussion

The ESO gave an overview of the slides, covering the scope and requirement for stakeholder engagement to feed into BP2, and noted that the ESO is liaising with Ofgem on a monthly basis to understand the key elements Ofgem need to see in the BP2, which include: how the ESO has sought stakeholder input, how the input is considered, and what processes exist to feed the input into the plans.

The presenter discussed a five-step process covering the ESO's stakeholder engagement approach, and talked through each of the following stages:

- Plan and identify objectives
- Prepare and design engagement
- Implement engagement
- Learn and act
- Report and communicate

The presenter noted that the ESO is currently in the development stage of the engagement approach, noting that where possible they would align engagement with existing activities, as well as

developing bespoke engagement activities. After summarising the approach and examples of who they would engage with, the presenter asked the group for their thoughts on other groups or trade associations that it would be prudent to include.

The presenter continued through the slides, noting that the stakeholder annex in the first business plan was extensive, and that for BP2 the ambition is a more accessible stakeholder annex, with commentary focussing on whether the engagement has fundamentally changed the ESO's ways of working or thinking. The presenter noted the challenge for the ESO of ensuring engagement is coordinated to reduce engagement fatigue from stakeholders.

A member noted that the timelines on the slide referred engagement activities between Sept 2021 and April 2022, and asked the ESO for further detail on what they planned to do in this period. The ESO responded that they are developing the timeline of events, and developing what bespoke engagement will be needed. The ESO offered to share the plan at the next ERSG.

Action – ESO to share the schedule for BP2 stakeholder engagement with ERSG at the following ERSG.

The group discussed the need for coordination of engagement activities, that there is already significant information and forums that the ESO uses to engage, and that it can be confusing to understand the elements of communication that are relevant for the different participants of the energy industry. A member suggested, based on previous experience, that colour coding reports and communications to correspond with different areas of the business can help readers to tell different areas apart. They highlighted that the ESO should think carefully about how BP2 engagement is promoted externally to ensure clear differentiation between engagement being conducted by other teams within the ESO.

They also suggested that creating a singular point of contact for each area of work package would facilitate efficient engagement with the ESO.

There was clear feedback from ERSG members that for BP2 stakeholder engagement the ESO should:

- Use our current forums and engagement opportunities where appropriate
- Think about what we send out as a business and coordinate across ESO communication platforms
- Ensure information is accessible
- With the ESO changing, look at whether our forums need to evolve and change as well

The group noted that the ESO should be cognisant of the possible risks of self-selecting groups for engagement.

A member expressed an interest in the approach that was taken to analyse the data gathered from stakeholder feedback and it was agreed that the ESO would discuss their approach with the member outside of the ERSG.

Action – ESO to follow up with members interested in analysis of data from stakeholder feedback

Consumer presentation

The ESO gave an overview of the slides, covering work in progress, work expected to start imminently, and activities still in planning. They noted that there are two reports in progress at the moment, one on consumer transformation, which had been developed after polling over 4000 consumers, and a second report due later in 2021 focussing on localised decision making and the impact local authorities could make.

They continued to discuss the work about to commence, focussing on where the ESO owns influence/action, and where they can have influence on other actors in the market, and noted that they would be building a consumer toolkit for wider use in the ESO.

In relation to future activities still in planning, the ESO noted that they plan to develop a detailed set of consumer archetypes, for consistent use across the ESO and other networks, which would enable wider industry to 'speak a common language' when it comes to consumers.

A member commented that suppliers have a wealth of consumer data, and challenged the ESO on the actionable insights that will be driven from this work. The ESO was also challenged to explain why this research is required given that engagement directly with suppliers may provide a rich dataset without conducting consumer research. The ESO responded that part of the value of the FES comes from understanding consumers, particularly in light of expected whole system changes and vector changes. The project will be engaging with a range of stakeholders including suppliers and data provision from suppliers would be valuable for FES.

A member asked about tariff data, and shared their worry about a scenario where the ESO would issue instructions to consumers, noting their concern that this doesn't optimise the system. The ESO responded that their view is that there needs to be an option where the ESO can provide signals, and those who have a direct relationship with the ESO can then work with consumers to capitalise on those signals.

A member noted that they welcomed the ESO considering how to bring consumers into system operation, and the group discussed that the role of consumers was hotly debated in previous ERSG sessions, where it was ultimately decided to include consumer as a focus area in the first business plan.

The ESO continued to note however that as part of the business planning process, they may need to consider things to stop doing, and that if that was the consensus of the group then it should be discussed further. They concluded by noting that they believe there is value in understanding different types of consumers and where they are on their journey, and that they welcomed the offer from the group of sharing supplier data.

Action – ESO to engage with supplier members to discuss the consumer research the ESO is currently undertaking.

A member commented that there had been previous discussions about looking at MPAN data to and using number of switches as a measure of how engaged consumers were. The chair noted that there should be work done to understand consumer priorities and that it was within the gift of the group to discuss what that should look like.

BREAK

15:15 – 16:00

FSO Consultation - Kayte O'Neill

The presenter gave a summary of the slides. The presenter commented on the potential for the ESO to step into a variety of new or enhanced roles, noting that the transition would need to be handled carefully, but that there would be benefit in doing it at pace, with the ESO's people front and centre. The ESO noted the need for clarity for their employees, and the need to reduce uncertainty as key to retaining talent.

The ESO noted that National Grid Group, as the current owner of the ESO, would need to decide if or how it will 'sell' the ESO, and whether it will go to a private owner or become a public body.

A member asked about the inclusion within the consultation of whether the FSO should pick up some gas roles. The ESO responded that one of the gas roles mentioned was an emergency network role (NEC), that they did not believe it made sense for them to pick up, but noted that this did highlight the need for a coordinated cross-industry resilience review. They also commented that there is some value in longer term strategic gas roles being part of the FSO, noting that this only covered long term planning, not day to day operations. It was also noted that the consultation refers to the possibility of the FSO role expanding over time to include other vectors such as heat and hydrogen, which the ESO would welcome.

A member asked, referring to the recent legal separation in 2019, what impact a further change would have on ESO planning for resource turnover and onboarding new roles. The ESO responded that while they think there is some nervousness from employees about losing the 'stability' of the big group, they believe many employees feel connected through the roles they are carrying out, and feel excited about the scale of the opportunity. The ESO noted the growth so far of the organisation from RIIO-1 to RIIO-2, and shared their view that this will be a cultural transformation driven by knowledge sharing and training, rather than a traditional M&A transaction.

A member asked if there is a contingency plan for existing in the meantime without having all the right people in role, and the ESO responded that this is at the forefront of their minds, and that they had been considering it since the start of RIIO-2. They see the ESO as being a really attractive place to work, which they hope will work in their favour, but noted previous conversations at ERSG regarding leveraging their relationships with academia and institutions to create pathways into the organisation. They noted that at the heart of the current business plan is the need to be innovative, agile, and flexible, noting that the new organisation would have to apply those principles in their recruitment. A member commented that it would be crucial for the new organisation to be seen straight away as being very competent, very capable, and having the right people in place in order to build confidence in industry.

The group discussed the costs of setting up the new organisation, and the ESO noted that there would need to be functions including IT, finance, and treasury, where these would have previously been shared services. A member asked the ESO if they would coordinate with the TO so as not to

duplicate costs, and the ESO responded that they have suggested to Ofgem it would make sense to cost both sides of the separation at the same time.

A member asked the group about timings of the business plan submission process, and whether they would have the right level of costing information in time. The ESO noted that it is within their gift to understand the separation costs, but that it could be more challenging to provide costings for the FSO in years to come when it is up and running with the new and enhanced roles, noting that they would have to account for several topics still under consultation to ultimately come up with a fully costed business. The ESO asked the group to consider, if they were planning to respond to the FSO consultation, that although a high quality set of plans is important, it must be balanced against the disruption to the business, and potential loss of talent, should a decision take longer than necessary.

A member asked whether the consultation and outcome could be a distraction from short term objectives in the run up to 2025. The ESO responded that they would expect to take a phased approach, starting with focus on separation, and then building out additional roles and capabilities after that, to mitigate the impact on deliverables.

A member commented that perhaps over the next two-year period, less could be more, and the ESO may benefit from narrowing their focus onto fewer, more important deliverables, noting that the ERSG could help with that.

A member flagged via the chat forum that it is not clear if the unions are, and should, be engaged as part of FSO. It was also reiterated that the FSO scope and boundaries need to be clear, with clarity on the reach into distribution networks.

A member reflected that it feels that Ofgem & BEIS are looking to the ESO to solve everything and the scale of roles could be wider reaching. The ESO recognised this, sharing that and future FSO implementation should occur in a phased manner.

15:00 – 15:15 (16:40)

ERSG Lookahead

The ESO gave a summary of the proposed timelines and expected topics for future ERSG meetings, and asked for the group's feedback on whether these were achievable and would make good use of the groups time.

A member fed back via the online chat function that the proposal should be achievable but asked that the pre-read material given the volume of topics is issued a week in advance and suggested that any questions arising from the pre-read are submitted in advance of the meeting.

There was a consensus in the group that the Role 1, 2 and 3 summary section should be brought forward and presented at the next session to give the group a good understanding of the ESO overall direction for BP2.

The group discussed whether it would be beneficial to have some pre-meet sessions with smaller groups, and the Chair suggested that an alternative would be to have higher level whole-group sessions first, and focussed smaller groups after to discuss in greater detail.

The group discussed that the sessions aren't supposed to make all the members an expert in each topic, but the ESO offered to run some primer sessions or webinars in advance where it would enable the group to contribute better.

The group asked the ESO to consider what they really want from the group in each session, and to balance the value of useful contribution with the time burden of pre-read.

There was a group consensus that clear and concise pre-read in advance, a clear ask for the session, and ability to ask questions in advance would be useful.

The Chair brought the session to a close and had a short, closed session with the group.