

## Electricity System Operator RIIIO-2 Stakeholder Group (ERSG)

BP2, Meeting 2 – 2 December 2021

Virtual meeting held via Microsoft Teams

### Minutes

#### Attendees

<b>ERSG members</b>	
Stuart Cotton	Drax
Ed Rees	Citizens Advice
Eddie Proffitt	Major Energy Users Council
Simon Roberts	Centre for Sustainable Energy
Elizabeth Allkins	Ovo
Rachel Fletcher	Octopus
Nina Skorupska	Renewable Energy Association
James Dickson	Transmission Investment
Marko Grizelj	Siemens Energy
Gregory Edwards	Centrica
Patrick Hynes	National Grid
Natascha Engel	Public First
Barry Hatton	UKPN
Aileen McLeod	SSEN
Robert Lowe	University College London
Andy Manning	Chair
Matthew Wright	ESO-Company rep
Sophie Corbett	Technical Secretary
<b>ESO Support</b>	
Gary White	ESO-Presenter – IT Guidance
Gareth Davies	ESO-Presenter – BP2 Stakeholder engagement
Urmi Mistry	ESO-Presenter – Roles
Josh Jones	ESO-Attendee

12:00 – 12:10

#### Introductions

The Chair welcomed the new members who had joined since or been unable to attend the first meeting.

12:10 – 12:30

#### Closed session to prepare lines of questioning

12:30 – 13:00

### **Conflicts of interest, minutes, actions**

The ESO joined the meeting.

No new conflicts of interest were raised, and no further comments were provided on the minutes of the previous meeting.

The group discussed the action on consumer, noting that the specific members' concerns had been discussed in a separate meeting, but that the discussion did not reach a conclusion. The members involved noted that they would like an update on the work and where it is going. A member asked for further information on the approach to consumer research, drawing on what different parts of the sector know about consumers already, and how data will be used to fulfil role 3 in particular.

The group agreed that the ESO should create a challenge log to track and monitor longer term topics outside of the actions log.

### **ACTION – ESO to create a challenge log to maintain longer term actions**

In response to a number of the actions, the ESO presenter summarised information that had been requested in ERSG 1 and provided as part of the pre-read, covering mid-year performance highlights and lessons learned so far.

A member, noting two of the ESO's statements, the first being that the regulatory regime was working well and encouraging an agile approach, and the second, that one of the lessons learned was on the ability to 'hit the ground running' at the start of the BP1 period, and asked the ESO to assimilate how these elements worked in relation to each other.

The ESO explained that the new cost pass through regulatory model is enabling them, and noted that perhaps the transition from the previous model had not fully enabled them to 'hit the ground running' ahead of the start of the new regime. The presenter continued that the ESO had perhaps been optimistic about what people would be available, how quickly recruitment might happen and how to get recruited people trained and delivering value. The ESO continued that there was a paper going to the ESO exec the following week outlining a different approach for BP2, including the proposal to manage recruitment for 2023. They noted that the new regulatory model would enable this now it is live.

A member noted that the organisation's people are a key stakeholder group, and asked the ESO what they have done in terms of understanding this stakeholder population. The ESO responded that they regularly survey their employees and that engagement tends to be high in the organisation, noting specifically the net-zero ambition in particular is something that inspires employees.

A member asked the ESO which outcomes have been harder to deliver and more challenging at an outcome level, as well as what the ESO has found easier than expected. The ESO responded noting that in particular the work to understand the IT structure had been challenging, and became more

complex as they learnt more about it. They continued that although it has been challenging, the benefits it will deliver have also increased, and that the additional benefits outstrip the additional costs. They noted that Ofgem have asked more information now, and had reflected that they (Ofgem) perhaps had not asked for sufficient detail initially. The ESO raised another point in response to the question, relating to the inevitable, but unforeseeable events that arise, such as the current very high gas and power prices, noting that these things cannot be planned in and do detract from their ability to deliver the plan. They noted the need to improve at reprioritising through the year, and that they have revamped the exec approvals process to this.

A member asked if the ESO could provide a summary of the unexpected events that had caused delays to the plans, and the ESO agreed this would be possible.

**ACTION – ESO to provide log of issues/events/dependencies that have caused delays to BP1 plan delivery.**

A member, referring to the IT plans, asked the ESO if they would have to compete with the NG Group for IT resource, and the ESO responded that for some aspects of IT would be delivered with shared service support, and some would be delivered by outside support, but noted that contracts would be in place for any shared service delivery, and that a shared service would still have to deliver as per agreement.

A member asked the ESO for further insight on elements of the plan that aren't going well, and what the reasons are behind the challenge (e.g. regulatory or resource related), asking whether there is anything the ERSG could support on. The member continued to note that inevitably there will be a significant element of unknown going forwards, and asked the ESO how best to account for this in the plan, thinking about what they have learnt so far and what they have found most difficult, and using this to help to plan for uncertainty and provide assurance for BP2. The ESO noted that the outcomes from the Performance Panel and associated reports were expected imminently, which summarise some of the issues and delays, and that they could package those up and present them to ERSG.

**ACTION – ESO to present findings from performance panel reports to ERSG.**

A member commented that as the ESO moves to more agile ways of working, the costs become harder to forecast, noting that the lessons learned suggest they would just have to learn to forecast better, and asked the ESO if they had any other thoughts on how they would manage this. The ESO responded that they feel they still have work to do with Ofgem so that they understand how the costs and the plan might evolve, and to get them comfortable with and trusting of the process, rather than relying entirely on figures. They continued that getting better at forecasting something that by definition you can't forecast was not the answer, and instead they need to demonstrate to Ofgem and other stakeholders that they run a best in class function that is not wasteful, does adopt modern approaches etc. They noted that this needs some more thought, and that they would take this away and bring some proposals back to ERSG on avoiding this pitfall.

**ACTION – ESO to engage Ofgem to understand how agile delivery can be best represented in the Business plan**

13:00 – 13:30 (13:10)

**BREAK**

13:30 – 14:00 (13:40)

The presenter covered the remaining pre-read slides and asked for comments on the proposed ways of working for the ERSG.

A member asked the ESO, in relation to stakeholder engagement, what would constitute a material change (that would trigger engagement activities), noting that they would be interested to see how that would happen in practice. The ESO responded that there is work ongoing to define the thresholds and that they would be happy present these to the group. They also suggested they could prepare and maintain a log of material changes.

**ACTION – ESO to present definitions of what constitutes a material change**

**ACTION – ESO to create a log of material changes / new activities triggering additional engagement**

A member commented on the volume of consultations and requests for feedback across industry, noting the possibility of survey fatigue more widely, and asked the ESO, which other consultations (from BEIS, Ofgem) are they dependent on, and what does it do to the plan if those other consultations slip? They continued to ask whether it would be possible to facilitate some coordination between the various industry parties for future consultations and emphasised the importance of clarifying whether you are informing or consulting when contact is made, noting they had seen the ESO propose this in the pre-read and had appreciated the differentiation. They added that they would like to see more agile ways of engaging within the ERSG as well, noting that a lot can change in a short time, referring to materials being sent four weeks ahead of the meetings.

A member, building on the previous comment asked what the ESO is doing to ensure that smaller stakeholders and new entrants are participating (given the volume of consultations and their resourcing capability), and that the breadth of their views are being taken into account.

A member raised the topic of benchmarking and whether the ESO would measure themselves comparably, and the ESO responded that although there are no obvious comparators across the industry or in wider utilities, (noting the differences than the DNOs or the water sector), they do use their own past performance as an indicator and would welcome any other suggestions on comparable bodies. A member suggested that for each material change, it would be good to understand the factors driving the change and the high level outcomes that each change would result in, and the same also with strategy changes.

A member asked the ESO to consider which issues require co-creation, and which issues are so technical that stakeholder co-creation is not a good use of time, noting the risk of stakeholder engagement becoming an industry in itself, and that stakeholder engagement should be proportionate. They continued to ask that the ESO assess where stakeholder engagement and co-creation really adds value and where it is being done to meet obligations. The ESO noted this and

suggested they needed to be able to articulate why they have engaged, where they haven't and why that is appropriate, rather than defaulting to engaging to ensure they meet the regulator's expectations.

A member noted the siloed nature of some of the ongoing reforms across industry being led by Ofgem and/or BEIS where these aspects have overlaps and commonality, and asked how well these were interlinked. The ESO noted that from what they have seen so far in interactions with BEIS and Ofgem relating to industry reform, there has been good coordination and they have taken comfort from that.

A member raised the potential for bias in engagement activities where more focus is given to stakeholder groups that are easier to engage with, noting that some issues would be very difficult and complex and it may be harder for some groups to understand the nuances, making it less simple to engage with these groups. They asked the ESO whether any analysis has been done of stakeholder objectives, and suggested selecting groups based on matching objectives as an alternate methodology. They also noted that the feedback the ESO might receive is likely to be biased by recent events and specific things that have been interesting, difficult or stick in stakeholders' memories, suggesting this bias could be accounted for by regularly repeating engagement.

The Chair moved the discussion on to focus on the roles, asking first for general reflections rather than comments pertaining specifically to one of the roles.

A member described the need for a clearer trajectory of delivery of BP1, noting that the BP1 outturn becomes the start point for BP2. They continued to ask the ESO about the challenges, what they are finding hardest, and what are the things in each role where they anticipate having to really work hard prioritise. They continued to ask if there is an internal plan and what that looks like, reflecting on their experience from the BP1 planning process, they noted that the ESO tended to present an optimistic view of the plan, rather than focussing on what they would find most difficult and how they were planning to tackle those things. They also noted the reference in the pre-read to external factors, and asked for clearer links between what the factors were and which deliverables they impacted. The ESO agreed to take this away.

**ACTION – ESO to review what external factors impacted which deliverables (as described in the incentives report).**

A member, building on the previous comment, suggested that more context on each of the roles would be helpful, and suggested a commentary to include: what headwinds or tailwinds might affect the deliverables in each role, what the enabling activities and dependencies are, which activities have the greatest consumer benefit, what the probability of success is in each and what are the weightings that different stakeholder groups might assign. They continued to describe their view that there are three main types of external influence: the first being the policy environment and the relationship to decisions made by Ofgem or government; the second being technical aspects, for example being able to operate wholly zero carbon is dependent on overcoming technical challenges; and the third being changing behaviours of market participants, users, consumers and how behaviours change is enabled (some need government mechanisms where some ultimately rely on societal change). They noted that it would be helpful if the ESO could contextualise the ambition through these lenses, including more understanding of the difficulties of achieving them.

The ESO in response commented on the need to prepare for future roles that may not occur, and to what extent these can be included in the plan, and noting the need for overlays to the plan to reflect uncertainties in other cases. It was mentioned the narrative could include what BP2 is seeking to do and what it is not. A member noted that the ESO needs to have resilience built into the plan to be able to accommodate the urgent unexpected activities and reflected that there will be things that do not deliver outcomes in the period, but facilitate necessary changes/optionality that will deliver outcomes in the future. The ESO suggested the new price control format will allow them to prepare for things they can reasonably foresee, and the chair suggested this could be an area that ERSG could be useful in supporting on.

### **Challenge log – overlays to plan and in-built resilience**

A member commented on a need for a strategic narrative around the plan, noting that it is hard to understand or critique the plan without the strategy. They asked the ESO how they are planning to navigate the uncertainties and what assumptions are they planning to make at least to begin with to navigate the uncertainty. They continued to ask the ESO, what things are so far out of their control that it's not worth doing anything to mitigate them, and what things they should be working on now to create value options, even if they won't be delivered in this BP period. They continued to note that a neatly defined plan won't in itself be enough, and that the richer question is are the ESO equipping themselves to be able to navigate through a complex environment, where many circumstances are outside of their control. The ESO responded that there will be a strategic narrative to address this, and referenced the strategy refresh that will frame the BP2 plan, which they will share with the group when it is available. Noting that this would include continued delivery of commitments, but would also describe how they are preparing for the 2035-2050 timeline, what their role might look like in that horizon and how does that change what needs to be done in BP2.

### **ACTION – ESO to express/share the strategic narrative which BP2 sits in within the context of our original RII02 submission**

A member asked how much time the ESO has spent ruminating the extreme events in Texas, and as a secondary point, asked the ESO do they develop competing scenarios for the future of the grid, with different levels of risk appetite, noting a Danish policy to back up renewables. The ESO confirmed they have reviewed in detail events in Texas, and have been informed by lessons learned in the aftermath. The group continued to discuss low carbon long duration storage and the benefits that may have for delivering the net zero ambition, noting various consultations considering this. The member noted that UCL have been attempting to quantify the impacts of different levels of long term storage and offered to share the publications with the group.

### **ACTION – Robert Lowe to share papers for circulation to the ERSG.**

A member raised that the ESO operates in an environment of uncertain policy and institutional frameworks. The ESO sets frameworks and markets of the future, therefore the business plan narrative needs to point to these uncertainties and how the ESO needs a pathway to navigate through it. The member also noted that consumer expectations on assumptions of security of supply may change in the future. Therefore, it would be good to know what the ESO's assumptions are on this topic in the future.

14:40

### **Role 1 – Urmi Mistry**

The presenter summarised the slides, describing new and changed activities for role one.

A member asked the ESO when they are expecting to complete the national control review, and what changes are being implemented from what's been found so far. The ESO replied that they expected it to conclude within a year, noting that outcomes are still being collated, but offered to take the question away and present back to the group.

#### **ACTION - ESO to share the focus and timelines of the national control review.**

A member, referring to the new Market Monitoring team and obligation, asked the ESO whether they have a set of outcomes or success criteria for what the purpose of the team is beyond obligation of it existing. The ESO responded that Ofgem's expectations for this activity are set out in Ofgem's "Roles Guidance" document, and that they will engage with Ofgem to gain more clarity on the activity for BP2. They offered to share the current obligations and Ofgem expectations and provide a more detailed view of the activity.

The ESO continued to reference that the team has launched the review of the balancing market as a result of several high cost days, noting that they are taking the new role seriously and have acted on what they've seen. A member asked if the ESO could share more information and any lessons learnt suggesting a case study format. The ESO responded that the team and process are still very new, however they offered to share their plans.

#### **ACTION - ESO to share Ofgem's guidance for the role of the Market Monitoring team.**

#### **ACTION – ESO to share the scope of the balancing cost review.**

A member asked what improvements the improved ways of working will lead to, and how the ESO will know that the new way is an improvement. The ESO, referring to the new Digital Ways of Working programme, noted that they are implementing a technology operations model which is customer centric and agile, the overall objective being to deliver change in the control room better than they have done in the past. To do this, they refer to concentrating on internal alignment in terms of how they manage change, and changing how they work externally to land new products in the control room that deliver benefit.

A member noted that a metric to reflect this would be helpful but considered there is no obvious counterfactual. They suggested the ESO considers whether the new ways of working are improved compared to what they have done before, or improved compared to what they need to do. They continued to add into the online chat function that they are in effect "seeking a metric for the extent to which ESO has become an sophisticated agile, innovation-led data-rich tech/market platform developer, given this was a key culture change recognised as necessary in BP1 (and ERSG1). Not sure there is a single metric for that and I hear the extent of process change and some structural elements (which sound good). But I wonder how we'll end up knowing that decent choices have been made in the changes adopted such that the system/customer outcomes have been delivered

as effectively as possible (recognising difficulty of establishing a reasonable benchmark for that 'as possible')”.

A member suggested that a metric could perhaps draw on the use of different tech, or noting different decisions being made that shows on average what choices are being made for how balancing is performed. The group discussed that this falls under 'RRE' (Regularly Reported Evidence).

#### **ACTION – ESO to share RRE carbon intensity metric with group**

A member asked about how role one drives net zero, noting that there was no mention of delivering market solutions that take in to account the lowest greenhouse gas emissions.

A member, referring to the high prices in the balancing market, noted their expectations that the market would become more dynamic in the future, explaining that high price dynamic pricing systems are an efficient way to fund capital. They continued to say that they had reviewed a number of different energy pricing scenarios and that none of them are perfect, but raised the topic of which stakeholder groups ought to be exposed to dynamic pricing.

A member, referring to consumer engagement, noted that the ESO needs to have a good idea of where consumers are and how their behaviour is changing, and that it needs a net zero strategy that brings consumers along, where as a result, risks can be handled with the support of consumers. The ESO noted that consumers will be key to delivering net zero whether actively or passively, and that the current expectation is that consumer flexibility will deliver £16bn worth of value.

A member noted the need for an experimental approach to some of the deliverables, and referring to the success of the Pathfinders, asked whether this model might be employed in other areas, to which the ESO responded that yes, the learning by doing approach will need to be employed.

BREAK

14:00 – 14:30

#### **Role 2, 3 and cross role – Urmi Mistry**

The presenter summarised the slides covering roles two and three, and then moved on to cover cross role activities.

A member, referring to the cross-role activities, asked what effect each might have on the role specific activities and where priorities in one role might hinder priorities or delivery in another role. They continued to ask how that would be resolved and if the ESO would prioritise. The ESO noted that they are in the process of getting all the deliverable owners together to map at any dependencies between activities. The ESO also referenced some specific projects that had been set up as strategic projects, resourced separately, but that were now interlinked with other parts of BAU



delivery. They continued to explain that they are trying to map out organisationally the best way to handle these, noting the dependency also on the outcome of the FSO debate.

A member mentioned that for the cross-role activities things could move very quickly, and that it would be to have a view of near term vs longer-term activities, including the assumptions driving the timelines. A member commented that a clear hierarchy would perhaps be useful, and the ESO noted that they expected to have greater clarity by the time they need to submit the business plan.

A member referred to the whole systems approach to connections and asked if this was a new role for the ESO, and whether it related to transmission only, noting that that the ENA has been doing some work on this with the DNOs. They also asked whether the 1 MW connections referenced in the slides were referring to 1MW transmission connections, which the ESO agreed to take away and confirm.

**ACTION – ESO to confirm whether reference to 1MW connections is at transmission or distribution level.**

A member raised for discussion that the focus on the ‘new’ is great, but that the ESO would also need to consider the ‘old’, noting that the codes and the way the system is set up means that there are existing obligations in place that still stand, but with a layer of new obligations on top that are asking for different behaviours. They noted in particular the connections process (as outlined in the codes), noting that it would no longer suit the types of parties industry needs to connect, and the types of services they will provide. They asked that the ESO considers not just workarounds but looking at a more holistic transition from ‘old’ to ‘new’. The ESO noted this as well as their intention to bring the connections issue specifically back to ERSG.

A member, referring to role two, asked the ESO about the strategy for market reform. They asked about the assumptions that the ESO is making about what other parties need to do, and asked to what extent does the ESO think it has a role in influencing changes in the wholesale market framework, particularly as this item is one where there are added costs. They suggested this was a good example of where a strategic narrative is needed, to highlight what the ESO sees its role as being, and so that ERSG can feed back on how much time and energy the ESO should put into this and to what extent it should be relying on other parties. They continued to add that a different market design might allow for a thinner ESO and lighter touch balancing requirements.

The ESO responded that they think they can have a material impact on progress in this area, and are a critical player in shaping the direction of travel. The ESO offered to circulate the work they have done so far on market reform.

**ACTION - ESO to circulate the work completed on market reform.**

15:55 – 16:30

## **BP2 IT guidance update – Gary White**

The ESO presenter summarised the slides, which explain Ofgem’s guidance on what they want to see in relation to IT structures, explaining that Ofgem would like the ESO to use a Technology Business Management (TBM) taxonomy, which although a standard way of representing an IT organisation, is

not the model the ESO are using currently. Ofgem would like it displayed this way to allow them to benchmark costs. The presenter asked the group for their feedback, specifically around: what further information they would like to see as they develop this model, any experience they have in developing these models, and any observations on the how Ofgem might use the data for benchmarking.

A member asked a question about the digital twin proposal that had been in BP1 and how it would be costed. In response, the ESO provided further detail on the digital twin, and also on the Virtual Energy System (VES) that was presented at COP26. They explained that the digital twin was to support the control room by providing a separate system for training on, for running simulations and modelling, noting that this was still in the plan and costed for BP1. They continued to explain that the VES provides an opportunity to join up industry at a macro level, building a common framework across all the digital twins owned by different parties, they noted that at present they have sought innovation funding for the VES, and that if it gets traction the enduring costs may go into BP2 but this is still being finalised.

A member raised a concern about the extent to which Ofgem have the capability to make the judgements they may be planning to make on costs, and that they haven't got a sense for the activity Ofgem will carry out and how they will go about doing this. They continued that specifically they are concerned about whether the judgements would be at the right level detail, or whether there was a risk of assessing every aspect down to the cost of each server. The group discussed and agreed that the assessment by the regulator in this regard should focus on the outcomes and how the activities are delivered, to ensure that the ESO is delivering the best value outcomes overall, rather than just the lowest cost. The group also discussed that Ofgem would likely employ consultants to make this assessment, which would be a costly activity in itself.

16:30 – 16:45

### **Finalisation of agenda for ERSG 3**

The presenter gave an overview of the proposed schedule.

The group, noting the discussions around the need for a strategic narrative to enable them to critique and challenge the ESO's thinking, discussed the proposed timings of the future meetings, and whether they should be involved in shaping the strategy with the ESO or feeding back on the strategy once the ESO have developed it. The ESO agreed to take this away to consider how best to use the group in this respect.

### **ACTION - ESO to reconsider timings of sessions and how best to use the group in respect of strategy development**

A member noted that they would like to have a further discussion separate discussion regarding consumer with the ESO representatives before the next planned consumer update on the agenda.

### **ACTION - ESO – arrange for follow up on consumer (EA, RF, SR)**

16:45 – 17:00

### **Closed session for reflections**