nationalgridESO

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

BP2, meeting 7

Date:	29.06.2022	Location:	IET Savoy Place, London and MS Teams
Start:	10:00	End:	16:00

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Stuart Cotton, Drax	Attend (virtual)	Peter Emery, ENWL	Regrets
Ed Rees, Citizens Advice	Attend	James Dickson, Transmission Investment	Regrets
Eddie Proffitt, MEUC	Regrets	Marko Grizelj, Siemens Energy	Attend (virtual)
Simon Roberts, CSE	Regrets	Gregory Edwards, Centrica	Attend (virtual from 11 am)
Elizabeth Allkins, OVO	Attend	Patrick Hynes, National Grid	Attend
Rachel Fletcher, Octopus	Regrets	Nick Molho, Aldersgate Group	Regrets
Barry Hatton, UKPN	Regrets	Aileen McLeod, SSEN	Regrets
Robert Lowe, UCL	Attend	Andy Manning, Chair	Attend
Nina Skorupska, REA	Attend (from 13.50)	Fintan Slye, ESO	Attend
Gareth Davies, ESO	Attend	Matthew Wright, ESO	Attend
Vicky Chiles, ESO	Attend	Adelle Wainwright, ESO	Attend

Agenda

#	Time	Topics to be discussed	Lead
1.	10.00	Closed session	Andy Manning (Chair)
2.	10.20	Conflicts of interest, actions from previous meetings	Adelle Wainwright (Regulatory Policy Manager)
3.	10.35	Proposed structure of plan and priorities	Gareth Davies (Regulation and RIIO Senior Manager)
4.	11.05	Plan deliverability	Julian Ross (ESO Entity Programme Manager)
	11.35	Break	

5.	11.45	Consultation feedback: key themes	Adelle Wainwright (Regulatory Policy Manager)
	12.30	Lunch	
6.	13.00	Consumer	Laura Parkes (Consumer Strategy Manager)
7.	13.30	Connections	Susana Neves e Brooks (Customer Connections Senior Manager)
	14.00	Break	
8.	14.10	Balancing strategic review - outputs and next steps	Rob Rome (Balancing Programme Director)
9.	14.40	FSO	Colm Murphy (Project Director, FSO)
10.	15.20	AOB	
11.	15.25	Closed session	Andy Manning (Chair)

Discussion and details

#	Topics to be discussed

1. ERSG closed session
N/A notes and actions circulated separately to relevant parties

2. Conflicts of interest and actions
- The action log was reviewed, noting that many of the open actions are ongoing as they relate to changes required for the August 22 submission.
- No new conflicts of interest were identified.

Action: ERSG members to review edited minutes by 05.08.22.

3. Proposed structure of plan and priorities
The presenter provided an overview of the revised final BP2 structure, divided into parts A (context and delivery), B (delivery plans for each role area), and C (delivery with a focus on costs). This was presented alongside the ESO's BP2 delivery priorities.

- The Chair asked for clarity on how the ESO is describing its prioritisation process or explaining how the ESO is prioritising deliverables. An ESO representative confirmed that both will feature in the final BP2 submission.
- A member asked for further clarity on parts B and C of the BP2 structure. The presenter stated that part A provides the overall context, part B more granular detail on delivery schedules, and part C additional information. FSO commentary will be a golden thread across all three parts of the document. Other members agreed with the structure, highlighting the importance of providing the strategic understanding upfront and cross-referencing throughout the document.
- Referring to part B, a member asked whether there would be any commentary around the difference between the FSO on day 1 and an overarching strategy for the next five years to show how the FSO will transition into a new organisation. The member also asked that, given the FSO begins part way through BP2, how the ESO will ensure that the right level of resourcing is fed in at the right time, and staff are not overloaded with this and day-to-day tasks. An ESO representative stated that how the ESO will transform into an FSO will feature in part a of the final BP2 submission and part b will include further detail around what the transition looks like, including how this will be resourced.
- The member asked whether the FSO will bring new emphasis on responsibilities and understand prioritisation between the different sets of responsibilities. An ESO representative stated that, on day 1, the ESO business will formally separate from National Grid. The ESO is ramping up

capability in advance of this taking place, and the BP2 publication shows this; for example with gas planning resources. Another ESO representative noted that the ESO's (FSO) next business plan will be better integrated and may extend or propose new roles, but there are too many unknowns to do this for the August BP2 submission. The member stated that it might be useful to include the context within which the FSO might bring about new roles in the BP2 commentary so that it is clear how these will be integrated.

- The Chair summarised that there was broad ERSG support for the final BP2 structure. They noted that this is a fundamental change in how it has been presented compared to the draft. An ESO representative stated that the ESO will be clear on what has changed so it is easy for the reader to understand.

- A member asked about what has been deprioritised in the BP2 planning process, and what the rationale was for deprioritising a certain deliverable. Another member noted that the ESO has a large number of projects it has an obligation to deliver, and there are very few that can be left out completely. In this context, prioritisation is where the ESO can complete tasks slower or faster rather than completely stopping them. An ESO representative confirmed that the process is a work in progress, and this will be presented at the next ERSG. Given the nature of the price control, with sufficient notice projects and resource can be added. When there isn't sufficient notice (referencing the pandemic and cost of living crisis as an example) that is when there needs to be a deprioritisation exercise to substitute items in the plan. The ESO representative continued, stated that when looking at value and benefit in terms of prioritisation, the ESO is aware of the high value items, but this is complicated by the fact that smaller deliverables are often interdependent with these.

- The Chair asked how much of the plan was under the list of priorities presented. An ESO representative stated that most fit under these; if this wasn't the case then there would be challenge around why the ESO is delivering a low priority project. The representative noted that there are a few items that are on the margins.

- Another ESO representative used winter preparedness as an example stating that it is difficult to determine the resource level but it obviously is the main priority over anything else in the plan. The plan is flexible and that is essential to ensure for the ESO's ability to ramp up resource in response to an urgent situation. They recognised the need to have a transparent process about decisions the ESO is taking. A member noted that if the prioritisation process is correct upfront, this will speed up the whole process. If priorities are clear this should be a very simple exercise.

- A member noted the difference between what is within and outside of the ESO's control in terms of prioritisation. They stated that showing this in the prioritisation process would be beneficial.

- A member asked whether the ESO is considering changes to scope as a trigger for project reprioritisation. An ESO representative stated that a good example of this is the balancing programme which is continually reviewed. If the cost benefit gap narrows, they will review how such projects are delivered.

4. Plan deliverability

The presenter provided an overview of the ESO's portfolio review board (PRB), which monitors project deliverability alongside deliverability assessments including interdependencies and risks.

- The Chair asked for reflections on how the PRB had been working in practice. The presenter stated that the PRB has been a big step forward with the overriding benefit being that they have the right people in the room with representation across the different role areas for better decision making and a joined up forward view.

- A member noted that the ESO is likely need more resource flexibility as the energy landscape evolves. The presenter confirmed that they have a flexible resource pool as part of the ESO's business change team. They are currently developing a detailed skills matrix to ensure for the flexibility within the team to adapt to new projects.

- A member asked how this topic fits with the ESO's agile ways of working, and how people have responded to the process. The presenter stated that employees have responded positively, especially within IT teams. The PRB has received positive feedback and has meant that projects can move quickly; especially with IT and the wider business attending. The member asked for further detail on agile delivery only in the IT space. The presenter stated that the ESO is not going to rush the roll out of agile across all types of change; IT is a critical area where the ESO has committed to the tech ops model. An ESO representative added that IT is still a National Grid

function, and as such there is only so far this can be developed alongside operational elements of the business ahead of the transition to an FSO.

- A member noted that current ESO roles structures may be less accurate and useful in an FSO world. They asked how the ESO will manage this transition and relevance to the PRB and ensure that roles remain relevant. An ESO representative stated that the ESO would work with Ofgem on this as FSO evolves

BREAK

5. **Consultation feedback: key themes**

The presenter discussed the ESO's stakeholder engagement approach, responses and feedback to the draft BP2. Some of the themes included people and capability, the ESO's role in data and digitalisation, and dealing with the volume of strategic change planned in codes. They noted that because of ongoing engagement many feedback themes had been anticipated and work was ongoing to develop the plan as a result. Most of the unanticipated feedback was around clarification rather than leading to material changes.

- The Chair asked for the presenter's views on the level of stakeholder engagement for BP2. The presenter stated that a lot of the BP2 projects are already ongoing within the business, and so stakeholders have already had the opportunity to feed in in their early stages. They highlighted that the three BP2 webinars the ESO has run had over 140 participants in total. The presenter noted their appreciation for feedback from the ERSG and Performance Panel on the ESO's draft BP2.

- The presenter asked the Group is there was anything further they would like to see ahead of the final BP2 publication regarding stakeholder engagement. The Chair stated that the focus should be on what has changed in the document or in the plan. They noted that stakeholder feedback focusing on 'clarification' inevitably is due to stakeholder dissatisfaction in some circumstances.

- Regarding ESO/FSO ambition and how coordinated the activity is, a member asked about NOA improvements and whether this supports the fundamental change that is required in this arena (noting the development of the central strategic network design planner). The reinforced that the ESO should ensure that more gradual growth is not at the expense of setting up for longer term deliverables. They also referenced connections and how increasing resources to deal with the current process needs to be balanced with changing the overall process. The member summarised by stating that the ESO should highlight stakeholder feedback where is industry appetite to move things forward faster. An ESO representative noted that there is a balance to be struck between developing longer term deliverables whilst also ensuring the ESO is delivering on the expectations and duties it is set out to deliver in the licence. An example of this is the balancing programme, where they ESO must keep a legacy system running whilst also developing a new platform. However, the feedback was noted and would be considered more fully on the specifics outlined.

- Regarding stakeholder feedback on data and transparency, a member noted that an organisation can have too much transparency. Another member noted that transparency is for accountability and also effective market operation. The ESO has been commended for its operational transparency forum. They asked whether there was still a need for greater data visibility from real time operations to help markets to understand ESO decision making. An ESO representative stated that the control room decisions are discussed each week at the operational transparency forum; every decision in the control room is logged against a reason. The ESO is always looking at what data sets could be made available and welcome further suggestions. The member stated that more transparency from the ESO would be welcomed, referencing last winter's capacity market notices. Having more real time data available rather than waiting for the weekly operational transparency forum would be welcomed.

- The Chair stated that the consultation period and turn around for the final BP2 was constrained for the ESO and noted that there needs to be an ERSG reflection on the whole process towards the later stages. An ESO representative highlighted that the ESO is also now in a different place compared to its RIIO-2 BP1 submission; now, every month the ESO publishes a progress report and regularly talks to stakeholders.

LUNCH

6. Consumer

The presenter provided the Group with an update to the ESO's consumer strategy, with its three focus areas being: data, digitalisation and insight, energy markets and policy and standards. They noted that the changes to the consumer section of the final BP2 submission will be higher profile compared to the draft.

- A member stated that the consumer team had carried out good engagement so far. They noted recent conversations about small scale aggregated flexibility and the need to see more from the ESO on how to join the dots between areas like this. An ESO representative agreed, stating that the ESO is currently working on how best to collaborate with third party organisations and equip the ESO also to do this to unlock value for consumers.

- A member commented on the need to keep flexibility in the conversation about consumers, including storage as the energy system continues to decarbonise. An ESO representative stated that this is addressed in areas such as Ofgem's full chain flexibility programme.

- Members asked about REMA and how this fits into the consumer strategy. They asked about the feedback between REMA and retail market reform and why this is being carried out as two separate processes. A member asked, concerning Net Zero Market Reform, where to focus engagement to avoid duplication. An ESO representative commented that developments are now dependent on BEIS, but there seems to be growing momentum to reform faster. A member asked about the ESO's role is BEIS wish to reform marginal pricing. An ESO representative stated that the ESO would engage with BEIS and Ofgem to ensure market change is in the best interests of consumers.

7. Customer connections

The presenter discussed the key challenges faced by the connections team and their approach to reform in BP2. They also discussed the development of the new customer portal to be delivered as a minimum viable product in BP1 and will be improved into BP2.

- A member stated that the connections process at the moment is not fit for purpose and adding more resources to make the current process work is a stop gap at best. They said that the ESO needs to be bold and fundamentally change the process. They added changing the 90-day period to complete offers will be difficult but there needs to be a focus here to change the process. An ESO representative stated that they do not disagree with the members comments on the need to change the process, but that it can't be changed quickly and easily due to interactions with codes and licence agreements. The reform that is needed requires significant industry and regulatory engagement. A good outcome for the ESO will be to have a reform process agreed by the end of BP2, but this work needs to be carried out within the BP2 period whilst keeping BAU for customers. The presenter confirmed that there are dedicated resources to reforming connections.

Action: for ESO to review BP2 submission and make it clearer where resource is being utilised to meet regulatory obligations under firm processes and where it is used to expedite a process review.

- On the topic of expediting reform, the presenter confirmed that the ESO can steer industry discussions, but it is on the whole industry to help bring this about. The connections policy team will be focussed on driving this reform and they will focus on providing strategic input and facilitating change.

- A member noted that understanding how the reform moves forward is critical. They stated that reform has been needed for years and this has not yet been addressed by industry. They reflected that the connections section of BP2 has a different tone to the rest of the plan and needs to have an appreciation of the whole system DNO piece.

- Regarding applications, a member asked for more detail on the size of connections applications. They also noted that they would like to see greater emphasis on the connections reform and linking this to other programmes such as holistic network design. On the former, the presenter stated that they see a range of sizes, from 49 MW to 1.2 GW. There is a lot of diversity in terms of nature and size of applications. The DNOs are also struggling with connections applications, which is why there are more connections at transmission level. Referring to holistic network design, the presenter confirmed that they are constantly reviewing this project and movement within onshore connections.

Action: to form an ERSG sub-group on connections to further discuss ERSG connections challenges.

BREAK

8. **Balancing Capability Strategy Review (BCSR)**

The presenter discussed the outputs and next steps for the ESO's BCSR, including the industry co-created roadmap, benefits and case for change and industry feedback summary.

- The Chair asked how the ESO ensured consumer interests are at the heart of the programme rather than industry's (considering the vast amount of industry engagement that has taken place). The presenter stated that stakeholder engagement has been very positive with a mix of stakeholders debating the priorities including the nice to haves and basics for the programme.

- A member asked that if the ESO delivered all that was displayed on the roadmap, would this lead to the ESO being able to run a zero-carbon system. An ESO representative confirmed that everything that is needed within the balancing programme to deliver this by 2025. Network control is currently also going through a refresh to ensure that it can operate a zero-carbon system. The representative noted that there will be more to do between 2025 and 2035 as more of the grid decarbonises.

- The Chair confirmed that the roadmap deliverables have expanded due to stakeholder engagement and asked about the impact on costs as a result. The presenter stated that costs are in the range of between £150 and £200m for the whole programme. The costs are reflective of the scale of change required, including the level of resource and time needed on this programme to deliver. The Chair continued, asking whether there were different options to add or remove from the roadmap. An ESO representative confirmed this was the case and flexibility is already being used. Carbon intensity instructions was an example that has been removed from the priority order along with decreasing prices in the balancing mechanism. The former goes against the ESO's licence requirement and the latter because it wasn't an absolute need. The roadmap concentrates on ensuring the control room can dispatch from all the new services that will be on the system in future.

- An ESO representative highlighted that the roadmap building blocks can be restructured due to the modular nature of the programme if needed. The project is expected to continue to evolve. They asked whether the ERSG endorses this approach. A member asked whether the roadmap was ordered based on value, and that this can be a baseline by which the reprioritise if required. Another member noted that there will be new challenges and so having optionality is essential. A member reflected that the system will always be sub-optimal, and it will always require some changes.

- A member asked if REMA will change the outcomes of the roadmap. The presenter stated that the existing systems do not currently factor this in, but the planned BCSR skeleton is configurable if required in future.

9. **FSO**

The presenter discussed recent developments relating to FSO and the interplay between BP2 and FSO developments. They also discussed the ESO's response to Ofgem's recent 'local energy institutions and governance' call for input.

- A member asked why the ESO had not pushed forward on areas in the 'local energy institutions and governance' consultation sooner. The presenter confirmed that they needed, and still require greater clarity in areas such as DSO.

- A member asked how the ESO and FSO know what they are building towards is right (particularly referring to DSO). An ESO representative noted that the landscape is evolving and the ESO is working on areas that they know they need to do now. They noted that more clarity on remit may come with the outcomes of the 'local energy institutions and governance' consultation on the role of DSO. The presenter also confirmed that the ESO is engaging with various forums on the topic of DSO, including the ENA's Open Networks programme.

- The Chair asked about the ESO's role in Net Zero Market Reform. The presenter noted that the ESO has consciously stepped into FSO territory, recognising the direction of travel and that this

will continue. They also noted the need for the ESO to start building capability for whole system thinking imminently, citing the strategic network planner legislation.

A member asked how the FSO will decide which roles and responsibilities it will decide to get ahead of vs. the areas that it will wait to be told to take on and whether there is a risk that the ESO is prioritising for its shareholders under National Grid before becoming an FSO. The presenter highlighted the need for the FSO to have a clear mandate and to meet expectations with industry. The ESO will start to host workshops with industry to co-create the FSO vision.

- A member asked for the ESO to be bold in its FSO aspirations, to clearly state what it wants/needs to happen to decarbonise (citing the success of the ESO's 2025 zero carbon target in moving industry forwards). The presenter agreed that this would be consistent with the FSO's advisory role function. Another member confirmed that it needs organisations like the FSO to carry out the strategic thinking on areas such as hydrogen before it comes to delivery.

- The presenter confirmed that the FSO will be fully integrated into the BP2 plan to get to day 1 of the FSO, but the full FSO vision won't be set out fully in the document. A member noted that it may be valuable to do an exercise to highlight particular areas in the BP2 which will or won't change as a result of FSO.

- A member asked whether the ESO will include its views on REMA and the call for input in BP2. The presenter noted that this will be included within different contexts, such as Net Zero Market Reform. The member challenged further, asking whether market reform needed to be concluded by the end of 2025. The presenter noted that it is not within the ESO's gift to deliver REMA. The FSO team has planned for the roles they have clarity on in BP2 and build capability through the business plan. The presenter also noted that the price control is flexible if the ESO are asked to do more work as a result of REMA. The member summarised by stating that the FSO should utilise its maximum leverage to advocate for reform.

- A member noted that governance arrangements around the FSO in the long term is critical to ensure independence at a senior level. They asked how the FSO will be incentivised to deliver under public ownership. The presenter noted that this hasn't been decided yet, but it is a very important point and that there is a role for an entity to be an arm's length government organisation.

10. AOB

- An ESO representative discussed potential agenda items for the remaining ERSG sessions. A member requested site of the prioritisation framework the ESO has been developing, and the Chair would like further information on the approach to CBAs.

- The Group agreed that the final pre-publication ERSG meeting scheduled for 24 August will be held virtually.

11. Closed session

N/A notes and actions circulated separately to relevant parties.