

The Electricity System Operator (ESO)
R110-2 Stakeholder Group (ERSG) Report
on the ESO's Final Business Plan 2
Submission

September 2022

Contents

Executive summary	2
About the ESO RIIO-2 Stakeholder Group (ERSG).....	3
Purpose of the Group.....	3
Membership.....	3
Chair	4
ERSG feedback to date and purpose of this document	5
ERSG feedback to the ESO to date	5
Purpose of this document.....	6
Meeting summary.....	6
Challenge log summary.....	8
Assessment of the ESO’s final RIIO-2 Business Plan 2 submission	9
Challenge commentary: Prioritisation and Deliverability	9
Challenge commentary: Consumer.....	11
Challenge commentary: Customer connections.....	12
Challenge commentary: Data and digitalisation.....	13
Stakeholder engagement approach.....	13
Activities and deliverables	14
Cost benefit analyses	16
People and capability.....	16
FSO	17
Timeliness and quality of interactions and agreements/disagreements with the ESO.....	17
The future role of ERSG.....	17

Executive summary

The energy industry is currently undergoing a period of transformation necessary to deliver the UK's legally binding net zero emissions target by 2050. National Grid Electricity System Operator (ESO) has a key role in facilitating this transformation in the energy system. Alongside this, the ESO is entering into a period of direct transformation as it moves to become a fully independent Future System Operator (FSO). This ongoing transformational change is set within the wider context of the current energy crisis, which has escalated while the ESO's RIIO-2 second business plan (BP2) has been in development. Thus, ensuring the ESO has a credible business plan with the right priorities is more important than ever.

The ESO RIIO-2 Stakeholder Group (ERSG) provides the ESO with challenge and scrutiny on its BP2. A wide range of stakeholders sit on the ERSG, providing insight and expertise. Stakeholders include consumer bodies, customers, energy generators, academia, and network organisations. This is to ensure BP2 priorities align with consumer interests and reflect industry priorities.

The ERSG has challenged the ESO extensively throughout the BP2 development process. Given the scale of activity required from the ESO to facilitate the transition to net zero, the ERSG has particularly focused on how well the strategic narrative underpinning BP2 reflects the evolving landscape, and how this translates into the prioritisation of activities within BP2. In addition to ensuring the plan has the right level of ambition, the ERSG has also sought to understand the level of risk around whether the plan can be delivered and how this risk can be managed.

This report sets out how the ESO has responded to these, and other, challenges. In summary, the ESO has responded positively, and its business planning has progressed both in terms of presentation and activities included in the plan. The ESO has included credible and robust plans for both how it will, and does, prioritise activity, and how it will ensure delivery, including resourcing. The ERSG welcomes this but notes that the sheer scale of what is required to be delivered means the risks around prioritisation and deliverability must remain.

The Group believes the ESO is in a unique position to provide leadership to the industry, further enhanced by the move to FSO. The ESO should continue to work on defining what this leadership position should mean, working with stakeholders to do so.

Finally, the ERSG wishes to thank the ESO for its receptiveness and responses to ERSG feedback on its BP2 submission.

About the ESO RIIO-2 Stakeholder Group (ERSG)

Purpose of the Group

The ESO established the ERSG in July 2018 to provide formal, independent scrutiny as part of an enhanced engagement approach during the development of the ESO's RIIO-2 Business Plan 1 (BP1) submission. The ERSG for the ESO's second RIIO-2 Business Plan (BP2) launched in September 2021. The purpose of the Group has evolved from BP1. As, due to the flexible funding model, specific plans are expected to be continually developing outside of the business planning process, the Group believed it to be more valuable to focus at a strategic level. Consequently, the ERSG's main aims were agreed as follows:

- To constructively challenge how effectively the ESO's stakeholder and consumer engagement has influenced the development of the RIIO-2 BP2.
- To provide the ESO with feedback from a stakeholder perspective on the ambition and proposals for the business plan.
- As the ESO begins to deliver its BP2, periodically check in to help critique whether plan changes and course corrections are in line with stakeholder and customer expectations of the ESO. However, the Group remains predominantly forward looking and will not be replicating the role of the Performance Panel.
- To provide views on alignment of ESO priorities to the stated ambition and interests of consumers and stakeholders. As appropriate, share expertise and critically review the development of the ESO's position on new policy areas and legislation.
- To provide an independent viewpoint at open hearings and answer any questions on the enhanced engagement process from stakeholders, Ofgem or the Performance Panel.

Members have attended nine ESO-led ERSG meetings in total. Noting the above focus areas for the Group, the following were established as key themes for the meeting agendas to address:

1. ESO stakeholder and consumer approach.
2. Material changes from the RIIO-2 BP1 plan.
3. The strategic context and ambition in which BP2 operates.
4. The ability of the ESO to deliver BP2.

Membership

The ERSG comprises of members from a wide range of backgrounds who collectively represent the views and interests of customers, service providers, consumers and other stakeholders. The Group is representative of the ESO's role and the wider industry. Members have been selected based on their expertise across a broad range of energy issues and their ability to provide constructive challenge.

Sector	Representative	Organisation
Chair	Andy Manning	Acting in an independent role
Generator	Stuart Cotton	Drax
Large supplier	Gregory Edwards	Centrica
Medium supplier	Elizabeth Allkins	Ovo
Small supplier	Rachel Fletcher	Octopus

Transmission owner	Patrick Hynes	National Grid
Scottish TO/DNO	Aileen Mcleod	Scottish and Southern Electricity Networks
Distribution network owner	Peter Emery	Electricity North West Limited
	Barry Hatton	UK Power Networks
OFTO/ Interconnector	James Dickson	Transmission Investment
Existing service provider	Marko Grizelj	Siemens Energy
Consumer	Ed Rees	Citizens Advice
	Eddie Proffitt	The Major Energy Users' Council
Stakeholder expertise	Natascha Engel ¹	Public First
Wider interest	Simon Roberts	Centre for Sustainable Energy
	Nina Skorupska	Renewable Energy Association
	Nick Molho	Aldersgate Group
Academic	Professor Robert Lowe	UCL Energy Institute, University College London

The ESO is represented by Fintan Slye (Executive Director, National Grid ESO), Matthew Wright (Head of ESO Strategy and Regulation), Gareth Davies (Head of ESO Regulation) and Adelle Wainwright (Regulatory Policy Manager, National Grid ESO). Vicky Chiles (DSO Policy Lead, National Grid ESO) is the ERSG Technical Secretary. Additional ESO representatives attended various ERSG meetings where required.

Chair

Andy Manning was appointed by the ESO as ERSG Chair. Selection of the Chair was carried out in consultation with Ofgem, in an open and transparent manner. The Chair acts as an individual and does not represent any particular organisation.

The Chair attended one of National Grid ESO's Board meetings to provide an update on the ERSG in July 2022. The Chair was asked for, and provided feedback on, BP2 progress and interactions between the Group and the ESO. The feedback is consistent with that provided in this report. This was also an opportunity for the Board to ask questions in order to provide assurance on the external scrutiny of the ESO's BP2.

This report will be formally provided to Ofgem and the ESO by the Chair. Dependent on Ofgem's guidance, the Chair, supported by the Technical Secretary, may be responsible for providing Ofgem with formal reports on the Group's views on the ESO's proposals at further relevant points in the process, including the draft determinations and on future business plans.

¹ Natasha left Public First in December 2021 and so has not attended ERSG meetings since this point.

ERSG feedback to date and purpose of this document

ERSG feedback to the ESO to date

The Group provided a short letter to the ESO on 29 April, putting forward feedback from the sessions so far to allow the ESO time to act. The main areas of feedback from the letter are summarised below.

At a high level, the two interacting areas the ERSG sought developments on were:

- Prioritisation: how and why the ESO prioritised specific deliverables over others, and the factors which drove this prioritisation.
- Plan deliverability: how the ESO planned to meet all of its commitments set out in BP2, particularly given delays to certain BP1 delivery timescales, and how this would feed into future prioritisation.

These were underpinned by a number of the challenges raised, in particular ‘Resilience and optionality in BP2 plan’ and ‘BP2 start point’ (see page 8 for further detail on ERSG challenges).

At a thematic level feedback was based around the following:

- Consumer: clarity on how the ERSG’s feedback would be captured in the consumer strategy work, and how this feedback would drive action, including developments from the ERSG 5 meeting on the ESO moving away from a traditional “utility style” view to engage with consumers further.
- Connections: further assurance that the connections team understood the level and speed of change required going into BP2, as well as the need to be a strategic leader in this space.
- Data and digitalisation: upskilling and talent retention were key elements of feedback from the ERSG, alongside working with industry to develop coordinated solutions in this field.

The ERSG were pleased to see the ESO explicitly respond to the feedback from this letter in the ERSG 7 meeting on 29 June.

Following on from this, the ERSG produced a formal response to the ESO’s draft BP2 consultation. This expanded upon the feedback outlined in the letter and provided further input on specific deep dive topics which focussed on the new and materially changed aspects of the ESO’s BP2 submission. These included: early competition, enabling the DSO transition, offshore coordination and the network planning review, Net Zero Market Reform, codes and the Balancing Capability Strategic Review. Further feedback was also provided on discrete items, such as the Future System Operator (FSO) and people and capability. Commentary on the latter can be summarised as follows:

- FSO: the Group requested further evidence on how the BP2 aligns with the ESO building the FSO. This included both how BP2 will capture FSO transition activity and how FSO development could impact BP2 deliverables.
- People and capability: the ERSG sought further clarity on how the ESO planned to attract and retain staff, particularly with reference to the new IT capabilities that will be required to undertake digital transformation. This, alongside significant cultural change, would be essential to the success of the FSO.

Purpose of this document

This document will focus on how the ESO has addressed feedback given to date (as summarised above), including the formal challenges set out by the Group since it commenced in September 2021. It will also provide commentary on the specific new, or substantially different, activities that the ESO has brought to the ERSG.

Meeting summary

Below provides a high-level summary of the ERSG meetings and topics discussed to date. The Minutes from these can be found on the [ESO's ERSG webpage](#).

Meeting	Date	Key topics discussed
ERSG 1	22 September 2021	Terms of reference of ERSG BP2 guidance and stakeholder approach FSO consultation ERSG look ahead
ERSG 2	2 December 2021	Role 1 – what's new and changed? Role 2 – what's new and changed? Role 3 – what's new and changed? Cross role activities BP2 IT guidance update
ERSG 3	12 January 2022	The strategic context and ambition BP2 operates in ESO stakeholder approach, including consumer update Deep dive: early competition Deep dive: enabling the DSO transition Current BP1 performance Deep dive: ways of working (digital)
ERSG 4	9 February 2022	Priorities between now and 2035 Current BP1 performance – key challenges Customer and stakeholder – CSAT/SSAT highlights New and materially changed – introduction Deep dive: customer connections Deep dive: offshore coordination and network planning review Deep dive: Net zero market reform
ERSG 5	16 March 2022	Finalised strategy refresh and update on direction of BP2 Consumer update Deep dive: data Deep dive: codes Delivering and tracking of planned deliverables
ERSG 6	11 May 2022	Q&A session on draft BP2 submission Role 1: new and materially changed, including data and analytics hub and balancing capability strategic review Role 2: new and materially changed, including role in Europe Role 3: new and materially changed, including facilitated distributed flexibility, offshore coordination, network planning review and early competition FSO IT Innovation Finance, costs and benefits of the plan People and capability

ERSG 7	29 June 2022	Plan deliverability Consultation feedback: key themes Consumer Connections Balancing capability strategic review – outputs and next steps FSO
ERSG 8	3 August 2022	Prioritisation and deliverability Balancing costs People and capability Data and digitalisation FSO developments Connections update following ERSG sub-group
ERSG 9	24 August 2022	Updated BP2 plan – plan orientation and priorities Key areas of stakeholder feedback and how we have responded ERSG journey including response to formal challenges Revised costs and benefits

Alongside these meetings, specific members of the ERSG participated in regular ESO-led ‘consumer sub-group’ sessions to provide further feedback to the ESO on its consumer strategy in BP2². A customer connections sub-group (single session due to time limitations) was also formed to continue with Group feedback from ERSG 7. Additionally, the ESO arranged separate meetings based on the ERSG’s appetite for further information on specific topic areas. This included Net Zero Market Reform, and a BP2 walk through of costs and benefits ahead of the draft submission.

² Members of this sub-group are: Ed Rees (Citizens Advice), Elizabeth Allkins (OVO), Rachel Fletcher (Octopus) and Simon Roberts (CSE)

Challenge log summary

The challenge log was identified in ERSG 2 to capture specific actions that were seen as ongoing, fundamental challenges to the ESO's BP2. This report will focus on whether the ERSG believes these challenges to have been addressed through the ERSG process alongside other, more discrete topics.

Challenge number	Date raised	Topic	Nature of challenge	Status
ERSG 1	2 December 2021	Resilience and optionality in BP2 plan	Uncertainty over future roles and inevitable uncertainties creates the need for additional assurance, possibly through overlays to and optionality within the plan and in-built resilience. ERSG to support.	Challenge closed
ERSG 2	2 December 2021 and 12 January 2022	Consumer	There is expertise across the group in consumer insight and the ERSG wish to have further input in this area for challenge and review. Further action: the ESO are still required to provide clarity on their ambition in this space.	Challenge closed
ERSG 3	2 December 2021	Strategic Narrative	How is the ESO's vision for future developing, what is the strategic narrative and how does this get reflected in the business plan	Challenge closed
ERSG 4	2 December 2021	Start point BP2	ESO to explain what the starting position is for BP2 and how the expected performance in BP1 is influencing BP2	Challenge closed
ERSG 5	9 February 2022	Customer connections	<p>Is the level and range of action proposed by ESO regarding connections appropriate?</p> <ul style="list-style-type: none"> • Is a more holistic plan required (potentially joining up with Net Zero Market Reform and covering network planning, access, charging and system operability components)? • Should a whole system approach be taken to determine where connections should be made? • What action is the ESO taking to move into a strategic, leadership position that meets the needs of current and future consumers and system users? 	Challenge remains open
ERSG 6	8 July 2022	Data and digitalisation	ESO to set out its view on its role in the data and digitalisation space in its final BP2 submission, plus visibility of a strong plan to upskill and prepare the ESO for this transition.	Challenge closed

Assessment of the ESO's final RIIO-2 Business Plan 2 submission

Challenge commentary: Prioritisation and Deliverability

Summary: A number of the challenges raised during ERSG meetings referred to prioritisation and the overall deliverability of the plan. The Group believes that the ESO has made significant progress in demonstrating processes are in place to ensure effective prioritisation and that plans are already being executed to deliver effectively in the BP2 period. However, the Group notes that the scale of change required, on top of the current industry landscape, means that deliverability will remain challenging and so continuous prioritisation is of key importance.

Challenge ERSG 3: Strategic narrative

How is the ESO's vision for future developing, what is the strategic narrative and how does this get reflected in the business plan.

From the second ERSG meeting in December 2021, the Group has been keen to emphasise the importance of a strategic narrative that captures the rapidly changing landscape that the ESO is operating in and how the ESO's role may need to develop - to 2035 and beyond to 2050 - to ensure the correct balance is met between near-term objectives and long-term perspective. The ERSG has been pleased with the ESO's strategy review and believe that its refreshed mission and ambitions provide the organisation with strong direction for the coming years (notwithstanding FSO developments). The ESO has actively taken on board the ERSG's feedback within this process, which has been appreciated. Feedback from the ERSG on this challenge has included:

- A request for the strategy to have a longer-term focus, beyond 2025 (to 2035), but without losing the 2025 operability ambition.
- Challenge on the phrasing of 'competition everywhere' as one of the ESO's ambitions. Whilst recognising the sentiment, some ERSG members noted that this may be an oversimplification and needed to be more explicitly linked to consumers and cost. It may also be impractical in meeting the UK's net zero ambitions. Others liked the existing phrasing and noted that sub bullets may help to clarify the statement.
- Clarification on whether the ESO is targeting a sustainable, low or zero carbon electricity system in its next mission. Members were supportive of the whole system strategy, noting minor changes to the wording.
- Most of the Group agreed with the new theme of 'reliability' with some requesting this to be at the forefront of the strategy. This operability focus, alongside market reform and innovation were seen as the main drivers and areas of accountability for the ESO.

Additionally, the ERSG noted that the ESO had displayed a thorough grasp of the strategic context in which it works in during previous ERSG meetings but this was not reflected in the detail of the draft BP2. Consequently, the Group stated that this could be better articulated in the final BP2 submission. The ERSG also recommended that the final BP2 should also clearly articulate how the strategy and vision refresh translates into BP2 changes i.e. what plans have changed as a result.

The ERSG **has closed this challenge**; the Group agrees that the ESO has developed the strategic narrative well over the submission period and this is reflected successfully in the final BP2 submission.

Challenge ERSG 1: Resilience and optionality in BP2 plan

Uncertainty over future roles and inevitable uncertainties creates the need for additional assurance, possibly through overlays to and optionality within the plan and in-built resilience. ERSG to support.

During ERSG meeting 2 in December 2021, the Group suggested that it would be beneficial for the ESO to prepare for future unforeseen risks and interdependencies and add commentary on this into the BP2 submission. The ERSG believed it to be beneficial for the ESO to provide more detail on, and thoroughly consider, the upcoming complexities they foresee in the RIIO-2 BP2 price control; both to ensure that Ofgem have an explicit appreciation of the ESO's working climate, and for the ESO itself to appreciate the potential barriers to projects and make reasonable proactive adjustments where needed. As part of this, the ESO needed to be clear on the degree to which it believed it can influence the external environment to address potential barriers, and its approach to doing so. The ERSG expected this to already exist, to some degree, in terms of tracking perceived risks and planned mitigation actions in relation to delivery. The Chair suggested this could be an area for the ERSG to support throughout the plan's development. The ESO subsequently presented on the topics of plan prioritisation and deliverability regularly from February 2022.

Whilst the ERSG appreciated the meeting 5 discussion on the ESO's portfolio management tool, the ERSG still believed that questions remained on the fundamentals of when or how a project would be prioritised, or indeed deprioritised and what any change would mean in terms of resourcing and management attention. As such, the ESO seemed to be committing to (and/or already working on) a wide range of projects in BP2 without clarity on relative priorities. The ERSG acknowledged the ESO's extensive remit, particularly given its central role in the energy transition. It also acknowledged that prioritisation of specific projects or tasks is not always entirely within the ESO's control. Nonetheless, the Group believed the ESO needed clear internal prioritisation methods to ensure the direction is in line with the organisation's strategic ambitions for the BP2 period.

In addition, despite the ESO having articulated well the risks and dependencies associated with specific deliverables during ERSG meetings, this had not been highlighted strongly enough in the draft BP2 submission. These elements will be even more crucial in BP2 as the ESO transforms into an FSO in parallel. As such, when the draft BP2 was submitted, the Group recommended the ESO expand the commentary to focus on how and why the organisation prioritises specific deliverables over others, and the factors driving this prioritisation. To add to this, a key aspect of prioritisation that was missing, the ERSG felt, was clear visibility of inter-dependencies between projects. Members also argued that, despite welcoming the high level of ambition in the plan, the ESO needed to show the ERSG that they had carried out sufficient exercises to understand whether they could meet all of its planned commitments. This was particularly pressing given delays to certain BP1 delivery timescales.

Furthermore, the ERSG welcomed the ESO's aspirations to utilise agile ways of working. The ERSG recognised the huge cultural shift required in the ESO to fulfil this approach throughout the business. From ERSG meetings, the Group noted the disconnect between agile IT delivery and departments such as codes and connections which do not utilise this approach. However, the ERSG recognised the ESO's core role of keeping the lights on; this means the ESO needed to ensure 'learning by doing' approaches to existing projects and programmes do not present a risk to this core role. The ERSG recommended the ESO provided further detail on what an agile delivery model for the organisation would look like, and the steps required to get there, including how it will ensure employees are informed and upskilled to carry out agile ways of working.

Upon publication of the final BP2, the Group were satisfied that the ESO had effectively considered and provided transparent commentary on prioritisation (Chapter 2), with a list of 11 priority areas for

the BP2 period, and deliverability (Chapter 3), which includes an explanation of the portfolio governance structure and reporting system. **As a result, this ERSG challenge is closed.**

Challenge ERSG 4: Start point BP2

ESO to explain what the starting position is for BP2 and how the expected performance in BP1 is influencing BP2.

During ERSG meeting 2, and within the context of challenge 1, the Group sought further clarity on the context and deliverability of BP2, particularly considering delays to some BP1 projects. The ERSG welcomed the ESO's item during meeting 4 on providing additional detail around the delays to current projects and programmes under its RIIO-2 Business Plan 1 (BP1) activity. Whilst this discussion highlighted some of the high-level reasons behind current delays, the Group were not yet satisfied with the ESO's level of detail and clarity on how these projects will get back on track, assuming the projects remain in the consumer interest, and still deliver to the agreed BP1 timetable and budget. The Group wished to underline that this was not to suggest the ESO was incompetent, but rather that it could do more to portray the (suspected) externally driven complexities and uncertainties that have led and will continue to lead to project blockers and delays if not properly considered from the outset. By extension, the ERSG were concerned by what this means for the ESO in BP2 as the pace of change in the industry continues, and complexities inevitably grow and intensify.

The challenge is now closed; the ERSG believes the ESO has demonstrated a firm understanding of its operating context within BP2. However, the ERSG notes the ambition and associated deliverability in the two-year period and therefore places importance on prioritisation exercises should unforeseen risks materialise.

Challenge commentary: Consumer

Summary: The ERSG has had concerns about how the role of consumers was captured in the BP2, and the ESO's role in understanding consumer behaviour. The ERSG is pleased with the progress made, with consumers now more clearly recognised as an integral part of the system.

Challenge ERSG 2: Consumer

There is expertise across the group in consumer insight and the ERSG wish to have further input in this area for challenge and review. Further action: the ESO are still required to provide clarity on their ambition in this space. N.b. also a deep dive topic.

During ERSG meetings 2 and 3, the Group captured the above challenge to reflect ongoing discussions around the ESO's position under the theme of consumer. Acknowledging the ESO's evolving role in this space, the ERSG requested further meetings to discuss the theme of consumer in the ESO's BP2.

The ERSG welcomed the ESO's aspirations in the consumer field and have appreciated the time spent on this in ERSG sessions to date. Initial discussions were had around the consumer insight that already existed across the industry and the need for actionable insight from ESO activity. The Group was pleased to see the ESO's pivot away from the traditional "utility style" view in the draft BP2 to one that views consumers and their devices as an active part of the energy system. Noting that the ESO's consumer strategy was under development at the point of draft BP2 publication, the Group also provided the following to support its challenge:

- The ERSG consumer sub-group wished to see how and when their feedback would be captured going forward as the ESO's consumer strategy is confirmed for the final BP2 submission.

- In particular, the ERSG consumer sub-group voiced concerns around ESO's definition of consumers, and approach to improving understanding of consumers especially at the grid edge. The ERSG recognised the importance of the ESO better understanding consumers as it moves beyond a "utility style" approach, but it needed to consider how this change in approach applies to the information gathering too. The ERSG was also concerned that a "command and control" approach to the consumer strategy would not adequately consider the complexity of gathering information about consumers at the grid edge, nor the wealth of information already available in the sector. The ERSG welcomed more detail on how the ESO would put their ambitions for the consumer strategy into action, in a way that leverages talent across the sector rather than duplicating it.
- Furthermore, the Group wanted to see some recognition and planning to acknowledge the significant mindset shift that is required within the ESO on the theme of consumer and how the ESO expected this to be achieved both within the business and across its stakeholders.

The ERSG is pleased with the ESO's view on consumer in its final BP2 submission and as such have **closed the challenge**. However, some members have highlighted the positioning of the consumer strategy and its prioritisation in the final submission, querying whether clarifying the role the ESO needs to have could be clearer and introduced at an earlier chapter (given its importance) in the BP.

Challenge commentary: Customer connections

Summary: The ERSG recognise that the current connections process in not fit for purpose and will be an impediment to achieving net zero ambitions. The Group welcomes the proposals within the final BP2 to both address the operational issues and deliver reform but has not had sufficient time to be fully assured of the effectiveness of the plans.

Challenge ERSG 5: Customer connections

Is the level and range of action proposed by ESO regarding connections appropriate? N.b. also a deep dive topic.

- *Is a more holistic plan required (potentially joining up with Net Zero Market Reform and covering network planning, access, charging and system operability components)?*
- *Should a whole system approach be taken to determine where connections should be made?*
- *What action is the ESO taking to move into a strategic, leadership position that meets the needs of current and future consumers and system users?*

The ERSG appreciated the presentation on customer connections during ERSG 4 which explicitly showed the reasoning behind the growth of the team into BP2. Members put forward the following feedback in relation to this challenge at draft BP2 stage:

- The increase in distributed energy resources (DER), and thus connection requests, could have been more accurately predicted. The Group urged the team to make greater use of its own resources (i.e. its Future Energy Scenarios (FES) publication) during the BP2 planning process to ensure that resource constraints and delays to connections does not occur again in future.
- Consequently, there is a need for greater clarity in the final BP2 submission of the role of the TO, DNOs and the ESO in the connections process and how these can work together in future. The Group believed there to be scope for the ESO to lead these discussions and provide strategic, whole system direction.

Whilst the Group acknowledges and welcomes the progress the ESO has made between the draft final BP2, in terms of playing a greater role in leading the required connections reform, **the challenge remains open**, due to the newness of the proposals. The ERSG was not convinced that the comprehensive connections reform approach will necessarily capture the “quick wins” and “low regret” activity to improve connection timelines. The Group considered an industry led emergency connections committee might support the development of practical options. Overall, the Group has not had sufficient time to be fully assured of the effectiveness of the plans.

Challenge commentary: Data and digitalisation

Summary: The ERSG views this as a key area for development. The Group is satisfied with plans contained within BP2 but notes risks around the ability to attract and retain talent remain (although recognising the ESO has credible people and capability plans in place).

Challenge ERSG 6: Data and digitalisation

ESO to set out its view on its role in the data and digitalisation space in its final BP2 submission, plus visibility of a strong plan to upskill and prepare the ESO for this transition. N.b. also a deep dive topic.

The ESO presented to the ERSG a number of times on data and digitalisation, given the complex and wide-ranging nature of the topic. The ERSG believed that the ESO has a sound plan in place to develop the organisation’s data and digitalisation deliverables in its draft BP2. However, the Group put forward the following reflections alongside receipt of the draft BP2 submission as part of this challenge:

- The ESO has limited technical expertise in this field. The Group were concerned about whether there is a concrete plan in place to upskill and attract and retain talent in this important area going into BP2. Despite the ESO’s significant efforts in this space the Group expected this to remain a significant challenge as driven by the transition to being an FSO, particularly in relation in network planning expertise. The Group believed there was scope to work collaboratively with TOs to manage the scale of the upskilling challenge in this area.
- The ERSG requested further explanation on how the ESO will lead the way across the energy industry in the data and digitalisation space, noting the need for cross-industry collaboration.

This challenge is closed. The ERSG believes that the ESO has explained its positioning well which is evidenced in its final BP2 submission.

Stakeholder engagement approach

The ERSG identified that the sheer amount of change, and so consultation, across the energy industry presented an engagement challenge given the limited resources of relevant stakeholders. This meant that a proportionate approach was required upon publication of the draft BP2 submission in April 2022. As a result, during ERSG 1 and 2, members established that the ESO should engage with stakeholders for the BP2 using existing channels, with ongoing review to ensure this did not exclude some stakeholder groups. Members were pleased to see that this seemed to be the case based on section 5.3 of the draft BP2. During ERSG 7 in June 2022, the ESO provided an overview of consultation feedback themes from the draft BP2 submission. The Chair also noted that the consultation period and turn around for the final BP2 was constrained for the ESO.

The ERSG believes the approach to the Balancing Capability Strategic Review is an example of good stakeholder engagement led by the ESO. After recognising the need for engagement, the ESO has

successfully ensured relevant stakeholders were involved in designing a workable solution. The Group thinks it is vital that this activity is well aligned and integrated into the overall strategic direction for system balancing as it develops through market reform. A further example is the approach taken to code consolidation where the ESO's approach was adjusted to reflect stakeholder views.

The ERSG also believes that the receptiveness to ERSG feedback has resulted in clear improvements to BP2 which, in turn, should result in better outcomes for consumers. In addition to the plan-wide areas of prioritisation and deliverability, the updated approaches to Consumer and Connections are good examples of this.

Activities and deliverables

Due to the differing nature of BP2, the Group decided to focus ERSG sessions on the specific strategic areas that have or will change the most since BP1. These were known as "deep dives." Alongside these are cross cutting areas that the ERSG has provided comment on, such as FSO and the BP2 cost benefit analyses (taking an overall view rather than offering insight into specific calculations). Below provides a summation of the Group's feedback to date, along with concluding comments.

Deep dives

Early competition

The ERSG recognises the value in the ESO playing a central role in facilitating early competition. During ERSG 3, the Group acknowledged the inherent uncertainty in this field, given that a number of the programme's enabling factors were dependent on other parties, including government. The Group were pleased to see that, despite these uncertainties, early competition featured heavily in the BP2 draft. In ERSG 6, discussion focussed on early competition under the FSO. The ERSG were pleased to see the ESO state that they are already establishing the resource for the anticipated scaling up of this role in BP2. The ESO confirmed that they were awaiting government legislation as a trigger to continue with this body of work.

Draft BP2 recommendation: the Group requested explicit links to early competition and what this means in an FSO context in the final BP2.

Final BP2 commentary: the Group is pleased to see this has been included in the commentary for the final BP2 (see pg. 141).

Enabling the DSO transition

During ERSG 3 the ESO presented its plans to support the DSO transition. The Group discussed alignment with DNO BPs in this area and the impacts of timings of reforms such as the development of effective market mechanisms. The Group also sought clarification of the ESO's perceived role in working with DSOs during and following its transition to an FSO role. With this in mind, and with reference to the recently published 'Future of Local Energy Institutions and Governance' call for input by Ofgem, the ERSG notes there is wide range of options regarding DSO governance. The Group recognised that the option finally selected will have a significant impact on the ESO's plans for enabling the DSO transition and has not been resolved by the final BP2 submission date (August 2022).

Draft BP2 recommendation: noting the ERSG's comments on the ESO's consumer strategy, the Group required further explanation on how this linked to the components of the DSO transition. The Group believed the ESO should provide as much clarity as possible over how it believed the ESO and DSO

roles should develop and interact with regards to local system operation. The ERSG also recommended for the ESO to outline how its plans could adapt to handle the uncertainty in this area.

Final BP2 commentary: the Group believes the 'Accelerating Whole Electricity System Flexibility' section of the final BP2 provides the necessary clarity on DSO/ESO developments. However, the Group notes that further - and explicit - interlinkages to the role of the consumer would be worthwhile.

Offshore coordination and network planning review

During ERSG 4 the Group heard from presenters about the offshore coordination project and network planning review and the interlinkages between the two areas. Similar to early competition, the Group noted the uncertainty in this area areas ahead of the draft BP2 submission (i.e. awaiting legislation). In ERSG 6, the Group welcomed further detail on the ESO's future role as a central strategic network design planner. The Group welcomed this in the context of providing direction to industry on strategic infrastructure decisions.

Draft recommendation: The ERSG noted that although the plans are necessarily engineering orientated, the ESO's role must encapsulate other areas, such as economic and social factors that need to be considered.

Final commentary: The Group is pleased to see the ESO has acknowledged that environmental and community impacts to developing onshore and offshore transmission systems need to be recognised in its final BP2 submission.

Net Zero Market Reform

The ERSG welcomes this work from the ESO and see this as an example of the organisation showcasing its thought leadership. The ERSG foresees this role becoming increasingly important as the ESO transitions into the FSO role.

Draft recommendation: The ERSG believed the ESO needed to include further detail on the next steps, and how this aligned to BEIS' Review of Electricity Market Arrangements (REMA) in the final BP2 submission. The ERSG also asked for further detail on how the ESO's balance of priorities would be maintained and resourced throughout the transition between the system's shorter-term security requirements and achieving the UK's longer-term net zero goals.

Final commentary: The ERSG welcomes the explicit inclusion of REMA and how Net Zero Market Reform fits into this body of work in the final BP2 submission (pg. 116). The ESO should continue to develop its leadership role in this space, in conjunction with stakeholders.

Codes

The ERSG has generally agreed with the ESO's approach to BP2 for this topic area, acknowledging the complexity in this field of work - for example regarding the outcomes of BEIS and Ofgem's Energy Codes Review. The ERSG is keen to see the ESO acting as an effective and ambitious code manager that is proactive at issue identification and management.

Draft recommendation: The Group highlighted that the BP2 needs to be reviewed following the Energy Code Reform decision.

Final commentary: The ESO needs to ensure industry change aligns to consumer interests. The Group recommends that the ESO uses its leadership role to influence Energy Code Reform further.

Balancing Capability Strategic Review

The Group was pleased to hear about the stakeholder driven nature of the ESO's Balancing Capability Strategic Review during ERSG 6 and understood the ESO's rationale in its draft BP2 regarding including the costs of the review for the period, but not the benefits (this is included in the final BP2 submission) due to the complex nature of the programme.

Draft recommendation: the ERSG awaited further clarity on the Balancing Capability Strategic Review based on the ESO's updates to ERSG in meeting 6.

Final commentary: The ERSG valued the ESO's Balancing Capability Strategy Review item during ERSG 7 to provide an update on progress to the Group. Members were pleased with the level of stakeholder engagement conducted throughout the programme and wish to highlight the importance of this work in enabling a zero-carbon electricity system. The Group particularly notes the ESO's modular design of this to ensure that it can evolve with the industry landscape.

Cost benefit analyses

The ERSG has welcomed discrete sessions on the BP2 cost benefit analyses in the run up to both the draft and final submission. This was particularly notable during the dedicated session in ERSG 9 on the costs and benefits associated with the final BP2 where clarity on the outstanding deliverables associated with IT and the Balancing Capability Strategic Review was provided to the Group.

The majority of ERSG members believe that the ESO has achieved the right balance between costs and benefits at a high level in its BP2 submission (i.e. in the context of savings on consumer bills). The Group understands the critical assumptions underpinning benefits that are not within the ESO's control. Therefore, the ERSG, at a high-level, is comfortable that benefit cases remain robust across a range of scenarios.

Furthermore, members wish to emphasise the importance of continued momentum in ESO deliverables throughout its BP2 period to ensure that the required energy transition progresses at the necessary pace. More specifically, the Group believe that it is sensible to allow ESO investment now to deliver the long-term benefits to our energy system in years to come. The Group highlights the current cost of living crisis and potential future changes to the ESO – and wider industry's - operating landscape and influencing factors. The ERSG believes the energy crisis emphasises the need for the ESO to take the steps required to reduce consumer costs through the long-term consumer benefits identified. The flexibility given by the cost pass through mechanism is key to delivering for consumers.

People and capability

The ESO's resourcing, recruitment and retainment strategy has been a subject that the ERSG has covered extensively across several meetings. The Group has previously highlighted the importance of a comprehensive strategy in this field. This is particularly vital in new and growing areas of the business such as IT where talent is required to enact major changes to the ESO's existing control system architecture which will have ramifications for the whole industry. The Group's concerns are underlined by the recent confirmation of the FSO to be established by 2024 and as such resourcing considerations need to be better understood throughout BP2 to ensure that the FSO delivers from "day one". Overall, the Group is satisfied that the ESO's resourcing strategy presented to the ERSG in meeting 8 is robust. However, the scale of the challenge ahead means significant risks remain.

FSO

The transformation of the ESO into FSO by 2024 is of great interest to the ERSG, due to the obvious overlap between BP2 and the significant transformation of the organisation during the same period. The ERSG recognises the overlap with the ESO's existing ambition in its BP2 and journey to become the FSO. This will impact certain BP2 deliverables more than others such as data and digitalisation, early competition and people and capability. The Group is pleased to see this has been acknowledged to a far greater extent in the final BP2 submission.

Timeliness and quality of interactions and agreements/disagreements with the ESO

The ESO has been both flexible and receptive to feedback in ERSG meetings, fulfilling various actions as they arise. The challenge log in particular has served as a useful tool to capture long term areas of formal challenge for the ERSG to support the ESO in working through ahead of its final submission. In particular, the ERSG recognises the ESO's support in pivoting the Group's focus onto a more strategic footing early in the process.

The future role of ERSG

The ERSG has been in regular discussions with the ESO about the role of the Group and how it can best support the ESO in providing feedback on its BP2 submission. The Group recognises the complexity of providing timely feedback to the ESO for a number of reasons, including the ESO's unique regulatory framework (i.e. BP2 is a 'refresh' of BP1, under the same price control). The nature of this framework has meant that the ESO had already determined its direction in a number of key areas in BP1. The members of the Group appreciate the change of the ERSG's remit to reflect this and wish to continue with a flexible approach to the Group's remit going forward – with support from the ESO and Ofgem. The Chair is currently developing a proposal for the future of the ERSG, engaging with key stakeholders such as the ESO, Ofgem and the Performance Panel.