

ESO RII02 Business Plan 1 (2021-23)

# Incentives End of Scheme Report

## Annex 1: Acting on Feedback

19 May 2023



We published our mid-scheme incentives report in May 2022, and subsequently received detailed feedback from the Performance Panel and Ofgem. We have found this feedback helpful and sought to act on it over the past 12 months, as detailed below.

Role	Feedback	Action taken	Relevant section of this report
All	<b>Prioritisation:</b> The Panel would like to see further evidence that the ESO is prioritising deliverables to maximise consumer benefit and to deliver value for money.	We have developed a prioritisation decision support framework that will allow us to respond dynamically to external or internal environmental changes to the baselined business plan. In November 2022 we conducted a deep dive with the Performance Panel and Ofgem to share the prioritisation framework and examples of prioritisation for winter 22/23 preparedness.	Executive summary: Focus Area 2
All	<b>Leadership:</b> The Panel would like the ESO to show more evidence of strong industry leadership. <b>World-leaders:</b> The panel stated that they would like ESO to be clearer and provide evidence for world-leading activities and services they are delivering.	There are many examples of ESO showing strong leadership and throughout BP1. In March 2023 we conducted a deep dive with Performance Panel and Ofgem to showcase this.	Executive summary: Focus Area 4.
1	<b>Delivery:</b> Ofgem note that some important milestones were delayed, which has shifted assessment of plan delivery down to meeting expectations. It is the importance of some of the delayed milestones – foundational IT reforms needed to deliver zero carbon operation by 2025 – which underpin the assessment. If the ESO can address these delays and give confidence that the IT related deliverables can be set back on track, they could exceed expectations by the end of the scheme.	Since mid-scheme Role 1 increased its overall plan delivery milestone performance. We are very proud of this achievement especially with the additional activities outside of BP1 that have been delivered in parallel.	Evidence chapters: plan delivery, CBAs, and Value for Money
1	<b>Balancing Programme:</b> Some Panel members acknowledged that the ESO's end-to-end Strategic Review of the Balancing Programme (Scheme 180) represented a move in the right direction as the ESO seeks to address high costs, although there was still much uncertainty as to why the Balancing programme had been paused, and what would be delivered. The Panel agreed that the ESO could do more to improve transparency in this area.	We have engaged and collaborated with our stakeholders quarterly through focus groups sharing how our work will transform the way the control room operates, seeking feedback on the proposed platforms and endorsement of any changes to activities in the roadmap. Our engagement approach has helped improve stakeholder confidence that we can deliver what we have committed to in our balancing roadmap	Evidence chapters: plan delivery, stakeholder evidence, CBAs, and Value for Money
1	<b>Control centre training and simulation:</b> Ofgem had concerns with delays to the ESO's control centre training and simulation deliverables and their impact on benefits delivered.	All deliverables are complete.	Evidence chapters: CBAs

1	<p><b>Dispatch:</b> Several stakeholders expressed disappointment regarding the ESO's management of skip rates, merit order dispatch and inertia, suggesting that the ESO could do more to improve the dispatch efficiency and transparency, including through the provision of more granular data and a roadmap to deliver improvements in these areas.</p>	<p>Building on the publication of dispatch transparency data on the ESO Data Portal, 'skip rates' has been a prioritised area of focus within the Balancing Programme co-created roadmap.</p>	<p>Evidence chapters: plan delivery and stakeholder evidence</p>
1	<p><b>Balancing Costs:</b> The Panel and Ofgem were concerned that there was limited evidence to suggest that the ESO had taken sufficient proactive actions to tackle high balancing costs. Although they noted that the ESO had reduced its trading volumes and that costs have been impacted by external factors. Ofgem were concerned that inefficiencies in balancing products introduced so far during BP1 have caused costs to be higher in some balancing cost categories than they could otherwise have been. The Panel agreed however that it was difficult to gauge a fair balancing cost target in the current price environment. Panel would like more transparency around the ESO's BM review.</p>	<p>In our report we provide a significant amount of background, analysis and commentary for Metric 1A, along with an overview of our Balancing Costs Strategy which provides clear evidence of ESO taking sufficient proactive action to tackle high balancing costs.</p> <p>In November 2022 and March 2023, we conducted a deep dive with Performance Panel and Ofgem to share our Balancing Costs Strategy and provide examples of proactive actions.</p>	<p>Evidence chapters: plan delivery and metric performance.</p> <p>Executive summary: Focus Area 1</p>
1	<p><b>Overspend:</b> Ofgem and the Panel agree that the ESO is below expectations on value for money. The ESO's Role 1 costs are forecast to be 18% above the Role 1 benchmark. ESO has not presented sufficient detail or evidence to convince us that the additional costs represent the same level of value for money set out in the Business Plan (i.e., through the higher costs delivering additional consumer benefit).</p>	<p>Since mid-scheme Role 1 moved from a forecasted higher spend of 18% to an actual higher spend of 9%. We have also provided more detail and evidence on the rationalisation of the variances.</p>	<p>Evidence chapters: Value for Money</p>
2	<p><b>Reform of balancing and ancillary services:</b> While the ESO has continued to progress against its ambitious delivery plan, including delivery of Dynamic Moderation and Dynamic Regulation, Ofgem consider there have been issues with the delivery of these reforms. Ofgem still have concerns around auction design for these products, which appears to be leading to less efficient procurement costs. The Panel would like the ESO to ensure its Dynamic Containment market design is economic and efficient and develop a plan to improve market access as the participation cap is lifted.</p>	<p>Since the launch of the frequency response service our focus moves to further developing these services, upgrading the supporting IT infrastructure, increasing participation by removing barriers to entry and improving the user experience across the end-to-end process.</p> <p>Our Role 1 case study evidences the decline in volume of actions (and subsequent costs) as a result of our Frequency Strategy.</p> <p>In March 2023 we conducted a deep dive with Performance Panel and Ofgem to share our Market</p>	<p>Evidence chapters: Plan Delivery, Role 1 case study</p> <p>Executive summary: Focus Area 3</p>

		Reform Strategic Framework which included an overview of our approach to market design.	
2	<b>Reform of balancing and ancillary services – stakeholder feedback:</b> The Panel considered that there remains scope for the ESO to further improve the quality of its market design and ensure stakeholder feedback is taken on board, resulting in higher scores. The Panel would like to see the ESO focus on ensuring that market design is working efficiently, transparently and in close consultation with stakeholders to identify priorities, reduce costs and deliver the Net Zero electricity system. The Panel feel that market participants would benefit greatly if the ESO could provide a future workplan to indicate what market design and code reform could look like across extended timeframes.	Our Role 2 activities have enabled us to engage stakeholders proactively in key areas helping industry drive towards GB's net zero targets. These activities include Net Zero Market Reform, a suite of new frequency response products, the Markets Advisory Council, the markets forum, and the demand flexibility service. Our Markets Roadmap sets out our plans to reform and evolve our markets.	Evidence chapters: Stakeholder evidence
2	<b>Reform of balancing and ancillary services - benefits:</b> Ofgem noted that, as a result of delays and uncertainty in the development of new balancing services, the ESO looks likely to extend the life of legacy products which could further delay the delivery of benefits.	CBA A4 (Build the future balancing service and wholesale markets) now estimates gross benefits of £81.4m over the RIIO-2 period which is £24.6m lower than the original estimate of £106m.	Evidence chapters: CBAs
2	<b>EMR:</b> The legacy EMR portal continues to fall short of expectations of participants, with stakeholders expressing concerns about the portal being cumbersome and sometimes unusable. We consider EMR performance to be meeting expectations. This is based largely on the ESO being on track to deliver improved services to customers and implementing the new EMR Portal by April 2023. The ESO can move to exceeding expectations if the new Portal is delivered with strongly evidenced value for money, and if the ESO can provide a step change improvement in user experience and query management.	In our Electricity Market Reform activities, our planned delivery of a new IT portal within the BP1 period has been partially delayed into BP2 in order to ensure that the deployment and cutover of the new system itself does not detrimentally impact customers. We have engaged stakeholders through this replanning and in January 2023 conducted a deep dive with Performance Panel and Ofgem to share this.  Our performance against RRE 2C (EMR Decision Quality) evidences the enhanced customer experience in our EMR processes.	Evidence chapters: Plan delivery, Metric Performance and Value for Money
2	<b>Industry codes and charging:</b> One area of notable strong performance is the ESO's Net Zero Market Reform programme. We believe this is a positive example of the ESO stepping out of its past comfort zone and using its unique expertise to influence the wider wholesale market arrangements in order to promote consumers'	Our NZMR programme has continued on the same trajectory, and we are currently in Phase 4 of the project and assessing how investment policies could evolve to better complement a stronger role for the wholesale market, as recommended in our Phase 3 report.	Evidence chapters: Plan delivery

	interests. If the ESO can further progress this work, continuing its current trajectory, then this is an area that would exceed our expectations.		
2	<b>Industry codes and charging:</b> In addition to shaping the long-term direction for energy markets, we also encourage the ESO to consider shorter to medium-term changes to existing codes that can promote better market outcomes and help deliver an efficient transition to Net Zero.	We continue to make code changes that promote better market outcomes including GC0137 (Minimum Specification Required for Provision of GB Grid Forming) and GC0141 (Compliance Processes and Modelling amendments following 9th August Power Disruption).	Evidence chapters: Plan delivery
2/3	<b>Pathfinders:</b> The pathfinders are an area where Ofgem expect the ESO to deliver significant additional value for consumers, therefore delivering those benefits on time and in full will be key. Ofgem have seen the ESO improve coordination and processes across the range of pathfinder activities, and they hope this continues, allowing increased competition and innovation to deliver continued benefits in terms of carbon reduction and cost savings.	We have continued to deliver on our Pathfinder project and through BP1 we've run five, opening up new ways for the industry to help us meet system needs. This work will deliver savings over £15bn from 2025 to 2035.	Evidence chapters: Plan delivery
3	<b>Regional Development Plans and 5 point plan:</b> Ofgem noted at the six-month stage that they would like to see more tangible examples of specific actions on Regional Development Plans (RDPs). Ofgem feel the ESO needs to do a greater job of explaining the benefits of this work along with other areas of their 5 Point Plan for Constraints, especially in the context of increasing balancing costs. This is an area where there is clear consumer benefit available, and Ofgem would like to see the ESO really pushing forward to deliver on these items.	In this report we provide detail on both Regional Development Plans and the 5 Point Plan.  We've also provided a consumer benefit case study specifically for "Enhanced Services with TOs".	Evidence chapters: Plan delivery and case studies
3	<b>Connections:</b> Ofgem share the Panel's view that the ESO could show more leadership and coordination on the connections process, as failure to do this could lead to developer uncertainty and increased costs for achieving Net Zero. Whilst Ofgem recognise the challenges associated with increasing volumes of connections, the ESO needs to ensure it is set up internally to manage this increase. This includes making sure its processes can support the delivery of connection offers on time and to a good standard. Whilst Ofgem also recognise the ESO is reliant on other network operators to	To respond to the unprecedented increase in licenced connection applications (an average increase of 72% per year over BP2 versus a forecast of 8% per year) we have accelerated our connections reform work. We have also grown and restructured our teams, introduced several connections process improvements through the Connections Five Point Plan including Transmission Entry Capacity (TEC) amnesty, two-step offer process, non-firm offers, treatment of storage, and compliance process improvements.	Evidence chapters: Plan delivery, stakeholder evidence and CBAs

	<p>meet stakeholder needs, they believe the ESO could have demonstrated more strategic leadership and worked with the network owners to address existing issues before serious issues materialised. This includes suggesting and progressing necessary changes in the industry code arrangements and thinking more proactively about the interactions with other network planning deliverables (such the OTNR).</p>	<p>We began initiating this plan from 1 March 2023</p>	
	<p><b>Network planning:</b> Ofgem note that the ESO has also increased its contribution to wider network planning projects such as the OTNR and ETNPR, which should help support the delivery of additional benefits on top of the original RIIO-2 business plan.</p>	<p>We have continued to contribute to wider network planning including our Holistic Network Design as well as other aspects.</p>	<p>Evidence chapters: Plan delivery, CBAs, and case studies</p>