

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

Meeting 1 - 25th July 2018

National Grid System Operator Offices, Wokingham

Minutes and Action Log

Attendees

Stuart Cotten	Group Head of Regulation and Compliance, Drax
Toby Ferenczi	Director of Strategy, Ovo
Seamus Gallagher	Electricity System Operator - Observer
Stew Horne	Principal Policy Manager, Citizens Advice
Rupika Madhura	Senior Advisor, Ofgem – Observer
Catherine Mitchell	Professor of Energy Policy, University of Exeter
Charlotte Morgan	Chairperson
Nick Molho	Executive Director, Aldersgate Group
Kayte O’Neill	Future Head of SO Strategy and Regulation, National Grid – Company rep.
Eddie Proffitt	Technical Director of the Major Energy Users Council (MUEC)
Ro Quinn	Head of SO Strategy & Regulation, National Grid – Company rep.
Charlotte Ramsay	Future of SO Programme Director, National Grid - Presenter
Louise van Rensburg	Interim Deputy Director, Ofgem – Observer
Simon Roberts	Chief Executive, Centre for Sustainable Energy
Fintan Slye	Director of UK System Operator, National Grid – Company rep.
Jamie Stewart	Energy Policy Officer, Citizens Advice Scotland
Barbara Vest	Special Advisor, Energy UK
Adelle Wainwright	Technical Secretary

1. Welcome (Fintan Slye, Director of the UK System Operator)

Fintan welcomed Panel members to the inaugural ERSG. He explained the importance of the group in providing challenge to the ESO during the development of its RIIO-2 business plan. This is the first stand-alone business plan that the ESO will deliver following legal separation, and one that is set against a backdrop of increasingly fast paced change in the energy market. It is vital that the submission delivers the right solution for customers and GB end consumers. The ERSG will shape this by helping the ESO to understand key drivers for value and how they can best set up to deliver it.

2. Introducing the Chairperson (Charlotte Morgan)

The Chair welcomed ERSG members and thanked the ESO for their preparation in bringing the group together. She gave an overview of the wealth of experience she had acquired across a range of areas within the energy market.

The Chair reiterated the importance of the group’s role in providing independent and robust challenge to the ESO’s business plans, particularly in bringing in voices of consumers, customers and network users to the fore.

Finally, the Chair noted the engagement that she will continue having with the Chairs of other RIIO-2 Stakeholder Groups at Ofgem-facilitated best practice sharing sessions.

3. Member introductions

Each member introduced themselves both in terms of their current role and their background. It was noted that members were there in their capacity as individuals rather than representing any particular organisation or industry sector on the group.

Members also gave their views on their hopes for the group. These included:

- Facilitating fair and equitable change across social groups and GB regions
- Driving efficiency in costs
- Supporting the ESO in adapting to a changing environment
- Holding the ESO to account to enable the right answer for the GB end consumer
- Empowering the ESO to think long term to enable the transition to a smart, flexible, energy system
- Helping the SO play their part in the achieving the “decarbonisation prize”.
- Ensuring the ESO is able to attract investment to deliver benefits in both this and future price controls.
- Creating a business model that allows the ESO a role in thought leadership.

Conflicts and perceptions of conflicts of interest were discussed.

With regards to the Chair, it was confirmed that she would be working in a personal capacity as an outside interest not as a Linklaters partner. The Chair confirmed that she had not worked previously for the SO but only for National Grid Ventures, part of the unregulated business. It was not anticipated that any conflicts with regards to her work for National Grid Ventures should arise. However, if such an occasion were to arise and there was any perceived conflict in any part of the discussion an alternate Chair would take over. It was agreed that a process for determining an alternate Chair would be decided after the meeting.

Action: Chair to contact ERSG members regarding alternate Chair arrangements.

4. Legal separation (Charlotte Ramsay, Future of SO Programme Director)

The presenter highlighted the importance of ensuring the right regulatory model is in place. Whilst the ESO is a financially small component within the wider National Grid group, it processes money flows 20 times the value of its asset base, and is an increasingly visible and high-profile part of the organisation.

The presenter explained the regulatory journey from 2012 to 2018 in moving from prescriptive to principle based regulatory models. This covered three broad areas.

RIIO-1 performance. National Grid have performed well on balance in terms of how we were incentivised. However, the pace and scale of change means that these regulatory boundaries are unlikely to be fit-for-purpose for the ESO as it moves into the future.

Legal separation. National Grid see that the legal separation model is the best way to realise consumer value. It gives the ESO a neutral platform which can demonstrate transparency in decision making.

Incentive framework. The ESO's previous incentive scheme (Balancing Services Incentive Scheme – BSIS) was perceived as not driving right behaviours due to being a mechanistic tool on one component part. Our new principle based scheme is an evaluative model which is already driving different behaviours in the business.

One ERSG member stated their previous preference for a fully separate SO. There was some discussion around how much effort has been made delivering Legal Separation and that this model should be given an opportunity to deliver.

Members were keen to see evidence on how the ESO was performing against the specific deliverables outlined in the Forward Plan to ensure targets were met. It was confirmed that the current incentive structure was based on RIIO-1 arrangements, and it was highlighted that the Performance Panel would how the principles based structure was working.

5. Introduction to RIIO-2 (Ofgem)

Ofgem presented on the transition to RIIO-2 and the importance of responding to changes in the market and driving innovation. As the ESO is a new type of organisation and an asset light company it will require a tailored price control that may be different to previous TO models. Ofgem are holding a workshop on August 6th as the next step in their RIIO-2 engagement which all are welcome to attend.

Ofgem stated the importance of the ERSG in providing expert challenge and helping the ESO to check assumptions, look at scenarios, and how innovation can be brought into the core of the business. Ofgem will be meeting Chairs of different RIIO-2 stakeholder groups. Whilst they are happy to be contacted by individuals in the group to provide guidance, they are not planning to attend as they wish the groups to be independent of Ofgem and the companies.

Ofgem were asked to clarify their position on the RIIO-2 Challenge Groups and Open Hearings. Regarding the former, the Challenge Group is likely to run across all areas of RIIO-2. A position on Open Hearings is due to be published on July 30th. The TORs and on-day slides have been updated to reflect this clarification.

ERSG members questioned Ofgem on how they would address interests within Challenge Groups as there may be representatives with an interest in saying the ESO is not independent. Ofgem plan to offset any issues in this area through transparency which they believe will bring legitimacy of decision making.

6. Enhanced engagement models (Ro Quinn)

Throughout the RIIO-2 process the ESO want to gain rich stakeholder feedback. This will be done through “thinking in public” topic by topic. The report from the ERSG will form part of the ESO's demonstrable stakeholder engagement. However, this is not a one-off

programme and the ESO recognises that stakeholder engagement is a vital part of ensuring that the ESO continues to be responsive, agile, and realising customer benefits.

The Company rep. talked through the meeting plan for the ERSG with an aim to submit the ESO business plan in Q4 2019. By this point the group should have had the opportunity to review the proposed ESO business plan at least twice.

7. Terms of Reference and ways of working (Charlotte Morgan)

It was agreed that the Terms of Reference would be updated as follows:

Section	Change
Purpose	Include adequacy of resourcing
Roles and responsibilities	Add in the role of “critical friend” to Observers
Chair	Add responsibility to coordinate with other Chairs in the RIIO-2 Stakeholder Group programme Chair to be able to recruit new members if found a stakeholder group is not represented
Role of Stakeholder Group members	Expected to input into the final report
Outputs	Confidential information should be clearly marked

The group discussed changes to the Non-Disclosure Agreements. New versions would be prepared for the group for signing. It was confirmed that if there was any uncertainty about what could be disclosed from discussions these should be discussed with the Chair in the first instance.

Action: Technical Secretary to circulate updated Non-Disclosure Agreements to members.

The ERSG deferred discussion on quoracy and conflicts of interest to the closed session at the end of the meeting.

8. Laying the foundations of our plan (Ro Quinn)

The Company rep. explained that in order to create an ambitious, meaningful and robust plan for the ESO which would serve the needs of the industry and consumers, there is a need to have as clear as possible understanding of the Future Energy Landscape. The ESO looked at whether to use Future Energy Scenarios (FES) or Scenarios developed by another Industry party.

Initial conclusions were that FES 2018 provided the right starting point particularly due to level of stakeholder engagement. However, as FES has a number of scenarios this raised the question around whether a best or multiple views should be formed. The ESO proposed looking at commonalities then doing further analysis on areas of change and uncertainty which would have a bigger impact. This analysis would be taken to future workshops and webinars to be tested and for feedback to be sought.

Some ESG members felt that whatever scenario was used, it was important that there was sufficient flexibility in the models used for the ESO to be able to grow with the pace of change.

Another ESG member questioned whether all four FES scenarios should feed into the baseline or just those that met the government's carbon emissions. However, another member challenged that this may be costly for the consumer. It was suggested that the scenarios could be differently weighted so that scenarios which met targets were given higher priority, possibly with the non-compliant scenarios as the counterfactual.

The Company rep. presented the list of current areas of uncertainty which the group discussed. ESG feedback indicated it would be good to add in to the list options for decarbonisation of heat, Storage and Demand Side Response.

Decision: ESG broadly agreed with the ESO's recommendations and next steps, however asked for more information.

Action: ESO to provide information on the following for the next meeting:

- **Description the commonalities across the scenarios**
- **Description of the underlying analysis undertaken to this point and how it will be developed**
- **Description of key dependencies (with a focus on those areas that the ESO is able to influence)**
- **Updated list of areas of change and uncertainty**

9. From vision to outputs (Ro Quinn).

The Company rep. presented the current roles and principles, which have been defined as part of the ESO's Forward Plan. These will be built upon as part of the journey into RIIO-2 to ensure consistency in conversation. However, the ESO wanted to understand how fit consumer priorities, stakeholder priorities, principles and roles together to produce outputs.

Overall the ESG agreed with the proposed ordering of the priorities with a strong consumer focus, and how the company was planning to progress this issue. It was suggested that "we" might be more appropriate than "I" when discussing consumer priorities, as well as using energy when we "need" rather than when we "want". The ESG also asked for further clarification on the definition of consumers, noting that this may not just be end users, and stakeholders. There was discussion around the importance of the ESO's role in providing thought leadership around the trade-offs between the priorities of these groups.

Ofgem confirmed that the roles and principles would also be considered at their 6th August workshop.

Decision: Noting that the points above should be considered, the ESG agreed with the proposed approach and next steps.

10. Developing our work plan (Ro Quinn)

The Company rep. presented the proposed work plan for the ERSG and how different principles would be discussed at each session. A new potential principle (principle 0) was noted to capture baseline activities.

The Company rep. explained that the ESO would be using a number of different routes for engagement on issues such as webinars, workshops, bilateral meetings, and sharing documentation to refine thinking before being shared with ERSG.

Decision: The ERSG were supportive overall of the plan. However, some concern was expressed around principle 7 not being discussed until later in the programme, which the ESO agreed to review.

Action: ESO to review where principle 7 is discussed on ERSG Agenda plan.

There was some concern about the volume of topics on future agenda items and that full day meetings should be considered.

Action: Chair/Technical Secretary to review the need for full day meetings in future.

11. Regulatory mechanisms (Ro Quinn)

The ESO will have its own regulatory structure, and due to its unique role in industry a new model is likely required. Five potential funding models have been explored with stakeholders and of these “Performance” and “Layered” were favoured.

The ESO are now thinking about the core characteristics of these models in more detail and will publish a thought piece in the Autumn on how appropriate characteristics could be reflected in the ESO’s framework. Members will be asked to input into this thought piece ahead of its publication.

ERSG members were interested in what these models might mean for the financeability of the organisation, particularly due to its large cashflows in relation to a small asset base. The ERSG also noted that it would be hard to calibrate a completely performance based structure without understanding the baseline and the potential for risk of unintended consequences. Feedback from ERSG members in the room and in written correspondence prior to the meeting indicated that a layered model may be appropriate to start but with a view to move to performance in the longer term once baseline expectations are established. It was suggested by one member that a mix of models may be appropriate as in some parts of the US.

The Chair summarised the discussions of the ERSG as being around the need for a robustness for change in whatever model was selected, as no one is sure what the future energy market will look like. It may change again before, or even during the next price control period.

Some ERSG members challenged Ofgem to ensure that they provided sufficient guidance to the ERSG to enable them to help the ESO. As this is an innovative piece of work to shape an organisation's future their view was that industry the ESO and the regulator need to work together to move forward.

Decision: Noting that the points above should be considered the ERSG agreed with the proposed approach overall.

Action: ESO to consider how to further engage with the group in advance of publishing the thought piece on regulatory mechanisms.

12. Feedback on form and content of sessions (Charlotte Morgan)

The Chair thanked the ESO team for their work in preparing the session and asked for feedback on this first session:

Positives: Pre-read material was of high quality and accessible, format of papers worked well.

Could be improved: Meeting length (1 day rather than half), more time to digest pre-reading, key questions could be more clearly identified ahead of the meeting.

The importance of sharing information across the group was noted. It was agreed that the Technical Secretary would provide a conduit for circulating relevant information.

13. Closed session

The Chair ran a brief closed session for ERSG without ESO representation.

Action Log

Action Ref	Date Raised	Topic	Action/Query/Recommendation	Owner	Status (open/closed)	Comments	Date closed
ERSG1.1	25/7/18	Member introductions	Contact ERSG members regarding alternate Chair arrangements.	Chair	Open		
ERSG1.2	25/7/18	Terms of Reference and ways of working	Circulate updated Non-Disclosure Agreements to members.	Technical Secretary	Closed	Circulated with draft minutes of meeting	3/8/18
ERSG1.3	25/7/18	Laying the foundation of our plan	Provide information on the following for the next meeting: <ul style="list-style-type: none"> • Description the commonalities across the scenarios • Description of the underlying analysis undertaken to this point and how it will be developed • Description of key dependencies (with a focus on those areas that the ESO is able to influence) • Updated list of areas of change and uncertainty 	ESO Company Reps.	Open		
ERSG 1.4	25/7/18	Developing our work plan	Review at what point principle 7 is discussed on ERSG Agenda plan.	ESO Company Reps.	Open		
ERSG 1.5	25/7/15	Regulatory mechanisms	Consider how to further engage with the group in advance of publishing the thought piece on regulatory mechanisms.	ESO Company Reps.	Open		