

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

Meeting 6 – 31st July 2019

Amba hotel, Marble Arch, London

Minutes

Attendees

ERSG members

Toby Ferenczi	Ovo Energy
Sophie Hind	Technical Secretary
Jo-jo Hubbard	Electron
Andy Manning	Centrica
Catherine Mitchell	Exeter University
Nick Molho	Aldersgate Group
Charlotte Morgan	Chairperson
Kayte O'Neill	ESO – Company rep
Eddie Proffitt	Major Energy Users Council (MUEC)
Simon Roberts	Centre for Sustainable Energy
Nina Skorupska	Renewable Energy Association
Nigel Turvey	Western Power Distribution
Chris Veal	Transmission Investment
Barbara Vest	Energy UK
Matthew Wright	Orsted

ESO Support

Louise Clark	ESO- Presenter
Alice Etheridge	ESO- Presenter

1. Conflicts of Interest (all)

The Chair invited feedback on whether members had identified potential Conflicts of Interest relating to the proposed agenda. No new conflicts of interest were declared.

2. Introduction, Minutes and Actions (Sophie Hind)

Open actions were reviewed and updates were given.

3. Regulatory Framework– Louise Clark

A paper summarising the ESOs proposed regulatory framework for RIIO-2 was shared with ERSG ahead of the meeting. The presenter explained that in recent meeting with Ofgem they have indicated that they are no longer considering the 100% fast money model and are focussing on the RAV*WACC model. They are still open to considering the case for margins.

The group asked if there has been adequate time allowed in the timelines to update the Business Plan for final submission in December based on Ofgem's final decision. The ESO confirmed they are doing everything that they can to hit the December deadline, but if there are any unexpected decisions taken by Ofgem then it's possible that timelines would need to be re-planned. The ESO also confirmed that they would not publish a plan which is not financeable.

The ESO have performed some analysis on the RAV*WACC model proposed by Ofgem and found that it isn't financeable. Ofgem will be performing their own analysis in this respect. There was concern from the group that Ofgem will not make the right decision with respect to the final funding model for the ESO. The impact of the nationalisation debate on Ofgem's decisions was discussed.

The group asked the ESO to confirm the financing plan for the ESO. Is the money expected to come from external sources of debt, loans from the group etc? The Business Plan is silent on this.

The ESO to confirm the financing plan for the business

Concerns were raised on the decision to approve business plans in 2 year cycles. The industry can't transform during this time, and it will require the ESO to start projects and make investments at risk.

The content of the performance report was discussed. Members of ERSG were surprised at the wide-ranging views included within it. No framework has been created meaning that the performance panel have all brought their own assumptions, and there is no benchmark. The report had not been moderated into a single consolidated answer.

4. Ofgem RIIO-2 Challenge Group feedback – Kayte O’Neil

Challenge Group meeting took place 30th July 2019, where the latest version of the Business Plan was discussed. ESO gave a 10 min presentation and took questions. The outcome of the group will be a written report which will be publicly available.

The presenter felt that the Challenge Group had read and understood the plan. They didn't agree with everything but could see what the ESO want to achieve and gave helpful advice on how to provide better justification.

During the meeting the main areas of focus were:

- Planning assumptions
- ESO Vs DSO relationship
- Assumption about the role of NOA. Will assumptions be consistent throughout the TO plans as well?
- Challenge on cost profile from T1 into T2

The ESO recognised that they have not classified BAU and new costs well, and in the October version of the plan they will be articulating three categories of costs:

1. Things done today where there will be efficiencies
2. Things done today which are getting more complex or costly
3. New transformational activities.

The group were supportive of seeing the next level of granularity.

There were further questions from the challenge group around the shared services model, on cost level and organisational structure.

Some of the Challenge Group were unsure on the value and necessity of the digital twin model, and that costs were high compared to what they could be.

The ERSG chair summarised that the Challenge Group were broadly supportive of the direction of travel of the business plan, which is aligned with the feelings of the ERSG.

5. Business Plan Q and A – All

- At a previous meeting a consultation for the CATO model was discussed. Is there any update on this?
 - o ESO are planning a meeting in September for relevant stakeholders to discuss the CATO regime. We are currently scoping out what Ofgem want us to do and how far they want us to go in the timeframe that they have set out. Not currently clear whether they want a “plan for a plan” or a full detailed plan. ESO have asked Ofgem to write an open letter clarifying this. ESO should have some more answers on this by December. The ESO will seek advice from Chris Veal on who should be invited to the September meeting.
- What assumptions have you made on the performance levels of FTEs as you are going through the change process? What are current staff engagement levels in terms of their sentiment towards the transition? What will the impact of change be on the performance of your FTEs?
 - o The efficiency programme run throughout National grid last years had an impact on the engagement and enablement scores of employees. Culture and capability will be a big focus area in the next version of the Business Plan.
- On BAU costs vs transformational costs, it should not be the case that there are no benefits associated with BAU activities. It is important that these activities are not treated as a fixed thing with no potential benefits.
 - o ESO are working on this point for the next version of the business plan. Trying to show that in some areas BAU costs will go down as transformational costs go up.
- The plan says that ESO have used status quo as simplified approach and will do a deeper dive based on the Ofgem outcome. Will this address broad brush assumptions around benefits? Ofgem may be more open to investments provided that they are comfortable that

benefits will follow. At the moment they are too vague and not convincing. Will there be a more granular CBA?

- ESO had similar feedback from the Challenge group on this point and are trying to address it. It is hard to quantify where value is being created through unlocking processes and allowing more flexibility. It is proving to be a real challenge.
- Is there a way to present the figures in a way that demonstrates confidence level of benefits being realised, and also where there are dependencies elsewhere in order for the value to be unlocked?
 - To be considered by the ESO
- It is unclear what kind of organisation ESO are aiming to build longer term. Will you be a procurement organisation or a software company? Where will it be in 10 years, will it predominantly be a software company? There is an opportunity to become a world class infrastructure and software business
 - The ESO are currently more of a procurement business. Today we would describe ourselves as an engineering company with commercial expertise. This question will somewhat be covered in the culture and capability piece that is being prepared for the next version of the plan. The challenge that ESO took from the group was whether they are being too narrow minded about what the company is today. In the next plan ESO hope to show that they are thinking differently about what the company needs to be.

6. ERSG REPORT PREPARATION.

The remainder of the meeting was a closed session for the ERSG to plan the report.