

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

Meeting 2 - 14th November 2018

Amba hotel, Charing Cross, London

Minutes

Attendees

ERSG members

Angelita Bradney	ESO – Company rep
Peter Emery	Electricity North West
Alan Kelly	Scottish Power Transmission
Andy Manning	Centrica
Catherine Mitchell	University of Exeter
Charlotte Morgan	Chairperson
Nick Molho	Aldersgate Group
Kayte O’Neill	ESO – Company rep
Eddie Proffitt	Major Energy Users Council (MUEC)
Simon Roberts	Centre for Sustainable Energy
Nina Skorupska	Renewable Energy Association
Fintan Slye	ESO - Company rep
Jamie Stewart	Citizens Advice Scotland
Nigel Turvey	Western Power Distribution
Chris Veal	Transmission Investment
Adelle Wainwright	Technical Secretary
Matthew Wright	Orsted

ESO Support

Kashia Anderson	ESO - Observer
Katharine Clench	ESO - Observer
Alice Etheridge	ESO - Observer
Seamus Gallagher	ESO - Observer
Mark Herring	ESO –part meeting
Cathy McClay	ESO –part meeting
Andy Wainwright	ESO –part meeting

1. Conflicts of Interest (all)

The Chair invited feedback on whether members had identified potential Conflicts of Interest relating to the proposed agenda. A number of members, particularly network company representatives noted business interests in relation to the afternoon’s agenda discussions. This was noted and the group agreed that as this was an anticipated conflict arising from the party’s substantive roles which the group were all aware of, these could be borne in mind as discussions progressed.

2. SO Mission and Customer & Stakeholder priorities (Kayte O'Neill)

The presenter introduced the new SO mission which is shared across Gas and Electricity to capture whole system benefits. This has been informed by stakeholder engagement and was launched at the 28th September SO ambition workshop.

The presenter also shared the ESO Customer and Stakeholder Priorities which had been updated following discussions at previous ERSG meetings. The ERSG reacted positively to the update and felt that these were an improvement. However, there was some discussion around whether an additional stakeholder priority should be added around being flexible and adaptive, driving innovation and through that improving competition.

Action: ESO to draft an additional stakeholder priority to include flexibility, innovation and competition.

3. Using scenarios (Kayte O'Neill, Angelita Bradney)

The presenter explained the importance of having scenarios to understand what the future energy landscape might look like, against which the ESO would test the robustness of the Business Plan (2021-2026). At ERSG1 the group had agreed that the FES scenarios appeared to be the most robust to use but had requested the ESO provide further information on areas of uncertainty. The key areas of uncertainty were identified in a commonality scorecard developed and an eight-step approach to develop options and manage uncertainty.

The group discussed that Ofgem was considering the use of a single scenario across all RII0-2 business plans, and how these pieces of work may interact. This is being considered by the challenge group. An ESO representative clarified that if Ofgem do look to use a single baseline view of the future, the ESO's work could still be used to test where potential reopener situations may occur.

An ERSG member asked for clarification regarding the anticipated regulatory duration for the ESO price control. It was fed back that was still considering this and would set out its thinking in the sector strategy consultation in December. From an ESO perspective, it was felt that a price control should be long enough to enable stability of resourcing and appropriate IT investment to take place, and that if a shorter price control was set (for example 1-2 years) that there should be some way to enable commitments to be taken forward across price controls.

The group fed back views on the scenarios posed, and some members felt that the ESO was being more passive than directive in terms of picking preferences. Some members suggested that for example the ESO should favour scenarios that met decarbonisation targets. Some members also pointed to the 1.5 degrees targets currently being considered and asked whether the ESO should consider scenarios that would meet that target.

The use of scenarios was also discussed in terms of regional differences and whether it was appropriate to feed this in. The DNO representatives from the group described some of the work that was being done to develop regional FES-like scenarios using similar methodologies

which in the longer term could enhance the ESO’s work in this space. The ESO representative confirmed that at this stage the ESO has taken a national view as it operates across the whole GB synchronous area.

Some ERSG members also sought clarification around whether the ESO was positioning itself as a top-down (command and control, national markets) or bottom-up (leave to markets, regional focus) organisation in terms of how it interacts with wider industry, and how this might affect consumer costs. The ESO representative explained that the key difference between these models was complexity and in some cases it made sense for consumers to have national, centralised markets, and other more regional versions driven by system needs.

Action: ESO to report back to group

- **Outcome of challenge group discussions around use of scenarios**
- **Any future views on how we work with DSOs around regional scenarios.**
- **Interplay between managing longer term-costs and length of price control**
- **Potential impact of 1.5 degrees target on scenarios and ESO plans**
- **Views on ESO role as top down vs. bottom up.**

4. ESO ambition and strategy workshop (Kayte O’Neill, Mark Herring)

The purpose of this workshop session was to test the key enablers underlying the seven principles.

Principle	Enablers	Discussion points
Principle 1: Support market participants to make informed decisions by providing user friendly comprehensive and accurate information	<p>A1 - A market place for energy data that enables innovation and unlocks value for consumers</p> <p>A2 - Operational system analysis and insights that are shared across industry to support efficient markets</p> <p>A3 - A national register for energy assets that reduces complexity and lowers barriers to entry for all markets</p> <p>A4 - A whole-energy industry strategy and pathway for innovation</p>	<ul style="list-style-type: none"> - Need to consider public interest and value in data collection and analysis - Data – who should own this and to what extent should it be centralised and made publicly available. - Risks identified around usability if it is not presented in disaggregated format. - Data directories viewed as more robust than single source. - Data hub run by Energinet in Denmark viewed as good example. - If a register of assets is created could this be used to form bases for investment decisions across network companies? Should this include behind the meter rather than just transmission? - Could registers be used to understand where flexibility capabilities exist on the system?
Principle 2: Drive overall efficiency and transparency in balancing services, taking into account impacts of ESO	<p>B1 - Optimal allocation of balancing and operability actions on the system</p> <p>B2 - Reimagining tools for the 21st Century Electricity Control Room for a low carbon, decentralised and digital world</p>	<ul style="list-style-type: none"> - Query if we are coming out and saying which of the “3-Ds” are the most important in our view? - Need to consider adding reference to genuine innovation and consider whether the ESO should become a ‘digital’ company

Principle	Enablers	Discussion points
actions across time horizons	<i>B3 - Transparency in balancing and operability processes and decisions</i>	<ul style="list-style-type: none"> - One member suggested more could be learnt from companies outside the energy industry that used automation platforms (e.g. Uber). - Some discussion around how transparency is delivered where it is unclear around local vs. national markets however recognising there is uncertainty in this space whilst Open Networks work continues.
<p>Principle 3: Ensure the rules and processes for procuring balancing services maximises competition where possible and are simple, fair and transparent.</p> <p>Principle 4: Promote competition in the wholesale and capacity markets.</p>	<p><i>C1 - short-term, liquid balancing services markets which deliver investor confidence and work with the wider set of markets.</i></p> <p><i>C2 - An agile governance model which serves large numbers of market participants, and supports a fast pace of change whilst maintaining investor confidence</i></p> <p><i>C3 - An infrastructure that supports parties to make efficient decisions across a range of markets.</i></p>	<ul style="list-style-type: none"> - Some members raised concerns around the transition to short term markets in terms of technology changes and investor confidence. - View raised that as most code changes are incremental there is a perception that there is little strategic sense of direction. - ESO's role in market design questioned and suggested there could be an additional enabler C4 around enabling more active engagement in markets.
<p>Principle 5: Coordinate across system boundaries to deliver efficient network planning and development</p> <p>Principle 6: Coordinate effectively to ensure efficient whole system operation and optimal use of resource</p> <p>Principle 7: Facilitate timely, efficient and competitive network investments</p>	<p><i>D1 - Aligned commercial, technical and regulatory arrangements across transmission and distribution</i></p> <p><i>D2 - Provision of information and tools to enable efficient whole system decisions across operational and investment timescales</i></p> <p><i>D3 - Driving competition so that all parties can offer solutions and participate.</i></p>	<ul style="list-style-type: none"> - The ESO rep confirmed that the intention was not to advantage or disadvantage parties based on where they connected to the network. Some ERSG members felt that more clarity could be given around to what extent network charging reflects system physics and long term investment vs. short term constraint costs. - Role of competition - work done so far under RIIIO-1 discussed. Some members felt that where appropriate the ESO should extend competition as far as possible into the network. - A group member suggested rewording "driving competition" to phrases like "in order to ensure competitive markets" or "in order to enhance competition".

Following specific discussions on the enablers there was a broader discussion around how the Principles might develop further as the ESO's role becomes more defined. The ESO's role in articulating, informing and implementing policy outcomes was discussed and it was suggested that this could be brought out more. The question around how these align with the vision of the SO across gas and electricity was raised and the ESO agreed to provide more clarity on this when discussing principles in future.

Actions: ESO to

- **Follow up with Greg Jackson as to how the ESO could learn from other companies that use automated platforms. Articulate three models of data management (slider on controlling/not, what regulatory framework might be, segment customers, range of information, etc.)**
- **Consider how innovation and digitisation captured in Principle 2 ambition**
- **Consider drafting an addition enabler C4 (Principles 3&4) around market design**
- **Reword enabler D3 (Principles 5,6 &7) to replace “driving competition” with phrases like "in order to ensure competitive markets" or "in order to enhance competition".**
- **Consider how the link with gas articulated fully when discussing principles**

5. Whole electricity system (Kayte O’Neill, Andy Wainwright)

The ESO presented a paper identifying six key topics around driving efficient whole system outcomes. A set of sliders on where the ESO’s thinking was were produced and the group debated these. These were:

1) Market and information provision

Discussion in this area focused around how data should be provided and how it could be used. The predominant view was that although data granularity was important, some analysis may also be useful for the market so the ESO may want to consider a move towards B on the slider.

2) Governance – framework accessibility and alignment

It was felt that the ESO’s positioning in this area was about right. ERSG members expressed views about the importance of working with other code administrators and DSOs. One member felt that open code governance should be replaced with direct ESO changes as directed by government policy.

3) Technology – facilitating new routes to market

It was felt that the ESO’s positioning in this area was about right and that the ESO are well placed to set out views on what platforms for facilitating routes to markets could be. However, a member expressed a view that the ESO is not currently doing this now and questioned whether the capability existed within the ESO. The ESO agreed to come back to the group on examples of the types of platforms it was considering would fall into this space.

4) Options development – clarifying responsibilities across the T-D interface

ERSG were split about the positions in this space and recognised that there was a broader debate taking place around the T-D interface including ongoing work with Open Networks. There was debate around local vs. national markets, and the role for regional congestion markets managed by DSOs.

ERSG members fed back on the importance of making it clear to stakeholders how these markets interacted and opportunities to participate.

- 5) *In a highly distributed world, what is the ESO's role in system event preparedness and response?*

ERSG agreed that the ESO's positioning more to A (working with DSOs) would help manage security of supply better.

- 6) *To what extent should the ESO tailor its approaches to regional differences in innovation and framework development?*

The group were broadly aligned in a view that there is some value in consistency and common approaches but recognising that regional differences may need to be recognised in some cases.

Action: ESO to provide information on the types of platforms that would be covered under topic 3 (Whole system – technology – facilitating new routes to market).

6. Network planning (Kayte O'Neill, Alice Etheridge)

The NOA process has driven considerable consumer value in RIIO-1 and a number of developments to drive further value have been set out in the Network Development Roadmap. Further work is taking place as to how this could drive more value in RIIO-2. The following options were presented to the group:

- 1) *Expand the NOA to include a wider range of transmission network needs*

It was felt that the NOA giving visibility to reinforcements that might be needed was useful but it was questioned whether it would be suitable to fit alongside the connection offers process. NOA providing views on alternatives to end of life asset replacement was also seen to be positive.

- 2) *Expand the NOA to assess more voltage levels*

There was some surprise that this had been discounted as an option by the ESO, particularly due to the fact that the ESO were independent in this space. There was broad agreement that more engagement should take place with stakeholders to consider this option.

- 3) *Fundamentally review the SQSS*

ERSG felt that the ESO's position that a fundamental review was likely to be required was sensible given that it has been updated an improved on an incremental basis over the year.

- 4) *Define the role of the ESO in facilitating competition in the build of onshore transmission networks.*

There were some strong views expressed that this was an area which the ESO should pursue vigorously.

Action: ESO to undertake further engagement on expanding the NOA to assess more voltage levels

7. Codes (Kayte O'Neill)

Simon Roberts was appointed Alternate Chair following a vote for this item onwards as Charlotte Morgan had to leave the meeting.

Four options had been considered by the ESO in this space. The ESO representative shared that the ESO were moving in the direction of option 2 and sought feedback from ERSG on this.

1) *Continue as Code Administrator for the codes we administer today*

2) *Step up to a new role as Code Manager for the codes we administer today*

There was a broad conversation around this topic, and in particular what the group felt the role of Code Manager should entail, with some participants feeling it was unclear how Code Manager was different to Code Administrator

3) *Step away from our current Code Administration role*

This was not seen to be a credible option given the ESO's role in delivering a number of the codes.

4) *Grow our Code Administration role, actively seeking codes to manage*

Some members felt this to be a risky prospect, given sensitivities that there are a number of existing Code Administrators.

A number of members expressed views that current code governance arrangements were not fit for purpose as changes to codes were becoming lengthy and sometimes changes were blocked by industry participants. However, there were different views on how these issues could be addressed, ranging from Ofgem taking a stronger position in directing modifications that should be taken forwards to having a designated code body (which may or may not be the ESO) to make changes directed by policy.

Some ERSG members felt there was some mileage and potential efficiency to be gained in bringing some of the network codes and associated work together.

Funding of the Code Administration function was also discussed, and whether this should be pulled out as a separate layer in the regulatory settlement. Some felt that this would be useful for benchmarking purposes, but others warned that even if costs differed it may be more efficient for the current Code Administration function to sit within the ESO due to their central role. Others felt that a layer could be pulled out whilst transformative work is done then brought back into BAU once this is delivered.

There was broad agreement that changes were needed in this space, and the transition to Code Manager was welcomed, with some members feeding back that this was required now rather than in RIIO-2, particularly due to scores that could have been improved at the last Code Administrators survey.

8. Forward Look (Angelita Bradney)

The ESO representative presented a forward look up to the final submission, including ERSG meetings and business plan milestones. The group felt that there was a great deal of material to cover in the meetings and debated whether any of the meetings should be either lengthened or additional dates added. It was decided to add an additional February meeting.

A member who sat on another RIIO-2 group suggested there might be more focus on challenging the stakeholder engagement that had been undertaken, as this will need to be covered in the final report.

The group also suggested some ways in which the agenda could be improved to ensure that more material could be covered, and this was also picked up in the closed session. Suggestions raised in the open session included, ensuring key asks were highlighted in the paper along with stakeholder engagement and holding pre-meet webinars.

In terms of future content a member suggested that they would like more information on workforce capability, and another asked to see more information on ESO costs.

Actions: ESO to

- **Communicate future additional ERSG dates asap so that the group can add to diaries.**
- **Consider improvements suggested in terms of how the meeting is run.**

9. Closed session (Simon Roberts).

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