

Electricity System Operator RIIO-2 Stakeholder Group (ERSG)

BP2, meeting 6

Date: 11/05/2022	Location: IET Savoy Place, London and MS Teams
Start: 10:00	End: 16:00

Participants

Attendee	Attend/Regrets	Attendee	Attend/Regrets
Stuart Cotton, Drax	Attend	Peter Emery, ENWL	Attend
Ed Rees, Citizens Advice	Attend	James Dickson, Transmission Investment	Attend
Eddie Proffitt, MEUC	Attend	Marko Grizelj, Siemens Energy	Attend
Simon Roberts, CSE	Attend	Gregory Edwards, Centrica	Attend (virtual)
Elizabeth Allkins, OVO	Regrets	Patrick Hynes, National Grid	Regrets
Rachel Fletcher, Octopus	Attend (break from 11.30 - 12.00)	Nick Molho, Aldersgate Group	Attend (from 12.40)
Barry Hatton, UKPN	Attend	Aileen McLeod, SSEN	Attend
Robert Lowe, UCL	Attend (virtual)	Andy Manning, Chair	Attend
Nina Skorupska, REA	Attend (departed at 14.00)	Fintan Slye, ESO	Attend
Josh Jones, ESO	Attend (virtual)	Matthew Wright, ESO	Attend
Gareth Davies, ESO	Attend	Adelle Wainwright, ESO	Attend
Vicky Chiles, ESO	Attend		

Agenda

#	Time	Topics to be discussed	Lead
1.	10.00	Closed session	Andy Manning
2.	10.25	BP2 Q&A	Fintan Slye and Matthew Wright
3.	11.05	Minutes, actions and conflicts	Adelle Wainwright
4.	11.10	Role 1 - New and materially changed <i>Including data and analytics hub</i>	Craig Dyke (Acting Head of National Control)
5.	11.35	Role 2 - New and materially changed <i>Including role in Europe</i>	Kayte O'Neill (former Head of Markets/Director of FSO)
	12.15	Break	

6.	12.20	Role 3 - New and materially changed <i>Including facilitated distributed flexibility, offshore coordination, network planning review and early competition</i>	Julian Leslie (Head of Networks)
	13.00	Lunch	
7.	13.30	FSO	Kayte O'Neill (former Head of Markets/Director of FSO)
8.	14.00	IT	Phil Fitzmorris (Acting CIO) and Gary White (IT Architect)
	14.30	Break	
9.	14.40	Innovation	Carolina Tortora (Head of Innovation Strategy)
10.	14.55	Finance, costs and benefits of the plan	Rachel Mason and Jane West (Finance) and Alexi Reynolds (CBA)
11.	15.25	People and capability	Matthew Wright
12.	15.45	AOB	
13.	15.50	Closed session	Andy Manning

Discussion and details

Topics to be discussed

1. ERSG closed session

N/A notes and actions circulated separately to relevant parties

2. Conflicts of interest, minutes and actions

- ERSG 5 minutes were circulated and signed off on 15.04.22 with no notes for amends.
- The action log was reviewed, noting that many of the open actions are ongoing.
- No new conflicts of interest were identified.

Action: ERSG members to review edited minutes

3. BP2 Q&A

The item involved a high-level question and answer session, to discuss the ERSG's high level questions on specific areas of the ESO's draft BP2 submission.

- Q: Plan deliverability is a key area of feedback that the ERSG have provided to date. The plan is ambitious, with risks around deliverability, which also tie into the ERSG's concerns around prioritisation of deliverables. What is the ESO's plan for managing BP2 project risks, and how does this change as it moves to an FSO?

A: The representative acknowledged the need to provide greater clarity regarding the ESO's confidence in the deliverability of the plan, particularly in the context of FSO. They also recognised the need to articulate the process the ESO will go through if a factor puts a deliverable at risk.

ACTION: For the final BP2 Plan to set out for the major programme of change:

- i) Internal dependencies
- ii) External dependencies
- iii) RAG / commentary on risk of delivery

Update to be presented at the next ERSG on 29 June.

- Q: There is a significant increase in benefits shown for BP2 compared to BP1. Additional visibility of how these benefits are going to be realised would be helpful. How much of the benefits are dependent on others to be able to deliver?
A: A lot of the benefits realisation is through the ESO in a facilitative role. For example, enhancing competitive processes in markets and facilitating coordination with DNOs.
- Q: From a growth and transformation perspective, what are the challenges associated with BP2 delivery? The dependencies in the BP2 need to be more detailed; for example, where are BEIS and Ofgem actions required to drive the regulatory and policy landscape and 'upgrade' required in an FSO context? Do they have the depth of understanding required?
A: *Response partially covered in agreed action.* From a policy perspective, ESO alignment with BEIS and Ofgem is strong at present at a strategic level. Change may be required at working level to match this.
- Q: How confident are you in the deliverability of the plan?
A: The ESO would not have submitted the plan if they did not believe it to be deliverable. The ESO will continue to work through the external dependencies associated with the plan, and bringing together FSO and BP2, now that a decision has been made on the former. In the context of building resource to deliver, the ESO has learned from BP1 that recruitment takes longer than anticipated, and so is already ramping up recruitment in advance of BP2.
- Q: Which areas are critical in FSO and BP2? Which areas are common to both and what is outside of BP2?
A: The ESO is currently in discussions with Ofgem around this, as well as engaging internally. The representative highlighted that the draft BP2 did not have time to fully incorporate FSO due to the time of publication of BEIS and Ofgem's final decision on FSO. The ESO recognises the need to consider how best to represent FSO now they have clarity on future direction.
- Q: If deliverables are deprioritised would they completely stop, or would contractors potentially cover the deliverable? If a deliverable or project were to be put on pause, would it be entirely the ESO's decision?
A: Reprioritisation will take place primarily based on the external context. Some of the projects would be subject to internal prioritisation based on this. The representative asked the group for the best mechanism to gather stakeholder input on ESO prioritisation. The Chair noted the ERSG can support with this via future ERSG sessions.

Actions:

ESO to develop a prioritisation process which will provide transparency to industry, ERSG, Panel and Ofgem on how we will adapt our future plans.

ESO to present a prioritisation methodology to be included in the Final BP2 Plan.

- Q: The ERSG's focus on deliverability and prioritisation should not be misconstrued as a suggestion to downplay the ambition of the plan.
- A member commented that it will be really important to show to stakeholders the long-term benefits of BP2. Some benefits where the ESO is spending in BP2 will be difficult to explicitly show in the BP timeframe.
A: the ESO is interested to understand from the ERSG (and wider stakeholders) about whether the draft BP2 has struck the right balance between putting the right level of cost into the plan and being ambitious enough
- A member commented it would be good to understand process for removing things from the plan. Also there currently is not a full understanding of how the FSO piece fits into the picture. If more were to be added to the plan, would it be to carry out BP2 and FSO activity at the same time, rather than adding in more activities for the ESO as it stands today?
A member commented that regarding areas of the plan where we haven't yet proposed to build capability there are areas which could be useful in future. For example, there are areas in modelling for low inertia and high renewable environments. Another member commented that in terms of deliverability, it would be preferable to see clearly in the plan areas which are purely the ESO's responsibility, where there are external dependencies and where the ESO is adding additional value or where the ESO could do more if they had more resources.
These pieces of feedback were noted by the ESO.

- Q: what is your sense of the limits on what you can do to grow and transform? How will you recruit for this? It would be preferable to articulate this further in the BP around the real challenges from an organisational point of view to show the difficulty in the scale of transformation the ESO needs to undertake.

A: ESO representative answer/comment: the ESO has been transforming and growing since BP1. There are inevitable constraints in terms of the speed to expand functions and we do not want to over-promise and under-deliver in BP2 in terms of building organisational capability. There is a BP2 annex on FSO which details how the ESO plans to grow its capability further. The representative highlighted that pace is needed in this space.

- Q: It's important to note that as part of the FSO, some responsibilities that currently sit with BEIS and Ofgem will grow into the FSO's remit.

A: the ESO is clear on the roles the FSO will have on 'day 1.' It will be important to transform the organisation to one that has a whole system mandate alongside cultural change.

- Q: is there a risk that, given the ESO's expanding remit, projects will unexpectedly be given to the ESO at short notice in the future, ahead of FSO implementation?

A: there could be a risk that external stakeholders treat the ESO as the FSO before it becomes one. The ESO recognises this deliverability and transformation risk and is managing this alongside its ambition in BP2.

- Q: Will moving to the FSO role address issues with external interdependencies (in BP2)?

A: The FSO will have a clearer whole systems mandate but there will still be a regulator and government department. There will still need to be regulatory change and the need to address views of a wide range of stakeholders. FSO may resolve some of the perceived conflicts in some cases.

- A member commented that ERSG can help with understanding what stakeholders want from FSO

Actions: FSO agenda items to continue into the next ERSG sessions, to allow the Group to support the FSO proposals should they form part of BP2.

Final BP2 plan to provide evidence to support deliverability

4. Role 1 - New and materially changed *Including data and analytics hub*

The presenter provided an overview of BP2 developments for role 1, which covered areas where the ESO will need to maintain system operations in a reliable, safe and economic manner. This included new BP2 areas such as proactively monitoring balancing services market activity and delivering the requirements of the new Electricity System Restoration Standards (ESRS). The NPV of RIIO-2 activities over five years is £19m.

- A member asked about the balancing capability strategic review, and whether work had already begun in this area. The presenter confirmed that it had and they have adopted a stakeholder driven approach to this project and have been consulting with stakeholders to gather feedback on the right course of action for this. Another ERSG member had been part of the stakeholder engagement process for the balancing capability review and highlighted that the engagement had been valuable.

Action: ESO to return to ERSG after the stakeholder engagement phase of the balancing capability review has closed, to present the final outputs and next steps.

- A member asked about the ESRS, and what had changed since BP1. The plan has highlighted extensive stakeholder engagement in this area. One member set out they did not recognise this. However, this was clarified with the member directly later in the session who was content with the follow up. The presenter clarified that there is now certainty due to BEIS' recent announcements on the topic. The ESRS requires frameworks to change in parallel and the ESO is currently looking at how a grid code review can expediate this.
- The member also queried why costs on the slide had increased by 50% year-on-year whilst the benefits were £19 million. An ESO representative noted the imbalance between costs and benefits on the slide; the costs of the balancing programme had been included in overall role 1 costs but excluded from the benefits in the draft BP2. This is because the ESO is working to confirm these for the final BP2 submission due to its complex nature. Another ESO representative

highlighted that role 1 is important since it enables the value from role 2 and role 3. The group agreed that there were dependencies and 'golden threads' that need to be emphasised in BP2.

Action: ESO to return to role 1 costs and benefits upon confirmation of balancing programme figures in advance of the final BP2 submission.

- A member asked for the ESO's views at a macro level on risks and dependencies for the role. The presenter stated that there are risks around data and digital elements, including recruiting and retaining employees.
- The member also asked by how much the ESO is expecting system users to manage system risk. The ESO understands what is required to operate the system from the control room, and then looks to see if there are market-based solutions to deploy around this.
- One member highlighted the need to amend the wording on page 46 of the plan to ensure that the reason behind the delay to the deliverable is due to complexities in delivering an automated shift rota system.
- A member asked for an understanding of the innovation projects that the ESO has chosen not to proceed with in role 1.

Action: ESO to provide a list of innovation projects that the organisation has not proceeded with in Role 1 of BP2.

5. Role 2 - New and materially changed *Including role in Europe*

The presenter provided an overview of BP2 developments for role 2, which continues to support the ESO's wider mission and ambitions. Activities include continuing to reform the suite of ESO markets, further integration with and enabling local markets, supporting long term capacity adequacy and driving towards net zero.

- The Chair noted that the Net Zero Market Reform (NZMR) body of work had been well received by the ERSG. They questioned whether there was duplication with work ongoing in other organisations. The presenter stated that NZMR started the conversation in this area, and that there are multiple pieces of work that need to be done with different parties and their expertise. For example, the ESO can start to offer NZMR as evidence to inform BEIS' REMA policy decision making, particularly relating to operability challenges.
- A member noted that alignment of a future view of market design is vital for investors and renewable developers. They highlighted that BEIS' REMA announcement is a positive step forward, but, if this is to go ahead with NZMR's suggestion of locational marginal pricing, five years is a long time to wait and there is an inevitable threat of stalling. The member emphasised that the ESO has a role to play in offering leadership here.
- A member asked about the ESO's expanding capability in procurement and its approach to this in BP2 and for the FSO. The presenter stated that currently, procurement staff are embedded in teams across the organisation and work in a virtual team structure. They stated that the FSO will have a procurement body role in early competition. Another member confirmed that the early competition team is currently being scaled up, but the ESO is awaiting legislation as a trigger to continue. The Chair asked for an update on this topic ahead of the final BP2 submission.

Action: ESO to provide an update on the final BP2 on early competition.

- Concerning market reform, a member asked whether these developments, coupled with thinking about distribution level network planning and access rights, had been discussed sufficiently with distribution stakeholders. An ESO representative stated that across all the roles there is a huge focus on whole system thinking, and that DSO is an enabler of whole electricity system thinking. They confirmed that the ESO wishes to continue working with DNOs to understand how both DSO and FSO can come together to enable DER. This is a fundamental theme in BP2.
 - A member noted that the internal culture of the ESO will be key to delivering change, highlighting that they liked the virtual team approach to procurement the ESO presenter had previously mentioned. The member reinforced that highlighting the 'golden threads' in the BP will be important, alongside how they will work in practice. The ESO presenter confirmed that the ESO is already ensuring cross role alignment through various internal governance processes that provide cross-organisation input.
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BREAK

6. Role 3 - New and materially changed *Including facilitated distributed flexibility, offshore coordination, network planning review and early competition*

The presenter highlighted that, whilst role 3 will continue to deliver the activities laid out in the original business plan, it will deliver new activities, such as those associated with the Offshore Transmission Network Review (OTNR) and the Electricity Transmission Network Planning Review (ETNPR).

- A member stated that a lot of work is required to provide long term price signals and continued investment in assets (noting role 2's work on locational marginal pricing and the volatility this could bring to the market). They highlighted that the ESO has a role to provide support and confidence to the market. An ESO representative stated that the approach the ESO took to NZMR was to look at issues associated with operability to begin with before looking into recommendations of what needs to happen at a working level. The ESO presenter also noted that there are areas where the ESO can provide some degree of certainty in future. For example the Centralised Strategic Network Plan (CSNP) will support anticipatory investment.
- Referring to section 7.3.13.3 of the draft BP2, a member highlighted that the proposed policy and change management team in connections will try to address external issues. They questioned whether the team would have a narrow focus, or whether it was part of a wider model of how the ESO will deal with interactions with external changes. The ESO presenter stated that the team will work to foster a holistic connections process.
- Regarding offshore wind capacity targets a member asked for the ESO's thoughts on incorporating 'moving targets' into BP2 planning, and whether any contingency was required in the plan. The ESO presenter highlighted that they have strong relationships with BEIS as well as Scottish and Welsh governments in this space and wish to build more on these in future. They are also working with the Crown Estates in Scotland and England to understand the art of the possible. The ESO is now looking to BEIS' Energy Security Strategy to set the long-term view and will utilise its CSNP function to assess potential solutions to this.
- On the topic of an onshore wind strategy, a member noted that this is more complex and needs to be central in an FSO role to understand what needs to happen at what stage – including the stakeholders who value the land. The ESO representative stated that NOA 7 published in June will add in a more integrated and coordinated offshore design and that they will also look at onshore and offshore wind through the CSNP. As a follow on to this, the ERSG member noted that the CSNP sounds very engineering orientated. The ESO presenter noted that stakeholders will play a key role in development the CSNP, and at the heart of it, it is an engineering problem which is influenced by markets and other areas. Another ESO representative noted that the ESO's work to date on Holistic Network Design (HND) had seen extensive consideration of environmental and societal issues.
- A member asked what the main challenges were on the critical path to 2030 to meeting the 40 GW wind target. The ESO presenter stated that planning and consenting were the priority, alongside the supply chain.
- A member said that the economics of individual investment will be powerfully determined by evolution of the whole system. The key to managing growth is to adopt system architecture which is expandable to hundreds of GW by 2050 including many tens of GW of PV.
- Concerning approaches to network planning, a member noted that the success of government renewables targets is dependent on a new approach to network planning. They asked whether, in an area that has previously worked with TOs to undertake appropriate assessments, it was the intention of the ESO to be resourced and capable of delivering this in isolation. The ESO presenter emphasised that network planning in the future must be in partnership with TOs.
- A member asked for clarity on how the ESO had planned in BP2 – around analytics, data and digitalisation and risk - for the increasing complexity of power flows in the future and the increase of probabilistic outcomes. The ESO presenter confirmed that there is a great deal of focus on tools and data in BP2 already. They have also added resource and plan to utilise a data and analytics platform. They recognise the need to truly understand what is on the network and how it behaves alongside the operational and monetary risks associated with this.
- Members asked about the barriers the ESO faces to getting the data it needs, given that the ESO has a key role in data and digitalisation. They asked whether an opportunity could be to start building the FSO as a digital by design organisation. An ESO representative gave the example

of a DER visibility strategy consultation is due to be released in the coming days, which will feature areas where the ESO requires data from DER.

- The member asked why the ESO still have not committed to their own technology team in BP2 and that the FSO gives grounds to prioritise this. The ESO representative stated that IT is still delivered as a shared service from National Grid Group and the business model for the ESO remains like this for BP2. This will change as the ESO separates from National Grid Group and they are keen to start this early by building core capability.
- A member asked how much of the ESO's current thought leadership (referencing FES) will require more data to drive net zero in the context of FSO, and if so how this will be delivered accurately. An ESO representative stated that it would undertake no-regrets activities in key areas for data and digitalisation BP2. They acknowledged that FSO and BP2 have the potential to be better aligned in this area now there is greater policy clarity.
- A member highlighted that, in some cases, data is out there already, but it is more of a question of its compatibility and quality. This is a huge interdependency challenge with industry as there is often an assumption made by policy makers that data is already of a suitable quality.

Action: Chair to capture an appropriate challenge reflecting the ERSG's data and digitalisation commentary and what the ESO's role in industry should be in this space.

7. FSO

The presenter discussed the recent FSO announcement, the next steps for the ESO and the FSO's future roles and responsibilities.

- A member asked whether the FSO will interact with a wider group of stakeholders due to its expanded remit covering additional energy vectors, and whether additional regulatory approvals will be required from others. The presenter highlighted that the FSO will, in many respects, be an extension of the ESO's remit today. The stakeholders the FSO will engage with will inevitably grow as it takes on areas such as heat and transport.
- A member noted that the ESO will need to be clear on what the remit of the organisation really is and highlight where grey areas may appear to avoid others assuming what the FSO covers. For example, what might the FSO's role be in certification schemes such as Renewable Energy Guarantees of Origin (REGOs) or activities in the hydrogen space. An ESO representative noted that they are awaiting further clarity at this stage. .
- In terms of consumer priorities, a member highlighted the need for the FSO to draw attention to vulnerable consumers as we move to net zero.
- The Chair asked about the extent to which the ESO can influence in FSO negotiations. The ESO presenter stated that the BEIS post-consultation has set out broad areas where the FSO is expected to have a role. Further detail on the FSO's role and responsibilities will be developed in due course with BEIS, Ofgem and other stakeholders.
- The Chair also asked about the FSO's advisory role and whether some FSO activities will be in BP2. The ESO presenter stated that they will rely on the cost pass through mechanism to allow the ESO to take on some of the FSO activity. However the organisation is aware that there is a risk there could be the expectation that the ESO is already behaving like an FSO before it formal remit, and the challenge is how to step through this in a phased approach.
- A member asked whether the ESO has a critical path for 'day 1' of FSO. The ESO presenter stated that the priority now is to separate from National Grid Group, and they are working through processes to determine what this looks like in terms of separating offices and IT. The ESO is already building capability to ensure they are set up for day 1 of FSO, noting that there is a great deal of regulatory and policy work to get through before this.
- Referring to Ofgem's recent call for input on DSO governance, a member noted that this hasn't been noted in FSO discussions to date. The ESO presenter noted they are in the process of responding to the call for input.

Action: ESO to discuss the ESO's position on the call for input on the future of local energy institutions and governance at a later ERSG session.

8. IT

The presenters discussed the significant increase in ESO technology investment in BP2, noting that they are confirming the ranges of IT investment given in the plan before the final BP2 submission.

- The Chair asked about what the ESO will do if Ofgem determines that the final BP2 costings for IT are too high. An ESO representative stated that the costing and assurance model the ESO is using for this programme (known as TBM) is objective and fact based, whilst also driving efficiencies. If Ofgem have a different view, the ESO will firstly need to understand this before understanding what benefits will be lost if this is costed at a lower totex. An ESO representative noted that the benchmarking Ofgem use for business planning has been designed for areas that are more certain than IT. A lot of the ESO's IT investment is where it is building capability and technology in a modular nature to ensure for flexibility in developments in the long term. They are working to benchmark for specific components of the IT investment required.
- A member asked for the opportunities and barriers for common IT platforms to develop, particularly in light of the FSO developments. The presenter noted that the use of the TBM model across regulated networks showed that Ofgem were looking for consistency in this area. An ESO representative highlighted the Virtual Energy System which is looking at how industry can standardise digital twins that are being developed throughout the industry. The FSO could look at how to set standards for stakeholders to align to.
- A member asked whether the ESO had a view on how the disallowance risk is affecting IT in the BP. An ESO representative noted that there has been a need for more flexibility than originally envisaged in this area, and the existence of the RIIO flexibility model has allowed this. On the balancing programme, the scale of the increase in costs meant that it would have been wrong to put this through the cost pass through mechanism. An ESO representative noted that Ofgem add a RAG status to investments to provide an indication of how comfortable they are with the investment before the price control begins.
- A member asked for further explanation on the wide range of costs for IT spend and what the benefits of this are. An ESO representative noted that the ESO has agreed with Ofgem that for the draft plan, IT spend will sit within a range. For the final BP2, the range will be substantially narrowed or at a point estimate. However, if the ESO decides that some of the programmes are almost impossible to provide certainty, they will highlight this to Ofgem and seek part approval of expenditure. They noted that external factors have also driven the cost, including changing cyber standards and supply chain issues.
- Continuing with the above, a member stated that it is more important to get IT right than it is to build it at least cost. From a public perspective, it is more important that the IT works rather than cutting corners or which meets an arbitrary benchmarking assessment. They were reassured by the ESO representative's comments on highlighting the uncertainty and the need for flexibility in this area. They asked whether Ofgem knew exactly what the ESO is spending money on and what the benefit is. An ESO representative noted that there are some very explicit benefits, for example with forecasting accuracy tools. Other benefits are more difficult to quantify, such as IT enabling markets that in turn deliver reductions in costs. The balancing programme will still be cost beneficial, if the ESO can drive market participation and the benefits to consumers. But they noted that the ESO still needs to spend money efficiently. Another member noted that, on benchmarking, most this will be on first of a kind designs and so will be difficult to carry out accurately.
- A member noted that investing in technology is important and that given the transformation into the FSO, they asked for the ESO's thoughts on the uptake and buy in from different stakeholders on IT. The ESO presenter stated that they are engaging with stakeholders to ensure that they are carrying out the right approach to risk in this area and are being pragmatic around the amount of change that is required. An ESO representative noted that employees in the control room in particular need IT upgrades to their systems.

9. Innovation

The presenter discussed the ESO's innovation capabilities, and how they have developed significantly since BP1. With increased funding and a growing team, the ESO has initiated a series of ambitious innovation programmes such as the Virtual Energy System and Future of Reactive Power which help to address the challenges of the energy system transition.

- A member asked about the overall benefits expected from the innovation programme of work. The presenter highlighted that innovation is not directly linked to consumer but provides wider benefits that impact consumers more broadly, and traditionally quantifying the benefits of innovation projects is a complex topic to cover. The benefits cover a broad range of areas, from opening up competitive markets to digitalising and leveraging the data on our grid.

- A member asked for clarity on the ESO's contributions to innovation funding (i.e. whether the ESO in effect contributes £5m into the total spend). The presenter confirmed that the ESO follows the standard NIA rules and regulations written for all networks. The cost pass through mechanism is specific to the ESO and projects a 10% contribution from the totex regulated revenue. The member asked about how the innovation team gets departments across the ESO to participate in innovation. The presenter noted that for each role there is an innovation sponsor to ensure there are guaranteed FTEs.
- A member asked what the ESO can do better in the innovation space. For example, if the ESO is working with partners, these need to help with the benefits case. The presenter noted examples of current innovation projects that are fulfilling this aim, including the forecasting of solar and the Virtual Energy System. They highlighted that it is challenging to explore the counterfactual in most cases to accurately quantify the benefits.
- A member asked whether the ESO has a timescale in mind when evaluating bidders and sponsors or whether it is judged in the context of each individual bid. The presenter stated that there is not a single method for this, and that, due to the nature of innovation, projects frequently change course or scope.
- A member asked how the ESO draws the line between discrete innovation projects and everything else going on in the ESO, which is arguably innovative. The presenter agreed that the line is blurred. The innovation team adopts a risk-based approach to this, i.e. if a project is risky and may not happen in the time frame required then it is classed as innovation.

10. Finance

The presenters took ERSG through the costings for BP2, which reflects the latest forecasts for FY22 and 23. The ESO's updated plans have resulted in an increased investment over the 5-year RIIO-2 period of £74m opex and £179m in capex compared to the original RIIO-2 BP. The proposed outputs for RIIO-2 will increase from £1.80 to £2.10 on a consumer bill but will deliver benefits of £5.50 a year (net reduction of £3.40).

- The Chair stated that, concerning regulatory finance, if nothing has changed since BP1, it is not a priority for the ERSG to comment. An ESO representative clarified that whilst there has been no methodological change, the fixing of BSUoS from recent reforms has impacted the plan. The Chair also asked whether the same assumptions for wages for BP1 were included in BP2. This was confirmed to be the case by the presenters.
- A member asked for further context on the £5.50 in consumer benefits and whether the savings would continue to increase if the ESO spent more in its BP. ESO representatives confirmed that the £5.50 is the optimal point between ESO spend and consumer benefits and that this is calculated via the use of a strict methodology with Ofgem. Another member noted that in the longer term it will be difficult to quantify the near term consumer savings rather than avoided future costs.
- A member asked for further clarity on the increase in commodity prices and constraint costs, and how this has impacted the BP2 costings. An ESO representative highlighted that the ESO has been guided by Ofgem to change these assumptions in BP2.

Action: ESO to provide ERSG with CBA calculations using original RIIO-2 201 submission cost assumptions (e.g. based on commodity prices staying the same as for BP1 period)

- On the topic of ESO transformation, a member of the group stated that they hoped the ESO was not planning to be too efficient in this price control period due to the risks associated with businesses going through transformative growth efficiently. ESO representatives emphasised that they will seek to transform in the most efficient way possible and will need to demonstrate the value for money in RIIO-2. They also acknowledged that RIIO-2 has flexibility mechanisms in place to allow for the required growth. The Group agreed that the ESO needs to invest ahead of need considering the huge transformative growth required for FSO.
- A member observed that in FY 26/27 and 27/28, investment in networks will be ramping up, whereas in the ESO's plans this shows capex reducing in the final year. This may present a resourcing challenge.

11. People and capability

The presenter discussed the ESO's ambitions to be a net zero employer of choice and covered the areas of ESO growth in BP2 (reflecting the 307 FTE increase).

- A member stated that it was important for the ESO to not underestimate the importance of rebranding to reflect the ESO/FSO as a data driven company to attract experienced technology employees into the business. On pay scales, they noted that the ESO will need to adopt a strong stance to ensure that they remain competitive.
- Members also highlighted the importance of work culture, flexible working and location to be being able to recruit the best and diverse talent. The presenter emphasised that the ESO already has a strong flexible working culture. In terms of location, the ESO recognise the need for a presence in Scotland, Wales and London alongside existing locations.
- A member emphasised that IT reform around the control centre will see a lot of roles changing to become more automated and interesting. The ESO must capitalise on this to attract and retain talent.

Action: ESO to discuss the FSO's target cultural model in further detail at a future session

12 AOB

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13 Closed session

N/A notes and actions circulated separately to relevant parties
