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Sent by email to: box.soincentives.electricity@nationalgrid.com

Dear Charlotte,

Consultation on the Electricity System Operator 2018/19 Forward Plan

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

We support the consultative approach to developing the 2018/19 Forward Plan, in which the Electricity System Operator (ESO) sets out its longer-term vision for how it intends to drive consumer benefits under its different roles and principles¹. Also, we are supportive of the work that National Grid is doing around being more transparent with its stakeholders and that services are being procured in a more competitive manner. However, we believe the Plan does not fully reflect baseline expectations of a 'good' ESO. We recommend the Plan is revised in the following ways:

- **Aspects of the Plan should be made more challenging.**
- **Specific additional activities should be included in the Plan.**

Aspects of the Plan should be made more challenging:

There are ways in which the Plan should be made more challenging to reflect baseline expectations of a 'good' ESO. These include:

Performance benchmarks: some performance benchmarks for some of the proposed metrics are either insufficiently challenging, set below current levels of performance or at levels which reflect current levels of poor performance.

¹ The Electricity System Operator regulatory and incentives framework from April 2018:
https://www.ofgem.gov.uk/system/files/docs/2018/02/policy_decision_on_electricity_system_operator_regulatory_and_incentives_framework_from_april_2018.pdf.

For example, the 'exceeding expectations' benchmark for the overall improvement in Code Administrator customer satisfaction score is set at above 7%. This improvement does not by itself represent performance that can be considered to exceed expectations since it takes no account of whether the absolute performance is good². Also, the proposed 'on target' performance benchmark for the percentage of BSUoS billing runs delivered on time is 90-95%, which is below the 2017/18 year-to-date performance of 98%. A further example is that a 'good' ESO should be able to resolve virtually all BSUoS billing queries within two weeks. The proposed performance benchmarks should not embed the current levels of poor performance. We believe rewards should be available only if performance has been improved *and* is deemed to be 'good'.

Business-as-usual activities: some activities proposed to be considered under the evaluative incentive mechanism are business-as-usual (BAU) activities. For example, even though the Publication of Ancillary Services/Balancing Services tender assessment decisions is an improvement on current deliverables, it should be treated as BAU. Holding a webinar to provide results and engage with stakeholders is not exceeding expectations, but rather a simple process improvement that is to be expected over time as BAU. As such, only penalties should be associated with these activities. Some of the examples above, such as BSUoS billing, are also best suited by penalty-only incentives (with a deadband).

Activities that deliver value for consumers: some activities have been proposed to contribute to performance under the incentive mechanism that appear likely to provide little or no benefits for consumers. For example, an incentive on the time taken to acknowledge BSUoS queries to consumers is unlikely to provide benefits to consumers. Further, some proposed metrics are unrelated to the suggested consumer benefit. For example, simply providing BSUoS forecasts is unlikely to reduce any risk premia borne by customers, particularly when the incentive framework does not hold the ESO accountable for the accuracy of those forecasts.

Activities that should be expanded: some activities as defined may not deliver the suggested consumer benefit in full if not expanded. For example, we welcome the publication of trades data that will provide service providers with the quantities of energy products procured ahead of time to meet the ESO's energy requirements. However, the ESO should also justify on a regular basis why those volumes have been procured, especially as this may affect the level of ancillary services procurement and utilisation. This information will help facilitate the development of competitive markets, which should provide consumer benefits.

Our high-level assessment of the proposed performance metrics is included in the attached appendix.

Specific additional activities should be included in the Plan:

Stakeholders would have benefited from the inclusion of detail relating to the implementation of significant change programmes in the Plan. For example, the new TERRE product is due to be introduced in Q4 2019. The Plan should include detail of activities needed for the introduction of this product and how steps the ESO should take in advance to operationally handle the interaction between TERRE and the Balancing Mechanism. Also, the Plan should include activities to ensure that the Balancing Mechanism is open to all service providers by Q1 2019 (as well as the 'parallel running' of TERRE which is planned for Q1 2019). Further detail is provided in the appendix.

² For instance, a 7% improvement on the 2017 survey result would still result in the ESO codes filling three of the bottom four positions across the 11 codes covered by the survey.

We note five separate performance metrics capturing stakeholder satisfaction, excluding the 'Customer and Stakeholder Satisfaction' survey, have been proposed. We question whether this is proportionate relative to the scope of activities the ESO could potentially undertake. The consolidation of the metrics capturing stakeholder satisfaction should be considered. Also, the distribution of the potential maximum reward/penalty associated with each performance metric should be considered as some activities are likely to deliver lower consumer benefit relative to others.

For future Forward Plans, we recommend more information is included to allow stakeholders to better assess the appropriateness of the proposals. Publishing historic levels of performance and commentary on those performance levels, along with the detailed calculations behind the targets would improve the transparency of the proposed methodologies and help stakeholders assess the extent to which proposed performance benchmarks are challenging. Also, the costs of improvements (including potential rewards) should be compared to the benefits so stakeholders may assess whether the proposed activities could deliver net benefits to consumers.

We hope you find these comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely

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Appendix

Proposed performance metrics and benchmarks relating to Project TERRE:

Role	Principle	Area	KPI	Below target	On target	Above target	Consumer Benefit	Comments
Facilitating competitive markets	3. Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	'BM access for all'	National Grid to ensure that 'Secondary BMU' definition is operational and utilised by providers for Balancing Mechanism and TERRE (if ready)	Secondary BMU not delivered by April 2019	Secondary BMU definition operational (with necessary IT in place) and able to utilise this in the Balancing Mechanism and TERRE (if parallel running has commenced)	Secondary BMU definition operational (with necessary IT in place) and used by XX % in the Balancing Mechanism	Greater diversity of flexibility providers will mean more competition and hence better cost-effectiveness. Consumers with on-site generation or demand shifting capabilities will be able to access the BM and gain additional revenues for the flexibility services they can provide.	This is assuming that the P344 modification is accepted by Ofgem in July 2017. Q1 2019 is when the secondary BMU should be introduced as this is when non-BM ancillary services providers lose spill payments (via P354). We support spill payments removal but believe that this should be complemented with BM access.

High-level assessment of performance metrics and benchmarks proposed by the ESO:

Principle	Area	KPI	Comments
<p>1. Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.</p>	<p>1. Forecasting accuracy</p>	<p>Day Ahead Transmission demand forecast accuracy</p>	<p>The design of the proposed performance benchmarks is complex and could present a barrier to stakeholders understanding and assessing performance. It is not clear that complexities are justified and so could damage the credibility of any rewards awarded.</p> <p>There should be a simpler overall measure of performance. We recommend the metric used is the mean absolute percentage error (MAPE). In any case, MW targets based on historic years when demand was higher (primarily due to lower levels of embedded generation) are inappropriate because MW targets would translate into weaker MAPE targets.</p> <p>A 5% reduction in error is insufficiently challenging (i.e. for current MAPE of 2%, this equates to a new MAPE of 1.9%). The data set used for target setting should be published to provide transparency that targets are sufficiently robust. We also suggest the outperformance target should represent a significant step change improvement (e.g. 25%), with similar range for underperformance.</p> <p>Using part years in the target setting data set could introduce seasonal bias. It is not necessary to finalise targets ahead of the start of 2018/19 and therefore we suggest targets are based on data up to March 2018.</p> <p>The scale of consumer benefit is unclear as not all market participants will rely on these forecasts.</p>
<p>1. Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.</p>	<p>1. Forecasting accuracy</p>	<p>Day Ahead BMU Wind generation forecast accuracy</p>	<p>A 5% reduction in error is insufficiently challenging (i.e. for current MAPE of 4.5%, this equates to a new MAPE of 4.3%). The data set used for target setting should be published to provide transparency that targets are sufficiently robust. We also suggest the outperformance target should represent a significant step change improvement (e.g. 25%), with similar range for underperformance.</p> <p>Using part years in the target setting data set could introduce seasonal bias. It is not necessary to finalise targets ahead of the start of 2018/19 and therefore we suggest targets are based on data up to March 2018.</p> <p>The scale of consumer benefit is unclear as not all market participants will rely on these forecasts.</p>

Principle	Area	KPI	Comments
1. Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.	2. BSUoS forecast provision	BSUoS forecast provision (half hourly forecast published at day ahead)	<p>The consumer benefit is unrelated to the performance metric - simply providing a forecast will not impact any risk premium, particularly when the incentive framework does not hold the ESO accountable for its accuracy.</p> <p>The metric, as proposed, lends itself to a penalty only approach. The baseline performance benchmark should be 100% (excluding exceptional events). A dead band could also be included. For example, a penalty will not apply for any level of performance above 85% (the threshold proposed as underperformance).</p>
1. Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.	3. Commercial assessment transparency	Publication of Ancillary Services/Balancing Services (AS/BS) tender assessment decisions to a published schedule	<p>We are supportive of National Grid committing to published this data. However, this should be treated as a BAU activity and so lends itself to a penalty only approach. The baseline performance benchmark should be 100% (excluding exceptional events). A dead band could also be included. For example, a penalty will not apply for any level of performance above 91% (the level proposed as the underperformance threshold).</p> <p>At present, it is opaque as to why National Grid procures a specific proportion of its ancillary services needs in a particular tender round. We believe <u>the Forward Plan should include an action for National Grid to provide information on its reasoning for the amount procured in different tender rounds (i.e. its procurement strategy); ideally this should be ex-ante. Such clarity would be analogous to BEIS providing the capacity it seeks to procure in the different auctions for the Capacity Market, which is provided to the market ex-ante.</u></p>
1. Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.	4. Trades data transparency	Timely publication of information relating to trades undertaken by the ESO in managing system balance and operability.	<p>We do not believe this target is challenging enough.</p> <p>We are unclear about the basis of the 80% target. We appreciate that it may be inefficient to develop a platform with 100% availability. However, equally we consider a platform with 80% availability suggests the platform is not fit for purpose, rather than efficient.</p> <p>The ESO should justify on a regular basis why National Grid has performed the trades, especially as this may affect the level of ancillary services procurement and utilisation. This transparency will help facilitate the development of competitive markets, which should provide consumer benefits.</p>
1. Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.	5. Information provision innovation	Delivery of data relating to progress being made towards targets set in the 2017 Clean Growth Plan	<p>We consider it BAU for environmental groups/politicians/councils etc. to be interested in this kind of data, and for network operators to provide it.</p> <p>Consideration should be given about whether to include this metric. The success of delivery would be reflected in the "Customer and Stakeholder Satisfaction" metric.</p>

Principle	Area	KPI	Comments
1. Support market participants to make informed decisions by providing user-friendly, comprehensive and accurate information.	5. Information provision innovation	Stakeholder satisfaction with accessibility, transparency and improvements to carbon forecast	This should be incorporated into the “Customer and Stakeholder Satisfaction” metric, with performance benchmarks set at the RIIO-T1 Stakeholder Satisfaction Survey benchmarks for National Grid.
2. Drive overall efficiency and transparency in balancing, taking into account impacts of its actions across time horizons.	6. Balancing cost management	Cost target for balancing spend (excluding Black Start)	<p>Whilst the targets and benchmark ranges are not yet defined, we are concerned that the illustrative baseline for 18/19 is higher than the current forecast of 18/19 costs.</p> <p>If the ESO’s aim is to maintain reliability, at similar or lower levels of cost, as we move to a very low-carbon power grid, then we do not understand a higher forecast spend as an appropriate 'target'.</p> <p>It has proved difficult to set an appropriate modelled target (a reason for dismissing BSIS). So a simple and transparent target, that is consistent with the ESO’s aim, would be to use the average costs over the last 5 years: Lower cost = outperform target Higher cost = underperform target</p> <p>The deadband range should not be too wide as this may blunt the incentive.</p> <p>It is not clear who the ex-ante adjustments will be agreed with. Extensive adjustments will undermine the credibility of the incentive arrangements. The use of a simple average would be easy to understand and objective and so is preferable.</p> <p>The ESO proposes to share analysis to inform benchmark range only with Ofgem and the Performance Panel. This should also be made available to stakeholders.</p> <p>There is a lack of detail on how the targets have been derived. We suggest a model should be published ahead of time.</p>
3. Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	7. Reform of balancing services markets	Progress against plan for commitments made via the Future Balancing Services Roadmap	<p>We expect this to be delivered as BAU.</p> <p>Consideration should be given about whether to include this metric. The success of delivery would be reflected in the “Customer and Stakeholder Satisfaction” metric.</p> <p>We support that National Grid should be held accountable to move away from bilateral procurement and encourage the introduction of new providers in offering balancing services. However, the proposed ‘on target’ measure for this action is to “deliver all rationalisation and</p>

Principle	Area	KPI	Comments
			simplification actions for response and reserve identified in the product roadmap” and their exceeding expectations is to “deliver an auction trial for response in 2018/19”. As the rationalisation was completed Q4 2017 and most of the simplification actions are to be completed in H1 2018, we strongly believe that the response auction trial should be included within the ‘on target’ measure. As part of National Grid’s Product Roadmap, the auction trial for response has already been reduced in its ambition from daily to weekly auctions (daily auctions were noted as needed by industry participants and acknowledged by National Grid) and has been promised to be delivered in Q4 2018 (almost 2 years after the SNaPS work was kicked off). We believe with weekly auctions for response included as ‘on target’, a daily auction trial for response could be included as ‘exceeding’ targets.
3. Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	7. Reform of balancing services markets	Stakeholder satisfaction with information provided on progress	This should be incorporated into the “Customer and Stakeholder Satisfaction” metric, with performance benchmarks set at the RIIO-T1 Stakeholder Satisfaction Survey benchmarks for National Grid.
3. Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	8. New provider on-boarding	Metric One (2018/19 and onwards): Stakeholder satisfaction	This should be incorporated into the “Customer and Stakeholder Satisfaction” metric, with performance benchmarks set at the RIIO-T1 Stakeholder Satisfaction Survey benchmarks for National Grid.
3. Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	8. New provider on-boarding	Metric Two (October 2018 onwards): Progress through ‘on-boarding’ process	We are unable to comment because the performance metrics and benchmarks have not been defined.
3. Ensure the rules and processes for procuring balancing services maximise competition where possible and are simple, fair and transparent.	9. Market diversity	Increase in the number of tenders/bids from individual units received (by number rather than MW volume)	Over and under-performance definitions have not been provided. Should consider splitting for each product/market-based procurement method.

Principle	Area	KPI	Comments
4. Promote competition in wholesale and capacity markets.	10. BSUoS billing	Query response time: time to respond/ acknowledge customer BSUoS queries.	This activity is unlikely to deliver material consumer benefit and should be treated as a BAU activity. Consideration should be given about whether to include this metric. The success of delivery would be reflected in the “Customer and Stakeholder Satisfaction” metric.
4. Promote competition in wholesale and capacity markets.	10. BSUoS billing	Query resolution time: time taken to resolve/close BSUoS queries.	The proposed ‘on target’ benchmark embeds current levels of poor performance. This benchmark should be made more challenging e.g. 90%
4. Promote competition in wholesale and capacity markets.	10. BSUoS billing	Percentage of billing runs delivered on time as an annual figure	This activity is unlikely to deliver material consumer benefit. This should be treated as a BAU activity and lends itself to a penalty only approach. The baseline performance benchmark should be 100% (excluding exceptional events). A dead band could also be included. For example, a penalty will not apply for any level of performance above 90% (the level proposed as the underperformance threshold).
4. Promote competition in wholesale and capacity markets.	11. Code administrator – stakeholder satisfaction	Customer Satisfaction Survey on Code Administrator Performance – CUSC, Grid Code and STC	The proposed performance benchmarks are insufficiently challenging. The threshold for out-performance should be set at the upper-quartile of previous code survey results as this objectively represents ‘good’ performance.
4. Promote competition in wholesale and capacity markets.	12. Charging futures	Overall coordination and facilitation of Charging Futures in our role as Lead Secretariat.	We are unable to comment because the performance metrics and benchmarks have not been defined.
5. Coordinate across system boundaries to deliver efficient network planning and development.	13. Whole system – optionality	Increase in the number of proposed non-traditional solutions to transmission issues	Performance benchmarks should be based on the number of credible options identified. Benchmarks based on the number of non-traditional solutions is not appropriate. As noted in the draft Plan, the ‘number of non-transmission solutions’ is beyond the ESO’s control. The ESO’s role is to identify the best solutions and should not be penalised or rewarded just because of the nature if the best solution. Instead, performance benchmarks could be based on the number of credible options identified. Credible options could be defined as ones where the overall cost assessment is no more than [10%] higher than a traditional approach (to prevent perverse incentive to add non-credible options to the process). Rather than simply assessing against networks and balancing costs, successful solutions should drive lower costs to consumers - taking account of prevailing price control arrangements (i.e. take account of sharing factors etc.)

Principle	Area	KPI	Comments
5. Coordinate across system boundaries to deliver efficient network planning and development.	14. Whole system – unlocking cross-boundary solutions	Project-specific	No commentary on how projects will be selected or KPIs will be agreed has been provided. Rather than simply assessing against networks and balancing costs, successful solutions should drive lower costs to consumers - taking account of prevailing price control arrangements (i.e. take account of sharing factors etc.)
6. Coordinate effectively to ensure efficient whole system operation and optimal use of resources.	15. Connections agreement management	Time taken to update generator connection agreements	This is a good example of setting a baseline above current poor performance. However, we consider the targets already reflect the fact that an element is outside the control of the ESO, so this should not be a permissible mitigating factor for under performance at the end of the year.
6. Coordinate effectively to ensure efficient whole system operation and optimal use of resources.	16. System access management	Number of planned system access requests cancelled in the control phase by the ESO due to process failure.	The performance benchmarks are insufficiently challenging. The Gas System Operator has been able to significantly out-perform the equivalent incentive (“Maintenance Change Target”) since its inception ³⁴ , with no planned requests cancelled at all since the mechanism was introduced. This demonstrates that significant improvements in performance can be reasonably expected which should be reflected in the performance benchmarks.
6. Coordinate effectively to ensure efficient whole system operation and optimal use of resources.	17. Future GB electricity system security	Delivery of Six Monthly Operability Reports	This should be treated as a BAU activity. Only a potential penalty should apply to this activity.
6. Coordinate effectively to ensure efficient whole system operation and optimal use of resources.	17. Future GB electricity system security	Stakeholder satisfaction with information on the progress of achievement of milestones in the Operate Programme by the latest Six Monthly Operability Report	This should be incorporated into the “Customer and Stakeholder Satisfaction” metric, with performance benchmarks set at the RIIO-T1 Stakeholder Satisfaction Survey benchmarks for National Grid.

³ Gas System Operator incentives review 2015-18: Final proposals, para 1.15: https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/gas_so_incentives_-_final_proposals_2.pdf

⁴ Decision to extend the System Operator incentive scheme for the period 2018/19 - 2020/21 and proposal to change National Grid Gas plc's gas transporter licence by inserting new dates to reflect this, page 5: https://www.ofgem.gov.uk/system/files/docs/2018/02/20180130_so_incentives_decision_letter.pdf

Principle	Area	KPI	Comments
7. Facilitate timely, efficient and competitive network investments.	18. NOA consumer benefit	value-add options appearing in optimal paths and consumer value	<p>Performance benchmarks should be based on the number of credible options identified because benchmarks based on the number of solutions is not appropriate. The consumer value and optimal path will flow from the assessment of the options and is outside of the control of the ESO. Credible options could be defined as ones where the overall cost assessment is no more than [10%] higher than a traditional approach (to prevent perverse incentive to add non-credible options to the process).</p> <p>The metrics should be separated as they measure different aspects of performance. The measure against which consumer value is assessed should be considered. Measuring against expenditure on traditional solutions may not be appropriate as alternative solutions becomes more widely used.</p> <p>Targets, if they are to be based on the proposed metrics, should reflect expected increase in activity in this area. Including 14/15 (1 option, £0 consumer value), seems inappropriate.</p>
7. Facilitate timely, efficient and competitive network investments.	19. NOA engagement	Delivery and publication of NOA roadmap to show direction of travel to allow more parties to engage in NOA process.	<p>We support the underlying intent of the activity but are concerned about the robustness of the proposed measure, given its crudeness.</p> <p>The performance benchmarks are insufficiently challenging.</p> <p>The maximum potential reward/penalty associated with this activity should be low.</p>
All	20. Customer and stakeholder satisfaction	Customer and stakeholder satisfaction	<p>Performance benchmarks should be set at the RIIO-T1 Stakeholder Satisfaction Survey benchmarks for National Grid.</p> <p>This metric should encompass all proposed metrics relating to stakeholder feedback</p>