

By e-mail to: box.sonicientives.electricity@nationalgrid.com

Charlotte Ramsay
Future of SO Programme Director
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23 February 2018

Dear Charlotte,

ELEXON's response to your consultation on the Electricity System Operator (ESO) Forward Plan and associated performance metrics

We welcome the opportunity to respond to the above consultation.

As many of our comments are relevant to the design of the ESO incentives, we are also sending this response to the Ofgem SO Regulation Team for its consideration of the points we raise, and also because currently there is no Performance Panel in place through which to make such comments.

As you are aware, ELEXON (as 'BSCCo') is the Code Manager for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC and systems that support the BSC. We also undertake the settlement activities for EMR Contracts for Difference and the Capacity Market on behalf of LCCC/ESC.

The views expressed in this response are those of ELEXON Ltd alone, and do not seek to represent those of the BSC Panel or Parties to the BSC.

If you would like to discuss any aspects of our response, please don't hesitate to contact me at steve.wilkin@elexon.co.uk.

Yours sincerely,



Steve Wilkin
European Coordination Manager

cc. David Beaumont & Grendon Thompson, SO Regulation Team, Ofgem
(electricitySOreform@ofgem.gov.uk)

Electricity system operator forward plan 2018: ELEXON's RESPONSE

1. General comments

- 1.1 We have previously responded to the Ofgem consultation on 'The Electricity System Operator Regulatory and Incentives Framework from April 2018'. A number of our points repeat or build on that response, which can be found [here](#).
- 1.2 Where it is possible to do so within the constraints of our various business models, we would seek equivalent treatment for all code administrators including the Electricity System Operator (ESO) and ELEXON when undertaking comparable tasks.
- 1.3 We are concerned to ensure that there are no gaps in the financial incentives on the ESO because we fear that the ESO will concentrate resource/effort in areas of work where there are financial rewards and risks at the expense of areas of work where there are none (the gap areas). In this respect we are concerned that the ESO has not set itself a metric covering collaborative working with ELEXON on developing the BSC and EMR requirements. We strongly believe that it should do so, and perhaps for other code administrators too.
- 1.4 In particular we would seek to incentivise ESO to devote sufficient effort to raising BSC Modifications where these are in the overall interests of the consumer. And to support the BSC Modification process through the timely provision by ESO of data and information; ESO attendance at BSC Modification Workgroups; and ESO support for the implementation of approved BSC Modifications.
- 1.5 We also suggest incentivising the ESO to ensure sufficient resource and attention is paid to operational issues, such as the provision of accurate and timely data for BSC processes and the early identification and resolution of any errors or issues.
- 1.6 We would ask that ESO is accurate in its reporting of the fulfilment of incentives. In this package of Forward Plan documentation we have noted one factually incorrect statement; and more than one misleading statement. We give more detail in our more detailed comments below.
- 1.7 We will be concerned if the incentives prompt ESO to present information to claim successes without recognising others' contributions; and to refuse any ownership for failures. We seek a collaborative relationship with the future ESO.
- 1.8 In the absence of a Performance Panel, we have taken a detailed look at some of the metrics, though this was limited by the shorter than usual consultation period, to see if they would present enough information to allow the Panel to make an informed recommendation to Ofgem at the end of the year. In some cases, we think that they do not yet do so.

2. Detailed Comments

Forward Plan Consultation Duration – it should be at least 20 working days

- 2.1 In [our response](#) to the Ofgem consultation on 'The Electricity System Operator Regulatory and Incentives Framework from April 2018', we suggested that there be a minimum mandated consultation period of 20 working days (or longer if it includes the Christmas/New Year period).

- 2.2 It is important that stakeholders are given sufficient time to review and respond to the draft of the Forward Plan, particularly now when there is no Performance Panel in place yet and the first performance metrics need detailed consideration.
- 2.3 We note that the current consultation period was only 15 working days¹. We believe this is too short for stakeholders to undertake a robust review of the proposed metrics.

Stakeholder Surveys – the design should be subject to independent approval

- 2.4 Many of the metrics are based on the results of stakeholder consultations. Some of the metrics in the Technical Annex to the Forward Plan include detailed survey questions; others are currently vague.
- 2.5 We believe that, because such surveys will have direct financial implications for the ESO, the detailed questions and the identity of the consultees should be set out in the Forward Plan, so that stakeholders can comment on them. In future, this detail should be subject to Performance Panel (or Ofgem) prior approval as the design of such surveys needs to be seen to be independent of the ESO's financial interests.

Publication of Data and Information – should use the 'best' channels, not only ESO-owned ones

- 2.6 In our earlier response to Ofgem, we majored on this subject as we were concerned that the ESO would favour its own communication channels even when they might not be in the best interests of the industry or consumer. This Forward Plan does nothing to dispel that concern.
- 2.7 In the earlier response, we said that: 'the ESO should be incentivised to consider whole system solutions so that the options it chooses to initiate or develop are not only ones that deliver an absolute consumer benefit, or ones which utilise the ESO's own systems, but the ones that maximise that consumer benefit. This would include considering the relative benefits of options that the ESO is empowered to initiate or support. For example, through changes to non-ESO owned codes and systems.'
- 2.8 Practical examples of this could include initiating appropriate BSC Modifications and supporting the continued one-stop shop data publication on the Balancing Mechanism Reporting System (BMRS) to avoid fragmented data publication.'
- 2.9 However, we see in this Forward Plan that the ESO is proposing 'multiple' and 'new, more accessible communication channels' (Delivery schedule page 4, several references); 'expansion of our channels of information dissemination' (Delivery schedule page 5). We wonder how ESO will judge this approach against the benefits of a 'one stop shop' and the risks of information fragmentation?
- 2.10 For example, we recommend that ESO should not immediately suggest 'new, more accessible channels' for the publication of daily and monthly summaries of balancing costs and volumes, when BMRS already includes the publication of balancing mechanism (and potentially TERRE) costs and volumes. Would it not be better to publish all balancing information together in one place, e.g. BMRS, to maximise consumer benefit?

¹ We received notification of the consultation towards the end of Monday 12 February 2018 and the closing date is Monday 5 March 2018.

- 2.11 And we have already seen such fragmentation begin to appear during 2017. For example, last summer National Grid began sending out emails of demand forecasts (day ahead; 2 day and 7 day) to industry subscribers, despite the fact that BMRS already publishes much of National Grid's related demand forecast data in one place and has a highly-regarded and real-time data push and a data pull service via Application Programming Interfaces (APIs), that is superior to the subscription email service (see page 4 of the Plan's Technical Annexe).
- 2.12 The BMRS is now more popular than ever before, both in terms of API usage made of it by our customers and interactive access. Following recent improvements it is coping with data volumes far in excess of that that the old system could have coped with. We now have approximately 10,000 users from over 300 organisations; and the average daily page views are 14,000 with a peak of 18,500.
- 2.13 And if there are issues with the speed of change of the BSC to accommodate this, then changes to the BSC and its change process lie in the ESO's hands to raise, not ELEXON's.²

Whole system solutions: we seek a collaborative approach from the new ESO

- 2.14 We noted the following in our response to the earlier Ofgem consultation.
- 2.15 'With regards to the continuous improvement of ESO's processes... we think this should include, not only consideration of its own processes, but also how it might, for example, improve other code processes where it has the powers to do so.
- 2.16 We are thinking here that the ESO should be encouraged, when appropriate, to raise BSC (and other code) Modifications where it can see clear improvements. In respect of the BSC, raising Modifications for this purpose is something ELEXON is not currently permitted to do (see above for explanation). ELEXON would like to work collaboratively with the ESO on this.
- 2.17 For that reason, we also support Ofgem's proposal... to encourage the ESO in ensuring the code arrangements promote competition, which in our view would include:
- raising appropriate code Modifications where they are empowered to do so...;
 - actively participating in Modification meetings, and generally contributing to the Modification process where their expertise is required to identify the best solution from a consumer perspective; and
 - actively driving the implementation of their own supporting IT systems to time and budget, particularly where the final approved Modification is reliant on this.
- 2.18 But we think it should not be limited to competitive market matters (Role 2) but to any matter where the ESO can foresee potential or actual consumer benefit that it can initiate or help deliver.'

² Generally ELEXON is not permitted to raise a BSC Modification (in limited circumstances, we can make recommendations to raise one to the BSC Panel). For the future, we have suggested appropriate empowerment of code managers to raise changes, as part of our [proposals on code governance reform](#).

- 2.19 We believe that a metric to incentivise this behaviour should be added to the Technical Annexe.
- 2.20 And the whole systems approach must not be limited to supporting changes that will ultimately benefit the consumer, but also to incentivising sufficient ESO resource and attention is paid to operational issues, such as the provision of accurate and timely data for BSC processes and the early identification and resolution of any errors or issues.
- 2.21 We believe that a metric to incentivise operational data accuracy and timeliness should be added to the Technical Annexe.
- 2.22 In summary, we believe that the incentive scheme must take a truly whole systems approach, not limited to an interpretation of 'system' as being transmission and distribution. For example, how easy would it be for the ESO to lower priorities on the provision of information/resource necessary for ELEXON to analyse and implement BSC changes if these are not in the overall reward scheme?
- 2.23 There must be no gaps in the coverage of the potential rewards/risks otherwise it will focus ESO management attention and resource on those areas where there is money to be made at the expense of other areas of ESO work and that may cost the industry and the consumer overall.

Accuracy in reporting on performance metrics

- 2.24 We recognise that with financial incentives governing the ESO's behaviour there is a need for accuracy and transparency in reporting on its own performance. We recognise that there could be concerns that the ESO will have natural incentives to downplay the roles of others in supporting achievements; or to downplay their own role in any underperformance, but we would hope that the ESO will be able to avoid this in reporting on its own performance.
- 2.25 It is therefore with disappointment that ELEXON has to draw your attention to some factually incorrect and, what we believe are, misleading statements in the Forward Plan as follows.
- On page 7 of the Delivery Schedule, it is stated: 'we settle and report on the outturn of the balancing mechanism and ancillary service contracts'. This is incorrect as the ESO undertakes only settlement and reporting of ancillary service contracts, while ELEXON, not the ESO, administers the settlement of balancing mechanism trades under the BSC and reports on the outturn on BMRS. We would ask ESO to correct this statement.
 - On page 9 of the Technical Annexe, it is stated that: 'Stakeholders have told us that they want information about trades enacted by the ESO to be published more quickly than via ELEXON. Therefore the ESO has invested in a new platform to allow these to be published.' We regard this statement as ambiguous and highly misleading. The facts and our understanding from having discussed with National Grid, most recently in December 2017, are as follows.
 - ELEXON's BMRS has never published balancing service or ancillary service trade data, only Balancing Mechanism acceptances, although we do publish data required by the European Transparency Regulation³ that is related to ancillary services.

³ European Commission Regulation No 543/2013 of 14 June 2013.

- National Grid has always had separate systems for balancing services/ancillary services.
- National Grid informed us that it considered using BMRS as route to a temporary early publication of their trades before their platform was ready.
- We understand that National Grid took the decision to publish the data on its own, new system because the BSC Modification process to change BMRS would take too long, not because BMRS was slow as could be read into the statement. (A BSC Modification would normally be required because what is published on BMRS is currently specified in the BSC.)
- We note that National Grid can propose changes to the BSC, including to the BSC Modification process itself, but ELEXON cannot. This is another reason for encouraging the ESO to look at whole systems solutions.
- BMRS can actually report data very fast and is mandated by the BSC to publish bid-offer acceptances, for example, within 5 minutes of receipt from the ESO. This appears to be faster than the 'within one hour' proposed for the ESO Platform (page 9 of the Technical Annexe).
- We are not sure whether National Grid has or has not adopted the best long-term reporting solution by considering BMRS only as a temporary measure.
- In section 7 of the Technical Annexe (Reform of balancing services markets), we note that the ESO seeks to support the entry of new providers in offering balancing services which is a laudable aim. However, in footnote 12 on page 16, ESO states that ensuring a level playing field for market access is an external factor outside ESO's control and cites 'non-BM access to the Balancing Mechanism' and 'suppliers (imbalance)' as examples. This is misleading as the ESO and ELEXON are actively working jointly on ensuring non-BM access via Project TERRE Modifications to both the BSC and the Grid Code; and any changes to the BSC related to imbalance calculations can be raised by National Grid.

2.26 In our view, the incentive reward should be reduced if ESO is found to be ignoring, wrongly attributing or wrongly describing, tasks, successes or failures.

ESO IT Systems Forum – our comments

2.27 We note that ESO plans to launch its new IT Systems Forum in April (page 6 of the Forward Plan). We have previously responded to National Grid's recent survey regarding the creation of this Forum (then termed a 'User Group') and our response can be found [here](#).

2.28 The following is a short summary of the key messages from our response.

2.29 'We agree that the industry is undergoing significant change. To meet the challenge, we believe that effective, industry-wide coordination is necessary to ensure the development and delivery of changes to existing systems and the introduction of new systems, technology and capability. We are already proactively developing our IS Architectural Strategy, including the deployment of advanced cloud based capabilities. In this regard we are looking to partner with others in the industry in the development of industry-wide, advanced IS architecture, setting common standards, the sharing of best practice and the validation of new systems and technology.

2.30 It is encouraging that National Grid is considering the creation of an IS user group. However, to date National Grid has provided very limited details describing the group's terms of

reference (in particular the scope, objectives, and level of participation expected). We believe clarifying these is essential to ensure the group's effectiveness.'

Equivalent treatment for equivalent work: comparison with ELEXON

- 2.31 We believe that there are many advantages to a not-for-profit model, but we recognise that this is not the current plan for the ESO. However, we do want to ensure, within the constraints of the various business models equivalent treatment for equivalent work for ELEXON and the ESO. We give some examples below.
- 2.32 On page 7 of the Delivery Schedule:
- It is noted that ESO 'supports new and existing providers to help them participate'. ELEXON also does this via its very well-respected Operational Support Manager (OSM) service and dedicated Market Entry team.
 - ELEXON is working jointly with the ESO on the implementation of TERRE⁴ in GB. And ELEXON has led on proposals for enabling new types of service provider, such as independent aggregators, to participate both in TERRE and the GB Balancing Mechanism.
- 2.33 The metrics for BSUoS billing (section 10 of the Technical Annex) are directly comparable with ELEXON's metrics for BSC billing. So we would expect equivalent metrics, but as far as we can tell (because the ESO metrics on this point are somewhat vague - this is considered further in the next comment below) they are less onerous. For example, ELEXON has a target of having 100% of billing runs on time; and also targets for payments to be made. And we aim to have the top three levels of priority queries resolved (including any fixes implemented) within a maximum five working days.

Precision needed in the performance metrics to ensure well-defined, measurable objectives

- 2.34 We note that there is a certain vagueness in a number of the proposed metrics that make it difficult to define what under- and over-performance will be at year end. Some examples are given below.
- 2.35 On page 5 of the Delivery Schedule:
- 'successful hosting of our Ops Forum events'. How is 'success' to be measured?
 - 'expansion of our channels of information dissemination'. We have doubts as to whether this is an appropriate objective – see our comments on fragmented information above - but if adopted, how will expansion performance be measured?
 - 'more accessible channels'. How will accessibility be measured/benchmarked?
- 2.36 On page 7 of the Delivery Schedule:
- 'our progress can be measured by... publication of information on real-time trading activity'. What publication precisely and what does success look like? (Note also that BMRS already publishes real-time information on balancing mechanism trades (acceptances).)

⁴ One of the legal requirements of the recently enacted European Electricity Balancing Guideline is for European Transmission System Operators to design and build arrangements for sharing balancing energy. One of these will be delivered by Project TERRE for sharing Replacement Reserve.

- 2.37 Regarding reform of the balancing services markets (section 7 of the Technical Annexe), the target is based on the product roadmap, in two separate documents, one of which is not yet published. The future Performance Panel will need to see precise targets set at year beginning so that they can review the Plan 'to ensure it is comprehensive and challenging'⁵.
- 2.38 Regarding BSUoS billing (section 10 of the Technical Annexe), the Query response time metric is imprecise. As written, the ESO would exceed expectations simply by having an automatic acknowledgement system.

Code Administration: should the ESO aim higher?

- 2.39 We note that ESO admits that the 2017 Ofgem CACoP survey showed underperformance and that ESO's aim to improve performance in 2018.
- 2.40 We see a potential issue with aiming for an absolute performance increase, when a relative increase with regards to a basket of comparators, such as ELEXON's administration of the BSC, might be more appropriate. For example if the other code administrators all improve and the ESO also improves in absolute terms, but by the same or less than percentage point increase in the basket of comparators, some of whom have no financial incentive scheme, should the ESO be rewarded financially? We suggest the ESO could be more ambitious in its aspirations.

END

⁵ A requirement set out in Figure 5 of the [Ofgem consultation on the ESO Regulatory and Incentives Framework](#), published on 15 December 2017.