



Electricity System Operator Forward Plan

We welcome the publication of the ESO forward plan and are pleased that National Grid are seeking views from industry stakeholders on the plan and the proposed incentive scheme. The plan and the corresponding incentives will likely shape the work that the ESO carries out over the next few years, having a material impact on our business as a supplier, generator and aggregator.

At a high level, we are generally supportive of the strategic aims that the forward plan sets out. We are happy to see transparency of procurement decisions set out as a strategic priority ensuring that potential investors in flexibility are able to reduce the risk in their assumptions around the value that can be attributed to ancillary service markets, helping to reduce the total system cost to the end consumer. The aim to grow competitive provision of balancing services is welcome and should result in both more opportunities for our customers to actively take part in balancing the system as well as reducing the overall cost of balancing for the end consumer. It is important that the system operator retains momentum in its reform of ancillary services and we are therefore disappointed to see timescales slip back from what was expected in late 2017. Any efforts to ensure that this reform is as prompt as possible would be well received, especially in creating a frequency response procurement process that is closer to delivery (for example through day ahead auctions). We believe that more needs to be done to define the role of a more independent system operator. It should be made clear that the ESO will be a neutral market facilitator that will be technology agnostic and will not look to make choices that will bias future power system design.

At the more detailed level, whilst we do not have specific concerns about each of the proposed incentives within the technical annexe, we would like to highlight two areas where we believe further consideration is required.

Firstly, we believe that the incentive structures are an extremely important part of the forward plan and will essentially shape the behaviour of the ESO during the incentive period, so the ESO should do as much as possible to understand any unintended consequences of such incentives. For example, performance metrics on market diversity will shape how markets are formulated and run. One concern is that it could transpire that there is a clear technology winner that provides a service at the lowest cost compared to other options, so that other options do not participate. The performance metric *could* incentivise National Grid to change the market framework to aid the participation of more costly technologies. This would not be in the interest of the end consumer. A different way to assess against market diversity could be to measure how National Grid has performed in making accessing markets easier for all potential participants. For example, part of this could be through provision of a long term forecast of balancing service demand, which is something that we believe would be useful to a number of different new technologies.



Secondly, we believe that the targets within the performance metrics need to be very carefully formulated in order to ensure value for the end customer. The “On Target” metrics should be independently baselined; these targets should be what the ESO could realistically expect to deliver as business as usual activity if it was subject to a competitive market. For example, most businesses would consider that a BAU NPS score would be >0, however the “On Target” score for NPS in performance metric 17 (Future GB Electricity Security) is effectively 0. We believe that on target should be >0 and above target should be more reflective of truly excellent service (scores of 9 and 10).

Overall we believe that the system operator is moving in the right direction in many areas. We would like to see this continue and are looking forward to continuing engagement on the “Future of the SO” work.

E.ON
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