

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

13 October 2017

National Grid's viewpoint on the regulatory and incentives framework for the Electricity System Operator (ESO) – ELEXON comments

We welcome the opportunity to comment on your viewpoint for the future regulatory and incentives framework for the ESO.

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 and EMR settlement arrangements. When the 'BSCCo' was established National Grid was established as sole shareholder, however our governance and funding is designed in such a way that National Grid has no effective control and ELEXON remains independent of National Grid. We expect this to continue under the future SO arrangements, where the licence provisions relating to the BSC (Section C3 of the Transmission Licence) are transferred to the new SO licence.

We note the 12 work package proposals and your proposed incentives for the 2018-21 period. We have provided a number of observations against a subset of those 12 work packages below. However we would make the following general observations about the regulatory and incentive regime as a whole.

Expectations for delivery against the four roles identified for the ESO

Ofgem has identified four roles for the Future SO. In identifying how successful the ESO is in delivering these roles it will be important to understand what should be considered as 'business as usual' and what is driving additional value for stakeholders and consumers. This will help to clarify for users what the minimum expectations are but also how a for-profit but 'more independent' ESO earns additional revenues (or is allowed to retain monies). If for example, Ofgem (or stakeholders) believes there are roles and services which the SO should be better at delivering today (which presumably partly drives the need for greater separation), then should this improved level of service become the minimum expected service (even if this is at a level that requires greater focus and resources than today). So if it is important that the SO's forecast information and level of accuracy should be improved and more transparent then some measure should be set which states what is expected today before any additional incentive (and associated reward is developed).

A KPI for delivering change

As part of its role in facilitating whole system outcomes and competitive markets we would expect to see KPIs related to delivery of change. As a provider of critical systems, users are reliant on the ESO to deliver system changes in a timely, accurate and transparent manner. A KPI in this area would create a positive incentive on the ESO to deliver and allow users to develop their systems changes in a similarly timely and efficient manner.

Work Package specific comments

Work packages relating to principle 1 - 'Support market participants to make informed decisions by providing user friendly, comprehensive, and accurate information'

ELEXON notes that the ESO should be incentivised or required to ensure information is published and provided using the most effective mechanism for publication that avoids duplication or fragmentation. For example the ESO could meet this principle in part by publishing the data on its own website or the principle could also be met by the SO providing links and signposts to related information that is published on other sites. In considering how it meets its transparency principle for new information,

the ESO should therefore consider the most appropriate vehicle for publication (in consultation with users). For example the BMRS, which is a “one stop shop” reporting vehicle for electricity summary data used by hundreds of market participants, is not managed by the ESO but a number of data feeds come from the ESO. The ESO should be encouraged to utilise the BMRS alongside its own sites when considering where to publish information and where to bundle data items rather than creating any duplication or fragmentation across sites (or develop a strategy for data transparency in collaboration with ELEXON).

Work package entitled ‘To trial the role of code manager and to deliver strategic code priorities and cross code coordination’.

We agree with Ofgem’s proposals that ‘the SO should be encouraging and actively driving forward competitive solutions and approaches wherever competition would drive efficiency and lead to consumer benefits’. Therefore National Grid’s proposed approach to seeking to deliver the code manager role as intended by Ofgem is appropriate.

However we believe that it is not just the role of NG to do this but all code bodies. In fact, despite not being directly subject to its own licence, ELEXON has been successfully identifying improvements and engaging with industry since 2001, demonstrating a best in class service for users and delivering change consistently to time and budget. ELEXON has also led on cross code initiatives and developed the first comprehensive cross code forward work plan. It has demonstrated what a ‘code manager’ looks like and how it can work.

We believe there would be benefit therefore in also ensuring ELEXON, as the Code Manager for the BSC, has the ability to bring forward change to the BSC that seeks to deliver benefit to consumers. ELEXON is best placed to understand the potential for change under the BSC and how change can be implemented. ELEXON is also well placed to co-ordinate cross code change given its experience in this area, noted above.

Work package entitled ‘Represent British interests in European negotiations to seek to minimise or prevent bill increases generated by proposed changes or maximise bill savings’.

We have reservations about how effectively the ESO can ‘represent’ British interests as these are many and diverse and may not align with what the ESO wants itself. The success of the UK’s engagement with Europe pre and post Brexit relies on greater co-ordination across the UK/GB political, regulatory and industry frameworks to ensure the numerous channels into Europe deliver consistent messages, where appropriate. The work of ENTSO-e is often quite opaque to non-members and there remains a level of secrecy around ENTSO-e’s outputs which cause a conflict if the ESO is obliged to keep ENTSO-E discussions confidential. Does the ESO wish to represent the broader interests of GB stakeholders in all these forums or be able to lobby for its own position? If the ESO desired to represent ‘UK’ would it agree to submit to be bound to follow the decisions of a JESG-type decision making body?

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

In addition I have included the following link to our response to Ofgem’s initial thinking on the ESO regulatory framework, which reflects some of the comments made in this response:

https://www.elexon.co.uk/wp-content/uploads/2017/09/ELEXON-comments_SO_regulatory-framework-proposals.pdf



If you would like to discuss any areas of our response, please contact Steve Wilkin, on 020 7380 4253, or by e-mail at steve.wilkin@elxon.co.uk.

Yours sincerely,

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