

Monthly Monitoring Meeting

Friday 29 January 2021, 10:00 – 12:00

Teleconference

AGENDA

| Ref | Time | Title | Owner |
|-----|------------------|---|-------|
| 1 | 10:05 – 10:20 | SME slot – Balancing Costs | ESO |
| 2 | 10:20 – 10:35 | SME slot – Transparency of Operational Decision Making | ESO |
| 3 | 10:35 – 10:50 | SME slot – Early Competition Phase 3 | ESO |
| 4 | 10:50 – 11:05 | SME slot – Wind Forecasting | ESO |
| 5 | 11:05 – 11:15 | ESO to highlight any notable points from the published report | ESO |
| 6 | 11:15 – 11:25 | ESO to take questions on the published report | ESO |
| 7 | 11:25 – 11:35 | Ofgem to give feedback on ESO performance | Ofgem |
| 8 | 11:35 – 11:45 | Review actions & AOB | All |

Meeting record

Monthly Monitoring Meeting

Date: 29 January 2021
Time: 10:00 – 12:00
Venue/format: Teleconference

ACTIONS

| Meeting No. | Action No. | Date Raised | Target Date | Resp. | Description | Status |
|-------------|------------|-------------|-------------|---------------|--|--------|
| 30 | 69 | 8/1/21 | April 2021 | ESO | Demonstrate plan to lower Constraint costs | Open |
| 30 | 70 | 8/1/21 | 5/2/21 | ESO | Share scope of 'Joining the dots' work | Open |
| 30 | 71 | 8/1/21 | May 2021 | ESO/ Ofgem | Discuss what Panel would want to see from "Deep dive" on Role 3 activities for the end of the year following on from 'Joining the dots' session. | Open |
| 30 | 72 | 29/1/21 | 26/2/21 | ESO/ Ofgem | Organise session with ESO wind forecasting team to discuss performance data changes | Open |
| 30 | 73 | 29/1/21 | 26/2/21 | ESO | SME to present at next monthly meeting to discuss 1E customer values metric | Open |
| 30 | 74 | 29/1/21 | 26/2/21 | ESO | SME to present at next monthly meeting to discuss Network Options Assessment (NOA) publication | Open |
| 30 | 75 | 29/1/21 | May 2021 | ESO/ Ofgem | Discuss what Panel will want to see in the end of year report. ESO to share a mock version to find out the priorities. | Closed |

MAIN ITEMS OF INTEREST

1. SME slot – Balancing costs

The Electricity System Operator (ESO) presenter gave commentary on the £161m outturn against the £126.6m benchmark.

Key points:

- December 2020 was slightly higher than December 2019, but with similar distribution of costs. Energy and Constraints both increased but RoCoF, Reactive and Black Start were largely unchanged.
- December costs were lower than November with £9.3m more on energy balancing, reserve and response, £47m less on constraints, £0.5m more on RoCoF, £4.1m less on Black Start and £0.5m more on Reactive
- Demand was higher in December than November as the country emerged from the second lockdown. A 5% to 10% reduction than pre COVID-19 expectation and dropping further over Christmas. This increase in Demand led to some tight margins across the month and a Capacity Market Notice (CMN) was called for on 3 December.
- As a result of the higher demands and tighter margins, Energy Imbalance and Operating Reserve costs have risen as generators have increased the prices in response to the relative scarcity of available MWs. The average price ESO pay for these MWs has increased significantly from £32.15 in November to £70.09 in December.
- Wind output was higher than November but slightly lower than December last year.
- ESO described some examples of Control Room cost saving actions.

Q&A Section:

Q1: Energy costs were as high as they have been since the low demand period in May. Was this driven solely by the tight margin periods? If so, are energy costs expected to increase more next month due to the recent CMNs.

A1: This was demonstrated during the presentation on the Energy Costs Margin Price graph. ESO are seeing a lot of tight margins, particularly when the wind is low. The generators that are available in the BM tend to increase their price. Unfortunately, there is nothing the ESO can do to prevent this as it is supply and demand. ESO try to despatch as economically as possible. Prices will look similar in January depending on margins.

Q2: December saw overall constraint costs decrease due to the system being more intact. However, constraint costs around the Cheviot boundary increased by approximately £10m compared to last month what were the drivers of this?

A2: The constraints in the north are called nested, so when there are high winds in Scotland there are several constraints that can become active. Depends on which one occurs first. In November several wind farms were out of service and it was the SHARN-3 boundary that happened first. In November there were system outages affecting the capacity across the SSHARN-3 boundary and therefore it was the SSHARN-3 constraint that happened first. Now this network is back intact, ESO saw more distribution among the different boundaries in December. SSHARN-3 was still the main constraint, but sometimes other constraints would occur first depending on the generation profile. The actions to resolve will be similar whichever constraint is occurring.

2. SME slot – Transparency of Operational Decision Making

Key points:

- ESO covered the status of the Dispatch Transparency work. Dispatch Transparency is the name of the tool and process the ESO are working with to deliver the Forward Plan deliverable 'Transparency of data used by our ENCC in our close-to-real-time decision making: Data to support better understanding our dispatch decisions.'
- This tool developed in Python analyses actions taken in the Balancing Mechanism (BM), the actions are sorted into categories. ESO then group any actions which appear to be Potential Skips into reason groups to identify themes. ESO will publish the data, including all actions taken and why, along with categories and reason codes onto the Data Portal the day after. The reason groupings allow focused process improvement identification and action.
- ESO plan to publish the methodology and data on the Data Portal in Q4 2020-21.

Q&A Section:

Q1: Will the 'day after' data published be saved on the Data Portal?

A1: Yes, it will be a csv file accessed through API which is preferred by users. Will also be part of RIIO-2 metrics reporting.

Q2: What has stakeholder feedback been?

A2: Stakeholders have been positive that ESO have taken this issue on board. This is not a high cash flow issue for the ESO, however the impact it makes to individual market participants is understood. ESO have received good feedback on the approach to improve this process and providing the data.

ESO responded to Ofgem's other questions regarding categorisation details.

3. SME slot – Early Competition Phase 3

Key points:

- ESO launched the phase 3 consultation in December which outlines the near final proposals subject to stakeholder feedback. This has a longer consultation window in response to feedback due to complexities. ESO did a launch webinar to highlight key points supported with Q&A sessions. Consultation closes 15 February.
- In terms of stakeholder interactions, ESO have done a lot of virtual engagement with running workshops and webinars, attending other industry events and holding bilateral meetings with stakeholders to seek views on various elements. ESO established a stakeholder challenge group (ESO Networks Stakeholder Group (ENSG)) which has 15 representatives from impacted stakeholder groups. It is set up to challenge our stakeholder engagement and how we have reflected

stakeholder feedback in our proposals. ESO have also issued published communications such as newsletters and podcasts.

- There are areas of our proposals where ESO have received wide ranging views from stakeholders. These are:
 - What should the eligibility criteria be, and should there be a value threshold?
ESO are not recommending a value threshold. Through our pathfinders, there is evidence that there is value being driven through competing with smaller projects. Also, to keep consistency with other competition tendering, that 'new and separable' remain applicable criteria. ESO have added a 'certainty' criteria, and as part of the planning process there is a requirement for a solution to address a need in at least two Future Energy Scenarios (FES). Rather than a set value threshold, doing a Cost Benefit Assessment (CBA) for each individual project would be more beneficial.
 - How TOs should participate in the competition, if at all and what would be their role?
ESO view is they should be able to compete as they have good experience and have the potential to be the most competitive solution. In order to run a fair and transparent process the TOs should compete on the same basis as all other bidders. Received a range of stakeholder views, while some agree, some think incumbent TO should not compete and others think the incumbent TO option should be the counterfactual solution.
 - If the TOs are going to compete in the competition, then what role does it have in network planning? ESO have engaged with TOs on this and have set out options in the Phase 3 consultation to seek further feedback.
 - How will the ESO ensure tender process and contract/ licence content fairness for network and non-network solutions?
The challenge is to ensure that regardless of whether people win a contract or licence they have similar obligations. There will be natural differences depending on the solutions, e.g. wouldn't expect non-network to have a new connection obligation. Licenced solutions give greater scope for recourse actions, for example Provider of last resort can't be applied for non-network. This is something that will need to be defined during implementation and may vary project to project.
 - Is the post preliminary works cost assessment process methodology, adjustment cap and performance bond viable?
New approaches are needed with careful balancing of risks between bidders and consumers to make sure consumers are not taking on too much risk, but that competition remains attractive to participants. An adjustment cap and performance bond would need to be set per tender. Cost assessment process methodology needs agreeing between Ofgem and procurement body.
 - How do the ESO increase future consultation responses and better communication of next steps beyond April 2021?
ESO to continue working with ENSG and the ESO's internal corporate affairs team to leverage contacts and increase scope. ESO have done a session with the International Project Finance Association (IPFA) with positive feedback from the ENSG members. ESO to also set out in the consultation

the next steps to be taken by Ofgem on early competition and BEIS regarding legislation.

- A summary will be published in March on how the consultation response will influence our final proposals before final submission to Ofgem in April 2021.

Q&A Section:

Q1: Are the ESO applying the thinking and learning from this early competition work to the pathfinders as there is a clear link and an opportunity to trial it?

A1: ESO are looking at this and are considering the bigger question of how these all fit together and what the long term position is if/ when early competition is introduced. ESO are working through what is appropriate for different tendering needs and how learning can be applied. The team have engaged with the pathfinder teams throughout the process and have applied the learnings to early competition.

4. SME slot – Wind Forecasting

Key points:

- Wind Forecasting Performance to date: four out of nine months the ESO has met its performance target. The Mean Absolute Percentage Error (MAPE) after 9 months is 5.20%. The annual MAPE is in-line with the expectation criteria which is between 5.01% & 5.54%. Therefore, the metric performance is in line with expectations after 9 months. ESO feel confident that forecasting will continue to be more in line with expectations going forward.
- Previous forecasting errors were caused by missing data for the performance calculation. All months leading up to September's performance changes were minor, around 0.2%. The major changes were in October and November. This has now been corrected and Ofgem's related questions will be responded to in a separate document. Previous incentives reports have been updated on the ESO website.
- Fundamental drivers for impacts on current and potential future performance were discussed.
- Various improvements the ESO have made so far for 2020-21 were outlined as well as future planned improvements. These will be outlined in more detail in the incentives end of year 2020-21 report.

5. ESO to highlight any notable points from the published report

ESO summarised the key points from the report.

6. ESO to answer any questions which Ofgem have sent prior to the meeting regarding the recently published report

Balancing questions answered during presentation. See above.

Reponses to wind forecasting questions will be sent directly to Ofgem on 1 March 2021

Q1: Improving Information Access deliverable: Noted that Digital Data strategies has been delivered but is there an update on the Data Foundation project that was due to be delivered in Q3?

A1: The project has received sanction and will deliver foundational elements in Q4 2020-21.

Q2: Platform for Energy Forecasting: Is there any update on the deliverables mentioned in the PEF roadmap for Q3? Also has the ESO met its target of publishing 2-52 week ahead national demand forecasts.

A2: The 2-52 weeks publication was delivered in Q3 2020-21. It can be found on the [ESO Data Portal](#).

7. ESO to take other questions on the published report

Q1: Metric 3E Future balancing costs saved by operability solutions, where have the numbers derived from?

A1: The team have looked at what the ESO expect to spend on balancing costs over each of the RII0-2 years, and how much we will spend on the contracts. (ESO to provide further information in end of year report).

8. Ofgem to give feedback on ESO performance

Ofgem suggested ESO compare deliverables to Forward Plan Addendum when writing end of year report, including sub deliverables. One good example was the Stability Pathfinder deliverable.

Internal feedback from Ofgem included that there was good engagement from the ESO representative at the BSC panel. The Ofgem code admin team feel the representative is always well prepared for responses to challenges from industry and also holds other parties to account where necessary.

It is good that the ESO are commissioning a survey in a similar format to CaCoP. Ofgem are considering asking stakeholders when they do their Call for Evidence to ask for specific code admin feedback. ESO to provide survey questions.

Good to see movement on Reactive power as it has been an area that's been delayed and reprioritised.

The ESO has been helpful explaining the toolkit to manage Constraints each month. Panel will dive into this more at the end of the year, they will want to understand the benefits of the actions taken and also ESO alternative decisions.

9. Review Actions and AOB

Closed action 67-68
 Added actions 72-75

Appendix 2 – Previously Closed Actions

| Meeting No. | Action No. | Date Raised | Target Date | Resp. | Description | Status |
|--------------------|-------------------|--------------------|--------------------|--------------|--|---------------|
| 27 | 64 | 1 Sep | 18 Sep | Ofgem | Ofgem to send through the forward plan addendum feedback | Closed |
| 27 | 65 | 1 Sep | 31 Sep | Ofgem | Ofgem to confirm the date for the mid-year panel event | Closed |
| 28 | 66 | 3 Nov | 8 Jan | ESO | ESO to share views on the interactions between the Constraint Management Pathfinder and the possible RIIO-T2 incentive that could allow TOs to earn a payment based on a share of the cost saving actions that may reduce constraint costs | Closed |
| 29 | 67 | 8/1/21 | 29/1/21 | Ofgem | Follow up questions on ESO response to the interactions between the Constraint Management Pathfinder and the possible RIIO-T2 incentive | Closed |
| 29 | 68 | 8/1/21 | 29/1/21 | ESO | SME to present at next monthly meeting to discuss wind forecasting metric and how ESO are addressing errors | Closed |

