



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

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The Electricity System Operator Forward Plan from April 2018

Dear Charlotte,

We are pleased to be invited to respond to this consultation. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

We would have valued more time to consider our response. However, we found the Forward Plan Consultation event held on 22nd February useful and informative. We also welcomed the opportunity to bilaterally discuss our emerging views with you prior to submitting this response. Please also see our [response](#) to Ofgem's consultation on the Electricity System Operator (ESO) regulatory and incentives framework from April 2018.

We considered a number of principles when reviewing the ESO's first Forward Plan, which were:

- **Controllable:** The ESO should have a reasonable ability to control or influence whether the stated outcome is met. Any scope for windfall gains or losses driven by other actors or external factors should be nil, or very limited.
- **Stretching:** the ESO is already remunerated for providing a good service under its baseline RIIO settlement. Any rewards on top of that need to reflect genuine excellence. Where an incentive rolls over from year to year, historic performance should be set out and contextualised so that the degree of stretch can be gauged.
- **Bankable:** as the ESO improves its performance over time, the targets should move to 'bank' past gains. It shouldn't be able to be rewarded for hitting the same unchanging target every year.
- **Proportionate:** the ESO should prioritise bigger wins over smaller ones. To do this, the ESO needs to understand and demonstrate the wider costs and benefits of its work, and the incentive regime itself needs to be

proportionate - i.e. bigger wins/losses should come with more cash attached to them.

- Measurable: objective targets that can be operationalised and will give clear and stable signals. We recognise that the ESO may have a limited ability to reliably understand/forecast whether it will be rewarded or not until the new incentive and regulatory regime from April 2018 has bedded in.

This response focuses on the detail contained in the technical annexe. We have categorised the performance metrics into three 'pots' - 'right incentive, right target', 'right incentive, wrong or insufficiently evidenced target' and 'wrong incentive'.

Right Incentive, Right Target

We believe that the following performance metrics seem reasonable and therefore we have no further view at this time:

Forecasting Accuracy (1), trades data transparency (4), balancing costs management (6), reform of balancing services markets (7), charging futures (12), whole system optionality (13), whole system - unlocking cross-boundary solutions (14), connections agreement management (15), system access management (16)

Please note that given the constrained timescales for consultation we have not been able to fully review how challenging some of these targets are where they are contingent on separately published roadmaps (for example, as in the case of reform of *balancing services markets (7)*).

Right Incentive, Wrong or Insufficiently Evidenced Target

We believe that the following performance metrics have merit, but are either not correctly calibrated or insufficiently evidenced:

BSUoS forecast provision (2) - The principle of issuing a forecast seems reasonable but we cannot gauge how challenging the timeliness targets are. For example, there is no information on whether this will be a manual or automated process. Given that these are new forecasts we believe that it would be better to measure accuracy of information rather than timeliness. It would also be useful to measure how useful market participants find the forecasts - whether they are regarded as credible and trusted. We understand that the ESO will look to develop this metric for the second Forward Plan to include accuracy of information as the stretch objective.

Information provision information (5) - We are unsure of the value of regional CO2 forecasts given our targets are national, not regional. We would welcome further clarification on this incentive.

New provider on-boarding (8) - We do not rule out the possibility that new entrants to the market are harder to please than incumbents, but the ESO has provided no evidence to demonstrate that this is the case. Unless it can do so, we think it would be appropriate to set satisfaction targets at similar levels to those set for existing market players. Therefore, the target of between 50-70% seems unambitious. We are unable to provide any comment on the second metric as the detail has not yet been provided.

Code administrator - stakeholder satisfaction (11) - We feel that while this is a reasonable area for an incentive the target doesn't feel challenging. At the consultation event stakeholders were advised that current satisfaction ratings are currently in the 30%s. A 7% increase on this starting point seems underwhelming and unambitious to be 'baseline', and could result in the ESO receiving outperformance rewards despite achieving an absolute level of performance that the majority of respondents considered to be inadequate

Future GB electricity system security (17) - As per our response to performance metric 8 - *New provider on-boarding*, the target of 50-70% seems unambitious.

NOA consumer benefit (18) - We recognise that performance targets for consumer benefit can be difficult to calculate year on year based on the various system constraints which need to be evaluated in any given year. Therefore, we suggest that metric becomes discretionary with reward or penalty recommended by the Performance Panel.

NOA engagement (19) - Given that the ambition for NOA is to engage with a large number of parties within the industry, the targets base on historic engagement numbers appear to be conservative.

Customer and stakeholder satisfaction (20) - We are unclear as to what is defined as a *significant* increase in score - i.e. will this be a defined percentage increase? It is difficult at this stage for us to have an opinion as to whether this metric is challenging. The ESO will need to evidence that feedback through the customer and

stakeholder satisfaction surveys is meaningful, but not overly time consuming for respondents, and that feedback is acted on.

Wrong Incentive

We believe that the following performance metrics are not appropriate:

Commercial assessment transparency (3) - We are not convinced that this isn't (or shouldn't be) business as usual. Reaching & publicising procurement decisions in a timely manner is a basic business competence that we consider the ESO is already remunerated for through its baseline RIIO settlement. The 'exceeding expectation' definition appears not to be particularly challenging. However, if this was a 'downside' only measure, i.e. if baseline is met no reward is paid, if baseline is not met a penalty is applied, we could be convinced that this metric could be useful to monitor the ESO's performance.

Market diversity (9) - We believe this metric may duplicate or overlap with performance metric 8 - New provider on-boarding. In any case, the target seems unambitious. A continuation of trend line could be seen as status quo rather than outperformance. There are also a lot of factors outside the ESOs control within this performance metric. Therefore, we are not convinced this is a good area for an incentive.

BSUoS billing (10) - Similarly to *commercial assessment transparency (3)*, we think that timely and accurate billing reflects a basic performance expectation that network users have already paid for through the baseline RIIO settlement. However, if this was a 'downside' only measure, i.e. if baseline is met no reward is paid, if baseline is not met a penalty is applied, we could be convinced that this metric could be useful to monitor the ESO's performance.

I trust that this response is clear, but would be happy to discuss any matter raised within it in more depth if that would be helpful.

Yours sincerely

Stew Horne

Principal Policy Manager, Energy Regulation