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25 January 2020

Citizens Advice response to Statutory Consultation on The Electricity System Operator Reporting and Incentives Arrangements: Guidance Document

Dear Ofgem ESO Performance Team,

Thank you for the opportunity to respond to this consultation.

This submission was prepared by Citizens Advice. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. This document is not confidential.

There are many aspects we support in the reporting and incentives design. For example, the frequent feedback to the ESO; visibility of incentive reward process and an independent chair. We see the value of streamlining reporting arrangements and encourage aligning reporting to industry and to the regulator where possible, with a clear emphasis on the most relevant criteria in each role.

We are responding to this consultation to encourage the reporting and incentive reform to contribute to indicators of consumer value from the balancing market. The reporting and incentive model that Ofgem is outlining towards benchmarking balancing and forecasting is at a particularly challenging time due to the volatility of the balancing market and the uncertainty of forecasting caused by long term lockdown and the changing generation mix. We think that reporting and incentives are key mechanisms to encourage the balancing process to better support the flexibility requirements of the energy system.

Patron HRH The Princess Royal Chief Executive Dame Gillian Guy

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Charity registration number 279057 VAT number 726 0202 76 Company limited by guarantee Registered number 1436945 England

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The reporting and incentive process needs to support transparent indicators of the way in which the balancing mechanism is perceived to be working to meet future system needs. This is vital to ensure consumers do not stay on the hook for increasingly large balancing service costs, particularly where they are due to poor market indicators of system calibration to deal with increasing fluctuation of supply and demand.

We note that Ofgem are proposing that the last 2 years of balancing costs data (with equal weighting) are used to set a benchmark which accounts for the fact that there is likely to be an enduring impact from COVID-19 into the 2021-22 financial year. It is clear that no benchmark will be ideal and all benchmarks will need additional adjustments. The proposed approach places a vital role on the additional commentary to monthly metric reporting to explain the reasons for any deviations from the benchmark. As with forecasting, the impact of COVID-19 lockdowns will also impact on the calculation of a benchmark using recent data and potentially for the RIIO2 period. In a similar fashion, this creates a vital role for commentary sitting alongside the metric to explain transparently the key factors which have led to the outturn deviating from the monthly benchmark.

We hope that Ofgem bears in mind that balancing costs are an outcome of market design and they need to use all the levers available to monitor and assess the efficiency of these services. We appreciate that there are significant external factors placing additional demands on the process. However, we would not expect COVID19 and reliability of supply issues to be discounted as largely temporal events against set benchmarks. Particularly as there is likely to be a need for an energy system with far greater flexibility to manage the electrification and heat load efficiently.

Kind regards

Ed Rees

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