

# Report

## Annual report on the EMR Delivery Body's Performance of its functions in relation to the Capacity Market

**Publication date:** 4 September 2020

**Contact:** Ben Harries

**Team:** Wholesale Markets

**Tel:** 020 7901 7413

**Email:** [EMR@ofgem.gov.uk](mailto:EMR@ofgem.gov.uk)

The Electricity Capacity Regulations 2014 require us to provide the Secretary of State with an annual report on the Electricity Market Reform Delivery Body's performance of its functions in relation to the Capacity Market. We also cover the performance of the Delivery Body in relation to the Contracts for Difference regime.

This is the sixth of these annual reports, following the 2019/20 T-3, T-1 and T-4 Capacity Market Auctions for Delivery Years 2022/23, 2020/21 and 2023/24 respectively. The 2019/20 T-3 Auction replaced the 2018/19 T-4 Auction as a result of the Capacity Market suspension from November 2018 to October 2019. This report covers the period from 1 April 2019 to 31 March 2020.

© Crown copyright 2020

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at: 10 South Colonnade, Canary Wharf, London, E14 4PU. Alternatively, please call Ofgem on 0207 901 7000.

This publication is available at [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Any enquiries regarding the use and re-use of this information resource should be sent to: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

---

## Executive Summary

The Electricity Capacity Regulations 2014<sup>1</sup> (the Regulations) require us<sup>2</sup> to provide the Secretary of State with an annual report on the Electricity Market Reform (EMR) Delivery Body’s (DB) (National Grid Electricity System Operator Limited, NGESO)<sup>3</sup> performance of its functions in relation to the Capacity Market (CM). This is the sixth of these annual reports, following the Capacity Auctions (Auctions) held in January, February and March 2020, covering the period from 1 April 2019 to 31 March 2020. We incentivise NGESO’s performance in its role as the EMR DB through financial and reputational measures as set out in NGESO’s Electricity Transmission Licence Special Conditions (Special Licence Conditions) 4L<sup>4</sup>. This performance assessment is independent of NGESO’s performance assessment in its role as Great Britain’s System Operator.

For context in our assessment of the DB’s performance, the CM scheme was suspended from 15 November 2018 to 24 October 2019, pending a review by the European Commission (EC). We discussed in our previous annual report<sup>5</sup> the impact this had on NGESO, in its role as the EMR DB. During this period, the DB were required to continue operating aspects of the CM scheme, requiring continued engagement with participants and Delivery Partners<sup>6</sup>. Furthermore, the Department for Business, Energy and Industrial Strategy (BEIS) made necessary changes to the CM Rules<sup>7</sup> (Rules) relating to CM milestones. The DB were required to prioritise amendments to the Information Technology (IT) system (‘EMR Portal’) to implement these unforeseen Rule changes.

During the performance year, there has been an improvement in the DB’s Prequalification process for the CM. It is a positive step that there has once again been a reduction in the number of CM Prequalification requests for reconsideration to the DB, and appeals to Ofgem as the Authority during this reporting period. We believe that the DB have improved their engagement with CM Applicants to ensure clearer Prequalification guidance, in addition to Applicants becoming more familiar with the Rules and the CM Application

---

<sup>1</sup> See: [Electricity Capacity Regulations 2014](#)

<sup>2</sup> The use of “we”, “us” and “our” refers to the Authority. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

<sup>3</sup> On 1<sup>st</sup> April 2019, NGESO was legally separated from NGET (National Grid Electricity Transmission), and therefore took the role of EMR DB. The term NGESO will we used throughout this report.

<sup>4</sup> Special Licence Conditions can accessed via the Electronic Public Register (ePR) found here: [Electronic Public Register \(ePR\)](#)

<sup>5</sup> See: [Annual report on the EMR Delivery Body’s Performance of its functions in relation to the Capacity Market 2018/19](#)

<sup>6</sup> See: [EMR Delivery Partners](#)

<sup>7</sup> See: [Capacity Market Rules](#)

---

process. Although we only overturned one case theme, we still believe there is room for improvement for the DB in relation to the application of the Rules to ensure they are applied consistently, and in a considered and balanced manner. The incentive value for the CM Disputes Resolution over the reporting period was £0 as a result of one decision being overturned. We did not receive any appeals to the Authority for the CfD Allocation Round 3 (AR3). NGESO received the full CfD Dispute Resolution Incentive value of £100,000. The total incentive value for Disputes Resolution over the reporting period was £100,000.

An important part of NGESO’s role as the EMR DB is peak demand forecasting. This is a critical input to determine the amount of capacity to procure in the T-1 and T-4 Auctions. This incentive has not been assessed in past annual reports whilst an independent review of NGESO’s forecasting methodology was carried out. In February 2020, this review concluded and found that the methodology, and hence the incentive, are both fit for purpose. During the reporting period, NGESO received +£1,351,000 for the Peak National Demand Forecasting Accuracy incentive given the accuracy of forecasting within 0.3GW for 2019/20.

The 2019/20 T-1 Auction saw a decreased amount of Prequalified Demand Side Response (DSR) from 2,125MW to 1,007MW. As a result, NGESO were penalised -£397,500. On 5<sup>th</sup> June 2020, following consultation<sup>8</sup>, we published our decision<sup>9</sup> to remove the DSR incentive from NGESO’s EMR incentive framework for the 2020/21 financial year.

In the 2019/20 reporting period, the DB conducted a CM and CfD Customer and Stakeholder Satisfaction Survey (CSSS). The DB received a satisfaction score of 8 out of 10 for the CfD AR3, a decrease of 0.5 points from the baseline CfD CSSS score achieved in 2015. Participants were satisfied with the DB’s engagement and improvements to the guidance documents. However, some participants noted the lack of knowledge and experience within the DB, and the need for improvements to the EMR Portal (CfD Portal) to improve usability and efficiency. NGESO were penalised -£99,300 due to the reduction in score against the baseline.

The DB received a score of 6.92 out of 10 for the 2019/20 CM CSSS; 0.58 points lower than the baseline score achieved in the 2015/16 CM CSSS. However, the DB achieved a minimal increase of 0.1 points from the previous CSSS score of 6.82 out of 10 achieved in

---

<sup>8</sup> See: [Statutory Consultation for adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs](#)

<sup>9</sup> See: [Decision on adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs](#)

2017/18. Participants reported high levels of satisfaction with the DB’s auction management and the Auction System’s ease of use. In addition, participants noted the improvement in accessing guidance documents and supporting material. However, participants also reported the need for an improved query management process, and improvements to the EMR Portal to ensure enhanced functionality. NGESO were penalised -£163,600 due to the reduction in score against the baseline.

Pursuant to Special Licence Condition 2N, NGESO must treat and keep all Confidential EMR Information (CEMRI) as confidential. The DB declared one CEMRI incident for unwarranted sharing of CEMRI information in April 2019. The incident occurred as a result of manual processes and insufficient documenting of processes. However, we have welcomed NGESO’s implementation of a change governance framework in Summer 2019 to mitigate future CEMRI incidents. We would like to see NGESO continue taking active steps to avoid any unwarranted incidents in future.

Overall in the performance year 2019/20, NGESO met the requirements for performing its role as the EMR DB and were awarded £790,600 in total incentive revenue. There were a number of positive areas in its performance, especially those arising from the CM suspension. In particular, the continued engagement with participants and the adaptability demonstrated by the DB to implement unforeseen regulatory changes, running of a delayed Auction in June 2019 and a re-arranged Auction in March 2020. We also recognise the improvements made by the DB to the Prequalification process over the reporting period.

Whilst we welcome, and acknowledge the areas the DB have performed well over the 2019/20 reporting period, we do have concerns related to the DB’s activities. Specifically, we have been made aware of a number of operational issues, the causes and severity of which we are still reviewing. We believe that it may be appropriate to consider further action to address these concerns, depending on the outcome of our evaluation of these performance issues. We are requesting an ‘Action Plan’ to address these issues.

In 2019, having recognised the critical feedback on the functionality of the existing system, the DB committed to delivering a replacement IT system by April 2021, subject to receiving appropriate funding. However, we recognise the mitigating circumstances that have affected progress on the project to develop a new EMR Portal but we are disappointed that the target to implement this by April 2021 will be missed. We are not confident that this timeline would have been met in any case, and we are not aware of a concerted effort to put in place the resources to deliver on expectations. Further, it is not clear to us when a significantly improved IT system will be delivered. We consider that there remains a need

for an improved EMR Portal, and request an ‘Action Plan’ alongside further engagement with the DB, on their plans and timelines for implementing a step-change in the functionality of this system. We retain the option to consider appointing an Independent Examiner to conduct a detailed review of the operational and IT related issues.

We continue to review the appropriate regulatory framework for the DB. As part of the RIIO-2 price control review, we have proposed that the EMR incentive framework is integrated within the wider NGESO incentives framework<sup>10</sup>. We believe this will drive improved performance by the DB in fulfilling its role in EMR delivery.

---

<sup>10</sup> See: [RIIO-2 Draft Determinations](#)

## Contents

<b>Executive Summary .....</b>	<b>3</b>
<b>1. Background.....</b>	<b>8</b>
Scope of the Report .....	8
Capacity Market Deliverables.....	9
Financial and Reputational Incentives .....	10
<b>2. Review of NGENSO Performance .....</b>	<b>12</b>
Overview .....	12
Deliverables .....	12
Dispute Resolution .....	14
Peak National Demand Forecasting Accuracy .....	17
DSR Participation .....	20
Customer and Stakeholder Engagement .....	22
Data Compliance .....	25
Information Technology .....	26
Capacity Market Operational Issues.....	30
<b>3. Conclusion .....</b>	<b>32</b>

## 1. Background

### Scope of the Report

- 1.1. This report examines the performance of National Grid Electricity System Operator’s (NGESO’s) functions as the Electricity Market Reform (EMR) Delivery Body (DB). The report considers the 2019/20 financial year, 1 April 2019 to 31 March 2020, with performance assessed against the financial and reputational incentives set upon NGESO. The report includes Capacity Market (CM) Prequalification for the 2019/20 T-3, T-1 and T-4 Capacity Auctions (Auctions). In addition, the 2019 Contracts for Difference (CfD) Allocation Round 3 (AR3) Prequalification is included. The report also records material operational issues that occurred during the reporting period.
- 1.2. Regulation 83 of the Electricity Capacity Regulations 2014<sup>11</sup> (as amended) (Regulations) requires the Authority, six months after either the completion of each T-4 Auction or if no auction is held, the end of that Capacity Year, to provide the Secretary of State with annual reports<sup>12</sup> on:
  - The operation of the CM; and
  - The DB’s performance of its functions in relation to the CM.
- 1.3. Whilst we are required to report on the CM, we also report on the DB’s performance in relation to their other role in managing the CfD regime in order to fully assess performance and to determine the impact on incentives.
- 1.4. In parallel to providing the reports directly to the Secretary of State, we are required to make them publicly available. This report will be published on our website.

---

<sup>11</sup> See: [Electricity Capacity Regulations 2014](#)

<sup>12</sup> See: [Electricity Market Reform Reports](#)

## Capacity Market Deliverables

1.5. The DB’s deliverables in relation to the CM are set out in the Regulations and includes the:

- Preparation, delivery to the Secretary of State and publication of an annual Electricity Capacity Report, containing an assessment of the amount of capacity that is needed for a delivery year;
- Publication of Auction Guidelines before the start of a Prequalification Window, containing information on when auctions are to start, details on how to apply to prequalify, the timetable and the de-rating factor of each Generating Technology Class set out in the Capacity Market Rules 2014 (as amended);
- Determining the Prequalification of all Applications and notifying each Applicant of its decision;
- Reconsidering its Prequalification decision if requested by the Applicant;
- Notifying Prequalification results to the Secretary of State;
- Advising the Secretary of State on the need to adjust the demand curve for each Capacity Auction;
- Holding Capacity Auctions and notifying the auction results to the Secretary of State, bidders and the public;
- Establishing and maintaining the Capacity Market Register, containing – amongst other things – details of each Capacity Agreement awarded following a Capacity Auction; and
- Termination of Capacity Agreements when required under the Regulations.

1.6. More information on the CM is provided in our Annual Operational Report on the CM.

## Financial and Reputational Incentives

1.7. In 2015, we decided on funding arrangements for NGENSO for the period August 2014 to March 2021<sup>13</sup>, and introduced incentives to NGENSO’s Electricity Transmission Licence (Licence)<sup>14</sup> to drive performance in its functions. We introduced these incentives to encourage NGENSO to efficiently and effectively carry out its roles as EMR DB as set out in p.1.5.

1.8. Currently, there are four financial and reputational incentives that adjust NGENSO’s annual revenue in relation to its performance against the criteria set out in the Licence Special Conditions (Special Licence Conditions) 4L:

- To ensure efficient and effective dispute resolution in both the CM and CfD schemes, the **Dispute Resolution Incentive** was introduced. The incentive adjusts NGENSO’s revenue depending on the quantity of reviewable decisions that are overturned following an appeal to the Authority.
- In the interest of value for money for consumers, the **Peak National Demand Forecasting Accuracy Incentive** aims to ensure more accurate forecasts of demand to reduce the risk of under- or over-procurement of capacity. This incentive applies to T-4 and T-1 forecasted peak demand.
- The **Demand Side Response (DSR) Incentive** was introduced to ensure the DB facilitates adequate DSR participation in the CM. This incentive applies only to the T-1 Auctions. The 2019/20 T-1 target was set by the average of DSR volume Prequalified in the two previous T-1 Auctions.
- Upon completion of each Capacity Auction and CfD Allocation Round, the DB is required to carry out a **Customer and Stakeholder Satisfaction Survey (CSSS)**. The aim of incentivising the output of the surveys is to increase transparency to EMR stakeholders on the quality of the DB’s service, delivery and engagement. The baseline for the incentive is set by the first CSSS held

---

<sup>13</sup> See: [Decision on revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market Reform](#)

<sup>14</sup> On 1<sup>st</sup> April 2019, NGENSO was legally separated from NGET (National Grid Electricity Transmission), and therefore took the role of EMR DB. The term NGENSO will be used throughout this report.

---

for both the CM and CfD, with an upside incentive payable upon improvement of that score.

1.9. The financial incentives that were decided on in 2015 lead to a maximum upside or downside of £4.8m in a given year for NGESO. Table 1 below summarises the value of each incentive.

**Table 1: Summary of incentives**

Incentives	Value per year
Annual reports on performance and operation of the CM	Reputational
Publishing specific concerns we have with performance and any enforcement actions	Reputational
Accuracy of Prequalification dispute resolution	+/- £0.2m
Customer and Stakeholder Satisfaction Surveys	+/- £0.6m (also reputational)
Volume of Prequalified DSR capacity for the T-1 CM Auctions	+/- £1m
Demand forecasting accuracy (T-1)	+/- £2m
Demand forecasting accuracy (T-4)	+/- £1m
<b>Total (financial incentives)</b>	<b>+/- £4.8m</b>

1.10. It is important that the incentives on NGESO fully reflect changing operational challenges to drive best performance for the benefit of consumers. As such, Ofgem continue to review NGESO’s incentives to ensure they are fit for purpose. On 5<sup>th</sup> June 2020, following consultation<sup>15</sup> we published our decision<sup>16</sup> to remove the DSR incentive from NGESO’s EMR incentive framework for performance year 2020/21. In addition, the integration of the EMR incentive framework within the wider NGESO incentives framework is being reviewed as part of the RIIO-2 price control.<sup>17</sup>

<sup>15</sup> See: [Statutory Consultation for adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs](#)

<sup>16</sup> See: [Decision on adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs](#)

<sup>17</sup> See: [RIIO-2 Draft Determinations](#)

## 2. Review of NGESO Performance

### Overview

2.1. This section sets out our review of the DB’s performance of its CM functions in the specified reporting period. We look at the deliverables required by NGESO, in carrying out the role of the EMR DB, including stakeholder engagement, its performance in the dispute resolution processes and both demand forecasting and DSR participation. We also discuss operational issues relating to NGESO’s performance in the 2019/20 reporting period.

### Deliverables

2.2. NGESO have informed us that they have met the delivery dates, for the CM key deliverables during the reporting period as set out in the Rules, Regulations or agreed with the Delivery Partners<sup>18</sup> and outlined in the DB’s Operational Plan<sup>19</sup>.

**Table 2: Performance against key deliverables**

Deliverables	Date Delivered	Completion by deadline (Y/N)
Publication of Capacity Market Auction Guidelines	11/07/2019	Y
Completion of Prequalification for the CM T-3, T-1 and T-4 Auctions	25/10/2019	Y
Notifying the Secretary of State of Prequalification results	22/11/2019	Y
Issue decision notices on all requests for Reconsidered Decisions	22/11/2019	Y
Completion of CM T-3 Auction	31/01/2020	Y
Provision of T-3 Auction Monitor report to the Secretary of State	05/02/2020	Y
Completion of CM T-1 Auction	07/02/2020	Y
Provision of T-1 Auction Monitor report to the Secretary of State	11/02/2020	Y

<sup>18</sup> See: [EMR Delivery Partners](#)

<sup>19</sup> See: [EMR DB Operational Plan 19/20](#)

Completion of CM T-4 Auction	05/03/2020	Y
Provision of T-4 Auction Monitor report to the Secretary of State	10/02/2020	Y
Publication of CM T-3 Auction Results	Provisional - 31/01/2020 Final - 07/02/2020	Y
Publication of CM T-1 Auction Results	Provisional - 07/02/2020 Final - 17/02/2020	Y
Publication of CM T-4 Auction Results	Provisional - 05/03/2020 Final - 17/03/2020	Y
Issue of T-3 Capacity Agreements	11/03/2020	Y
Issue of T-1 Capacity Agreements	18/03/2020	Y
Issue of T-4 Capacity Agreements	17/04/2020	Y

2.3. In its role as the EMR DB, NGESO, pursuant to Chapter 5 of the Rules, is required to appoint a third party to monitor the conduct of each Auction, referred to as the Auction Monitor. The Auction Monitor produced a report on the compliance and conduct of NGESO for each of the T-3<sup>20</sup>, T-1<sup>21</sup> and T-4<sup>22</sup> 2019/20 Auctions.

2.4. The Auction Monitor’s report, for each of the Auctions, concluded that NGESO complied with its responsibilities pursuant to Chapter 5 of the Rules and the Data and Auction sections of the CM Auction Guidelines (Auction Guidelines).

2.5. However, in its report for the 2019/20 T-3 Auction, the Auction Monitor reported two observations relating to the DB’s compliance with relevant parts of Chapter 5 of the Rules, and the Data and Auction sections of the Auction Guidelines.

2.6. The first observation reports that the Auction System included a Capacity Market Unit (CMU) that was not Prequalified to participate in the 2019/20 T-3 Auction. The Prequalification status of the CMU in question was updated on the Capacity Market Register (CMR) on the 28 January 2020. However, given the timing of this update in the CMR, the Auction System was not updated to remove the CMU prior to the start of the Auction. Prior to the start of the Auction, the DB removed access to the Auction System for the authorised individuals for the CMU. In addition, in accordance

<sup>20</sup> See: [2019/20 T-3 Auction Monitor Report - Delivery Year 2022/23](#)

<sup>21</sup> See: [2019/20 T-1 Auction Monitor Report - Delivery Year 2020/21](#)

<sup>22</sup> See: [2019/20 T-4 Auction Monitor Report - Delivery Year 2023/24](#)

with Rule 5.3.3 (b) of the Rules, the DB submitted bids at the Bidding Round Price Cap in the first round for the relevant CMU. The Auction Monitor recommended that the DB should assess whether additional checks during Prequalification could have identified and resolved this issue prior to the start of the Auction.

- 2.7. The second observation is in relation to the 2019/20 T-3 Auction results. On 31 January 2020, the DB notified Bidders of the provisional results for the 2019/20 T-3 Auction via the Auction System and through the publication of the provisional results report, which was also shared with the Secretary of State. However, following publication, a participant identified an error in the results referring to the duration of the Capacity Agreement awarded to three CMU’s in the published version of the provisional results report. The values in the provisional results report did not match those in the Auction System for the CMU’s in question. The DB subsequently corrected this error, and the provisional results report was re-issued to the Secretary of State and re-published by the DB on 1 February 2020. The Auction Monitor recommends that prior to publication; the DB should undertake further checks to confirm consistency between the results report and the Auction system.

## **Dispute Resolution**

- 2.8. It is necessary for the DB to carry out a reasonable and fair Prequalification process in the application of the Rules. This includes reviewing requests for reconsideration following the conclusion of initial Prequalification decisions in accordance with Regulation 69 of the Electricity Capacity Regulations 2014.
- 2.9. The purpose of the Dispute Resolution Incentive is to encourage effective decision making during the CM and CfD reconsideration review process. The incentive is awarded based on the number of reviewable decisions by the DB that are overturned by Ofgem. The incentive has a value of  $\pm$  £200,000 per year, dependent on the number of overturned determinations as calculated using the formula set out in Special Licence Condition 4L.5. Across both the CfD regime and the CM, NGESO are eligible for the maximum value of +£200,000 if no appeals to the Authority against reconsidered decisions made by the DB are overturned, and conversely, are penalised a maximum value of -£200,000 if four or more are overturned
- 2.10. In 2019/20, the DB received 2,284 Prequalification Applications. This figure includes the additional 2019/20 T-3 Auction. Excluding the T-3 Auction, the DB received a

total of 1,308 Prequalification Applications across the 2019/20 T-1 and T-4 Auctions, a decrease of 353 from 1,661 Applications in 2018/19.

- 2.11. Of the total 2,284 Applications, the DB received 48 requests for reconsideration for the T-3 Auction, 15 for the T-1 Auction and 67 for the T-4 Auction. For 109 of the total 130 requests received, the DB overturned their decision from ‘Not Prequalified’ to ‘Prequalified’ or ‘Conditionally Prequalified’.
- 2.12. A total of 130 requests for reconsideration represents a notable decrease from the 283 received in 2018/19, especially considering that an additional Auction was held. Since 2016/17, we have seen a continued decrease year on year in this number.
- 2.13. Following the DB’s reconsidered decision, Applicants have the opportunity under Regulation 70 of the Regulations to appeal to Ofgem, as the Authority. Our role is to determine if the reconsidered decision was correct based on the information that the DB had when it made the decision. In total, we received 41 appeals against the reconsidered decision made by the DB for the T-3, T-1 and T-4 Auctions, which were broadly grouped into nine themes. This is a decrease of 27 from the 68 appeals to the Authority in 2018/19. We group the individual cases into themes based on commonality between the cases, where the decision made will be the same across the theme. On appeal, from the nine themes, one was overturned with the remaining eight being upheld<sup>23</sup>. The one theme that we overturned consisted of three separate cases. These were grouped into one theme as it was the same issue recurring across the three Auctions. For the appeal where we overturned the DB’s reconsidered decision, we found that this was as a result of the DB’s misapplication of the Rules. The DB failed to apply sufficient due diligence in this case.
- 2.14. We also note that our review of the appeals to the Authority further revealed several instances of the DB misinterpreting, or not applying the Rules correctly, without these leading to an overturn of the DB’s reconsidered decision. In one particular case, the DB failed to meet its obligations according to the Rules.

---

<sup>23</sup> Our CM Prequalification Appeal determinations can be found here: [Electricity Market Reform \(EMR\) Dispute Resolution](#)

- 2.15. As a result of the Authority overturning one of the DB’s reconsidered decisions for the 2019/20 CM Prequalification appeal process, NGESO were neither awarded nor penalised; therefore, received £0.
- 2.16. In 2019, the third CfD Allocation Round was held from May to September, with the DB receiving 22 qualification assessment applications. The DB received one Applicant appeal notice<sup>24</sup> for the CfD AR3. The total number of Applications received in AR3 was lower than that in AR2, with a reduction of 72 Applications to 22. The reason for this reduction was due to the defined framework for AR3, specifically run for ‘less established’ technologies. Following the DB completing a review of the appeal notice, no further appeals were made to the Authority. As a result, NGESO received the full CfD Dispute Resolution Incentive value of £100,000.
- 2.17. Therefore, for 2019/20, NGESO received a total Dispute Resolution Incentive value of £100,000.
- 2.18. We recognise that improvements have been made to Prequalification, in particular the DB’s engagement with CM Applicants and Prequalification guidance. Although we only overturned one case theme, we still believe there is room for improvement for the DB in relation to the application of the Rules, to ensure they are applied consistently in a considered and balanced manner. Further, we consider that the DB not meeting its requirements as per the Rules is a serious matter.
- 2.19. Additionally, we suggest that the DB could improve communication with Applicants during the dispute resolution process, especially when there is a conditionality placed on an Applicant’s Prequalification decision. We expect the DB to engage with participants to identify how improvements can be made in this area for the forthcoming 2020/21 Prequalification. Furthermore, we encourage the DB to consult with Applicants to identify areas of improvement in the Prequalification guidance, CM Application process, and the EMR Portal in order to minimise the potential for errors during the Application process.

---

<sup>24</sup> Regulation 20(1) of the Contracts for Difference(Allocation) Regulations 2014 sets out that “an applicant may give a notice (“a review notice”) to the delivery body to request a review of a non-qualification determination (“a non-qualification review”)”

## Peak National Demand Forecasting Accuracy

- 2.20. Demand forecasting is a critical input to determine the amount of capacity to procure in the T-1 and T-4 Auctions. We introduced this incentive recognising that more accurate forecasting of demand will result in lower cost to consumers given the lower risk of under- or over-procurement of capacity.
- 2.21. NGENO commissioned an independent review of their forecasting methodology that included a verification process for the 2017/18 and 2018/19 Delivery Years. In February 2020, the verification process found that the methodology, and hence the incentive, are both fit for purpose. The independent review found the forecasting methodology to be a good choice from a statistical perspective, with subsequent modelling assumptions to be sensible and justified. Whilst the independent review of the methodology was undertaken, the incentive was not reported on.
- 2.22. The first forecasting year that this incentive applied to was 2016/17. Given that the four-year ahead forecast in this year was for the Delivery Year 2020/21, the incentive has so far only been applied to the one-year ahead forecasts. Table 3 includes a comparison between the one-year ahead forecasts and the actual outturn figure for Delivery Year 2017/18 to 2019/20. Subsequently, the financial incentive value of each Delivery Year is also shown.
- 2.23. To reflect the greater uncertainties when forecasting T-4 demand in comparison to T-1 demand, the incentive value for the T-4 forecast is lower than that for the T-1 forecast. The T-4 demand forecasting incentive value is  $\pm\text{£}1\text{m}$ , whereas the T-1 demand forecasting incentive value is  $\pm\text{£}2\text{m}$ .

**Table 3: Peak National Demand Forecasting Accuracy**

Delivery Year	T-1 Forecast	Actual Figure	Difference	Incentive Value
2017/18	49.9GW	49.4GW	Over 0.5GW	+£988,000
2018/19	49.1GW	47.6GW	Over 1.5GW	-£1,055,000
2019/20	46.5GW	46.2GW	Over 0.3GW	+£1,351,000

- 2.24. We note that, thus far, NGENO have consistently over-forecasted for each of the one-year ahead forecasts. The biggest margin of error occurred in 2018/19, leading

to a large financial penalty of -£1,055,000. However, in the following Delivery Year, we saw positive improvements in NGESO’s forecasting accuracy with only a 0.3GW over-forecast. In line with Special Licence Condition 4L.13, NGESO provides the Authority with an annual letter setting out the steps taken to improve its peak demand forecast. We believe the improvement areas set out in the 2017/18 letter has led to the improved forecast accuracy seen in 2019/20.

2.25. In line with Special Licence Condition 4L.13 which obligates NGESO to *“write annually to the Authority, at the same time it publishes the Electricity Capacity Report, setting out the steps it has taken to improve its Peak System Demand Forecast and publish this letter on its website”*. Below is a summary of the actions that NGESO, in its role as the EMR DB, has taken to improve its peak system demand forecast as set out in the 2017, 2018, 2019 and 2020 letters to the Authority.

#### **Peak System Demand Forecast – 2016/17 summary**

2.26. The 2016/17 analysis focused on winter 2018/19 and winter 2021/22 forecast years, referring to the 2017/18 T-1 and T-4 Auction Delivery Years respectively. The following areas are those NGESO note as being the most significant for improving demand forecasting:

- Distributed generation analysis: NGESO procured more historic installed capacity and metered generation data;
- Refined peak demand method: NGESO outlined plans to undertake improvements in residential peak demand process, and then refine this process to expand into other demand sectors; and
- Additional research and refinement of DSR forecasting model: NGESO gathered further research, studies and surveys to input into the model, as well as re-working customer engagement.

#### **Peak System Demand Forecast – 2017/18 summary**

2.27. The 2017/18 analysis focused on winter 2019/20 and winter 2022/23 forecast years, referring to the 2018/19 T-1 and T-4 Auction Delivery Years respectively. As a result of the CM suspension (November 2018 to October 2019), the 2018/19 T-4 Auction

was replaced with the 2019/20 T-3 Auction. The following areas are those NGESO note as being the most significant for improving demand forecasting:

- Expanded distributed generation analysis: NGESO performed a comprehensive data cleansing exercise to ensure a robust dataset is used, and improved focus on embedded wind generation;
- Revised peak demand methodology: NGESO made use of a new settlement metering dataset to scale the transmission demand on a regional basis, and recalculation of the Average Cold Spell methodology in terms of historic data;
- Continued DSR research: NGESO modified analysis and assumptions following analysis of published industry information and engagement with DSR providers; and
- Electric vehicle demand: NGESO developed a new model and produced forecast for all forms of road transport and fuel types, providing improved forecasts.

### **Peak System Demand Forecast – 2018/19 summary**

2.28. The 2018/19 analysis focused on winter 2020/21 and winter 2023/24 forecast years, referring to the 2019/20 T-1 and T-4 Auction Delivery Years respectively. The following areas are those NGESO note as being the most significant for improving demand forecasting:

- Innovation: NGESO commissioned an innovation study to gather a larger set of electric vehicle charging data. In addition, NGESO are gaining funding approval for the adoption of a new model design that will forecast the adoption of low and zero carbon technologies on a regional basis;
- Improving existing data and processes: NGESO introduced a dedicated modelling development team to review forecasting methods and tools and implement improvements. Based on further research and customer engagement, NGESO have developed their heat, transport and consumer demand modelling, as well as knowledge of embedded generation and its contribution to peak forecasts; and

- Industry collaboration: NGESO continued to participate in working groups and stakeholder engagement activities to help improve data flows, industry collaboration and quality of forecasting.

### **Peak System Demand Forecast – 2019/20 summary**

2.29. The 2019/20 analysis focused on winter 2021/22 and winter 2024/25 forecast years, referring to the 2020/21 T-1 and T-4 Auction Delivery Years respectively. The following areas are those NGESO note as being the most significant for improving demand forecasting:

- Residential DSR model: Based on stakeholder feedback, NGESO developed a new residential DSR model incorporating further information on electric vehicles and the interaction with smart charging tariffs;
- Net zero: NGESO began to look at what net zero meant for system operation and security of supply. This included increased focus on areas such as heat, hydrogen, industrial and commercial modelling, and transport modelling; and
- Future Energy Scenarios (FES): NGESO increased collaboration with industry via the FES network forum. This allowed for improved cooperation of industry with NGESO’s FES analysis through data sharing, debate and consensus on forecasting.

2.30. For the 2019/20 Delivery Year, NGESO’s peak demand forecast was forecasted 0.3GW over that of the actual figure. Given that this over forecast is within the acceptable error margin of the incentive metric, NGESO received +£1,351,000 for the 2019/20 reporting period. Recognising the improvements made to peak demand forecasting in 2019/20, we would encourage NGESO to identify any areas for improvement in order to continue producing more accurate peak demand forecast for the foreseeable future.

### **DSR Participation**

2.31. Recognising the importance of DSR participation in the CM in 2015, we found it appropriate to implement an incentive to encourage the DB to facilitate increased amounts of DSR participation. Special Licence Condition 4L.15 requires that the DB submit a report to us within three months of each T-1 Prequalification round

outlining steps taken to encourage and facilitate DSR participation. This includes how it ensured that DSR providers fully understand the CM participation process.

2.32. Special Licence Condition 4L.15 obligates NGESO to *"as soon as practicable, but in any event no later than three months after the corresponding Year Ahead Capacity Auction pre-qualification round, submit to the Authority a report setting out the steps that it has taken in each Year Ahead Capacity Auction pre-qualification round to encourage and facilitate the participation of Demand Side Response, including how it has ensured that Demand Side Response providers understand the implications of capacity market participation."*

2.33. In 2019/20, the DB contributed to the delivery of the following CM policy changes representing DSR:

- Implementation of component reallocation proposals into the current Information Technology (IT) system ('EMR Portal'): This enables DSR providers to reallocate components during Delivery Years; and
- Simplification of DSR testing requirements prior to Prequalification: Reduced barriers to entry for participants.

2.34. As part of their customer engagement strategy, the DB have held workshops with industry and has both led and attended DSR working group sessions resulting in improved scoping requirements for the delivery of system updates. We recognise that the DB has built-on its communication and guidance for CM participants, in particular where policy changes have been implemented and updated guidance is required, as well as continuing to streamline agreement management processes that may have had particular benefits for DSR participants.

2.35. The incentive value is calculated based on the amount of Prequalified DSR in the T-1 Auctions against a target volume. The 2019/20 T-1 target was set by the average of DSR volume Prequalified in the two previous T-1 Auctions. This target equates to 1922.5MW. The 2019/20 T-1 Auction saw a decreased amount of Prequalified DSR from 2,125MW in 2018/19 to 1,007MW. This resulted in a decrease in volume of 915.5MW from the target volume resulting in a total incentive value of -£397,500 as per the calculation formula set out in Special Licence Condition 4L.14.

2.36. On 11<sup>th</sup> March 2020, we published a statutory consultation<sup>25</sup> on our proposal to remove the DSR incentive. On 5<sup>th</sup> June 2020, we published our decision<sup>26</sup> to remove the DSR incentive from NGESO’s incentive framework for undertaking the role of the EMR DB. The incentive will be removed from the 2020/21 financial year, removing +/- £1m from NGESO’s total EMR incentive value, reducing it to +/- £3.8m.

## Customer and Stakeholder Engagement

2.37. The DB has a key role in supporting participants taking part in the CM and CfD schemes. Upon completion of each auction and CfD Allocation Round, the DB is required to carry out a Customer and Stakeholder Satisfaction Survey (CSSS). The DB conducted a CSSS following the completion of both the 2019 CfD Allocation Round 3 (AR3) and the 2019/20 CM Auctions. The DB have provided the Authority with a description of the improvements implemented to support CM and CfD participants in 2019/20.

### Contracts for Difference

2.38. Below is a summary of the actions taken by the DB to improve support and guidance for participants in the 2019 CfD AR3.

#### Improved information and guidance

- It was recognised during the AR2 auction cycle that information and guidance to support participants, were held on different Delivery Partner websites. In AR3, a ‘micro-site’ was established between Delivery Partners that acted as a point of reference for all information and guidance required by participants.
- The DB have informed us that they produced comprehensive guidance for participants in the form of video teaching sessions, and videos to help explain the CfD auction process and the interleaving element that participants had previously highlighted as an area requiring further clarity.

---

<sup>25</sup> See: [Statutory Consultation for adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs](#)

<sup>26</sup> See: [Decision on adjusting the Electricity Market Reform Delivery Body Incentives and mechanisms to recover uncertain costs](#)

---

### **Tailored engagement**

- The DB notified us of their tailored engagement plan with participants for each aspect of the auction process. This included separate communications, optional Application pre-validation checks and one-to-one meetings.
- The DB have stated that they offered the one-to-one sessions to all potential Applicants during AR3. We were informed that every party that was considering making an Application took up this offer.

2.39. The DB received 12 responses to the 2019 CfD AR3 CSSS survey, with almost 60% of respondents giving a score of 8 and above. The vast majority of respondents were satisfied with the quality of information and guidance offered by the DB. Participants reported clear communication by the DB and found the one-to-one’s to be helpful and informative. However, participants noted the lack of experience and knowledge with staff in some cases when contacting the DB by phone.

2.40. Participants reported high levels of satisfaction with the DB’s engagement, with emphasis on the DB’s ability to resolve queries and their pro-active approach to engaging with participants.

2.41. Generally, participants noted high levels of satisfaction with the EMR Portal (CfD Portal), noting its ease of use and efficiency during the AR3 process. Conversely, some participants mentioned the need to improve usability with a simpler structure and procedures that are more efficient.

2.42. The CSSS incentive has a value of  $\pm£300,000$  for the CfD CSSS. The baseline for the incentive regarding the CfD CSSS was set by the first CSSS score achieved. This was a score of 8.5 points out of 10 achieved in the CfD AR1 CSSS held in 2015. In the 2019/20 reporting period, the DB received a lower score from stakeholders of 8 points out of 10; 0.5 points lower than the baseline score of 8.5. As a result, NGENSO were penalised -£99,300 for the CfD CSSS incentive in the 2019/20 reporting year.

## Capacity Market

2.43. Below is a summary of the actions taken by the DB to improve support and guidance for participants in the 2019/20 CM Auction process.

### Prequalification Application support

- The DB continued to engage with participants during the CM standstill period<sup>27</sup>, and ensured that participants were fully informed of any changes to obligations as a result of Rule changes due to the reinstatement of the CM.
- The DB informed us of their actions to release their Prequalification guidance prior to the start of the Application submission window, to allow participants to provide comments.
- The DB introduced a more structured approach to pre-submission Application checks, allowing all Applications submitted prior to the last week of the Application window to have a pre-application check.

### Capacity Market launch event

- Based on previous years’ feedback, the DB segmented their 2019 CM launch event into two parts to tailor engagement for Applicants. The first part focused on support for new Applicants through the Prequalification process, with the second part focusing on changes to the Rules and Regulations and any longer-term policy discussions.

2.44. The DB received 39 responses to the 2019/20 CM CSSS. The DB received high levels of satisfaction from participants on the auctions, including the pre-auction guidance, the online Auction System and the DB’s auction reporting. Many noted the Auction System’s ease of use, and the simplicity of the auction process.

2.45. The DB’s approach for effective engagement in 2019/20 received moderate satisfaction levels from participants. Some noted the DB’s slow response time, and

---

<sup>27</sup> On 15 November 2018, the General Court of the Court of Justice of the European Union found in favour of Tempus Energy, annulling the European Commission’s State aid approval for the Great Britain CM scheme. This introduced a standstill period during which aid could not be granted under the CM.

the need for more clear and consistent communication. Participants reported the need to ensure team members have sufficient levels of knowledge to support them and their queries. The speed at which queries are resolved was insufficient for some. In terms of resolution of queries during the CM disputes stage, participants suggested that the DB provide further information and clarification on the DB’s decision-making and outcomes.

2.46. Participants highlighted the EMR Portal as an area in need of improvement. Many highlighted that the system is not user-friendly, noting the need for improved functionality. Many described the current EMR Portal as being complicated and inefficient with some expressing the need for investment and re-design.

2.47. The CSSS incentive has a value of  $\pm\text{£}300,000$  for the CM CSSS. The baseline for the incentive regarding the CM CSSS was set by the first CSSS score achieved. This was a score of 7.5 points out of 10 achieved in the 2015/16 CSSS. In the 2019/20 reporting period, the DB received a lower score from stakeholders of 6.92 points out of 10; 0.58 points lower than the baseline score. As a result, NGESO were penalised  $-\text{£}163,600$  for the CM CSSS incentive in the 2019/20 reporting period.

## Data Compliance

2.48. Pursuant to Special Licence Condition 2N, NGESO must treat and keep all Confidential EMR Information (CEMRI) as confidential. During the reporting period, the DB announced one CEMRI incident, for unwarranted sharing of CEMRI information. The incident that occurred on 2 April 2019 saw CEMRI being inappropriately shared by e-mail to the CM Settlement Body. The DB identified this incident on Friday 29 November 2019 when the CM Settlement Body returned the information as part of an unrelated question.

2.49. The DB self-reported this incident to Ofgem by formal letter on 13 December 2019. The letter notes the cause of the incident as being human error and the absence of sufficiently documented processes. We were told that the CM Settlement Body had confirmed that the information was not used or disclosed by it and had since been deleted at the time of providing us this letter.

2.50. Following a previous CEMRI incident in January 2019, both a business review and a corporate audit were undertaken. These identified the need for a change management and governance framework within the DB to address the root cause of

this incident. Following the business review and corporate audit, NGESO implemented a change governance framework in Summer 2019 to mitigate future CEMRI incidents. We were told that had this system been in place prior to April 2019, the incident would not have occurred. We are satisfied with the introduction of the change governance framework, and expect that no such compliance breaches will occur in future as a result.

- 2.51. We will continue to monitor whether any future incidents are as a result of an insufficient resolution of root causes and underlying issues surrounding data compliance. This refers to the effectiveness of the EMR Portal and any manual processes that are required instead of, or as a workaround to the EMR Portal.

## Information Technology

- 2.52. We understand that NGESO’s IT system, EMR Portal, is an area of concern for industry. We continue to receive negative feedback regarding the EMR Portal, both in response to our various publications in 2019/20, and through the CfD and CM CSSS’s.
- 2.53. In our 2018/19 DB Performance Report<sup>28</sup>, we discussed the issues with the EMR Portal as raised in our September 2019 decision on Adjustments to the EMR DB Allowances<sup>29</sup>. We outlined that the current IT system is no longer fit for purpose for the delivery of EMR, having received considerable critical feedback from stakeholders.
- 2.54. In our September 2019 decision, we discussed the issues raised in the responses to the prior consultation<sup>30</sup>. Many respondents stated that the performance of the EMR Portal has been poor with the system not meeting user needs. This has been especially noted during Prequalification, where IT systems have been described as inefficient.
- 2.55. In 2019, having recognised the critical feedback on the functionality of the existing system, the DB committed to delivering a replacement IT system by April 2021,

---

<sup>28</sup> See: [Annual report on the EMR Delivery Body’s Performance of its functions in relation to the Capacity Market 2018/19](#)

<sup>29</sup> See: [Decision on Adjustments to the Electricity Market Reform Delivery Body Allowances](#)

<sup>30</sup> See: [Consultation on adjustments to the Electricity Market Reform Delivery Body Revenues](#)

---

subject to receiving appropriate funding. This was communicated to industry during the 2019 CM launch event, and in their December 2019 publication on their vision for the future EMR Portal<sup>31</sup>. At the time, the DB’s vision included the delivery of an EMR Portal with enhanced functionalities, aimed at creating a step-change in user experience and flexibility (with more efficient and cost-effective change) by April 2021 in advance of the CM Prequalification process. This was welcomed by industry.

- 2.56. In May 2019, pursuant to Special Licence Condition 7D.10, NGESO submitted a request for additional revenues. In this submission, NGESO forecasted that the cost of delivering a replacement IT administration system would be between £2m to £5m.
- 2.57. In our decision on adjustments to the EMR DB allowances in September 2019, we recognised the strong desire for a step-change in system functionality and user experience. We considered that providing a £2m initial allowance to the DB to deliver this solution was appropriate. We further stated our expectations for the DB to explore alternative solutions to deliver the replacement system, including utilising wider industry parties and service providers to provide innovative and technological solutions that were value for money. Furthermore, we stated the aim for the replacement system to be delivered by April 2021 in advance of the CM Prequalification process, enabling Delivery Partners to coordinate interacting processes and all EMR Applicants to familiarise themselves with any new user interfaces.
- 2.58. More recently, on 11<sup>th</sup> March 2020, we published a statutory consultation on proposed modifications to NGESO’s Electricity Transmission Licence. In this we propose an uncertainty mechanism window (March 2021) to allow NGESO to make a relevant adjustment proposal to manage uncertain costs incurred in its role as the EMR DB, and for the remainder of costs related to the delivery of the new replacement IT system. The additional funding associated with the replacement IT system will be assessed against achieving the required outcomes as noted in paragraph 2.2 in our statutory consultation. These outcomes included delivery in April 2021 in advance of the CM Prequalification process, the DB’s focus on user needs when developing the replacement system, and an IT system that is highly

---

<sup>31</sup> See: [December 2019 EMR DB Portal update](#)

flexible allowing for more efficient and cost-effective delivery of changes. On 5<sup>th</sup> June 2020, we published our decision to proceed with the proposed modifications.

2.59. Over the 2019/20 performance year, we have been made aware of a number of issues associated with the EMR Portal. These include:

- **2019/20 T-3 Mock Auction cancellation:** Due to system issues with the EMR Portal where users could not access their auction log-in details, the DB cancelled the 2019/20 T-3 Mock Auction; and
- **CM notifications:** We understand that some CM participants did not receive notifications from the EMR Portal system. This is due to the notification departure system reaching full capacity; therefore, neglecting to send any further required notifications. We are still assessing the causes and severity of this problem.

### **IT system delivery**

2.60. Since the commitment was made by the DB to deliver a replacement IT system by April 2021, several factors have affected the scope of delivery. These include;

- Regulatory changes to the scheme, primarily arising from the ‘European Commission (EC) undertakings’ in October 2019 following the reinstatement of the CM, which required system changes and workarounds to be implemented; and
- The occurrence of the COVID-19 pandemic, resulting in unforeseen regulatory changes to the scheme that reduced the availability of resources.

2.61. Further to the above, the DB also supported an Ofgem consultation on CM Rule changes. This required the DB to provide critical feedback on Rules development, scope possible workarounds, and system change, in order for the original target of introducing changes ahead of Prequalification 2020 to be met. We note that this would have required a small amount of the resources assigned to any IT system change project.

2.62. We recognise the impact these developments may have caused in the delivery of the replacement IT system. We are pleased with the pro-activeness of the DB during this

period to help support Delivery Partners in the implementation of necessary, and unforeseen Rules and regulatory changes. We acknowledge that this has affected the delivery of the replacement IT system. However, we are not confident that the DB were on course with the IT delivery plan in the early part of 2020 ahead of the COVID-19 pandemic. This may have been in part due to the impacts on delivery as a result of the requirements set by the EC following reinstatement of the CM. We are of the view that the DB should be putting provisions in place to manage such uncertainties alongside project delivery. As a result, we do not expect to see a step-change in the functionality of the EMR Portal by April 2021 as was intended.

- 2.63. We understand that the DB’s scope for the delivery of a replacement IT system has reduced to an aspiration to continue adapting and developing the current system over time. We note that this means the DB do not intend on delivering on a commitment made in 2019, for which an appropriate flexible funding model was provided.
- 2.64. In our September 2019 decision on Adjustments to the EMR DB Allowances, we discuss the DB’s request for additional allowances for items of system spend associated with policy and externally driven changes. In our assessment of these costs, we identified an inefficiency of delivery through the DB’s system development contract with the provider. It is notable that the DB’s tendering process for the delivery of the replacement IT system resulted in retaining the previous provider, considering that flexibility of delivery and efficiency of costs had been challenged.
- 2.65. Whilst we recognise the mitigating circumstances that have affected progress on the project to develop a new EMR Portal, we are disappointed that the target to implement this by April 2021 will be missed. We are not confident that this timeline would have been met in any case, and we are not aware of a concerted effort to put in place the resources to deliver on expectations. Further, it is not clear to us when a significantly improved IT system will be delivered. We continue to expect a step-change in the user interface and faster, more cost-efficient changes to the EMR Portal over time. We consider that it may be appropriate to consider further action to address these concerns, depending on the outcome of our evaluation of these performance issues. We welcome further conversation with the DB regarding the future of the EMR Portal and will consider appropriate next steps.

## Capacity Market Operational Issues

2.66. During the 2019/20 reporting period, we have been made aware of a number of issues with the DB’s operational performance related to the CM.

2.67. We are still carrying out our investigations into these issues. We note that some of the issues below arise from the CM standstill as a result of complexity and challenge added to the role of the EMR DB during 2019/20; however, these are issues nonetheless and we require that these are satisfactorily resolved.

- **Error in adjusting Auction Acquired Capacity Obligation (AACO) payments for 2019/20 Delivery Year:** We understand that a number of CMU’s did not have their AACO, and subsequent Capacity Payments, updated at the time of the CM reinstatement. As a result, some Capacity Providers received the incorrect Capacity Payments.
- **Credit Cover Error:** We understand that the DB requested that certain Capacity Providers provide the incorrect amount of credit cover, following the reinstatement of the CM; and
- **Metering Test Date Error:** We understand that the DB published guidance with the incorrect Metering Test milestone date.

2.68. Upon discussions with the Electricity Settlements Company (ESC), the Settlement Body for the CM, we have been given access to a data quality monitoring process. This was set up by ESC to enable the Delivery and Settlement Bodies to work together to fix data issues at source. Some of these issues are explicitly mentioned in this section of this report. For the period November 2019 to April 2020, ESC estimate the cost to rectify these issues equates to one full time employee across the Delivery and Settlement Bodies. In addition, ESC report that the absolute value of these errors is approximately £150,000 split between under- and over-recovery of Capacity Providers payments. ESC are working with the DB to develop additional controls to remove these issues going forward.

2.69. We recognise the challenges introduced to the role of the EMR DB following the CM suspension; however, we are concerned with the number and potential severity of the issues identified during the 2019/20 reporting period. Not only does this cause concern for Delivery Partners, but also impacts CM participants and ultimately

consumers. At present, we are continuing to scrutinise these issues to fully determine the severity, and the impacts these may have had on participants and Delivery Partners. The outcome of this will determine our next steps.

### 3. Conclusion

- 3.1. NGESO met the requirements for performing its role as the EMR DB over the 2019/20 reporting period, and were awarded £790,600 in total incentive revenue. We note the number of positive areas in terms of how the DB performed its role, especially those arising from the CM suspension. In particular, the DB supported Delivery Partners in the implementation of necessary and unforeseen regulatory changes to enable the reinstatement of the CM. Furthermore, the adaptability demonstrated by the DB in running a delayed Auction in June 2019, a re-arranged Auction in March 2020, and continuing to manage participants’ CM agreements are recognised.
- 3.2. We further recognise the improvements made by the DB to the Prequalification process over the 2019/20 reporting period. We continue to see a decline in the number of requests for reconsideration to the DB and subsequently appeals to the Authority. We consider that this may be largely attributed to the improvements made by the DB in their engagement with CM Applicants and the provision of clear Prequalification guidance. In general, we consider that the DB performs its role in Prequalification well. Having said that, a failure of the DB to meet its requirements according to the Rules is a serious concern. We are of the view that improvements could be made in terms of how the DB interprets the Rules, and how they communicate with Applicants.
- 3.3. We acknowledge the steps taken by the DB to improve customer engagement for both the CfD and the CM during the 2019/20 reporting period. The DB generally received adequate levels of satisfaction across the CM and CfD CSSS held in 2019/20. Participants reported high levels of satisfaction in areas of the CfD AR3 and 2019/20 CM Auctions. However, a common area of criticism reported by participants was the EMR Portal. We continue to see low levels of satisfaction from participants, with many noting the need for improved usability and efficiency to improve user experience.
- 3.4. We recognise that there have been mitigating circumstances, which have affected the ability for the DB to implement a step-change in the functionality of the EMR Portal by April 2021. However, we do not consider that enough progress has been made. We will review the appropriate next steps to address the non-delivery of the step-change in the IT system, and actions to address concerns for the foreseeable future of the current EMR Portal.

- 3.5. Furthermore, we recognise the challenges introduced to the role of the EMR DB in the 2019/20 reporting period following the CM suspension. However, we are aware of a number of significant issues that occurred during this reporting period. We will continue with our evaluation of these issues through further evidence gathering, to determine the severity and impacts these issues may have had on participants and Delivery Partners.
- 3.6. We continue to engage with the DB to understand the root cause and impacts of these issues. In the meantime, and for all issues occurring in the 2019/20 reporting period, we would welcome an ‘Action Plan’ on the issues raised in this report to be submitted to the Authority. It should set out the issues, the causes, lessons learned, and any changes implemented as a result. In addition, we request that the ‘Action Plan’ includes details of the DB’s plan and timelines for delivering a step-change in the functionality of the EMR Portal.
- 3.7. The outcomes of our evaluation will determine the appropriate next steps in terms of actions to address our concerns. This may include, but not be limited to, requiring the appointment of an Independent Examiner to conduct a more detailed review.
- 3.8. In our 2018/19 EMR DB Performance Report, we stated we would investigate if combining NGESO’s EMR financial incentives with the wider NGESO incentive framework can drive improved performance. As part of our RIIO-2 price control review, we have proposed that NGESO’s financial incentives for EMR are integrated within the wider NGESO incentives framework. In doing so, we believe this will drive improved performance by NGESO in its role as EMR DB ensuring it retains focus and accountability for its EMR activity. This will be achieved by having specific performance measures related to the EMR functions within RIIO-2.