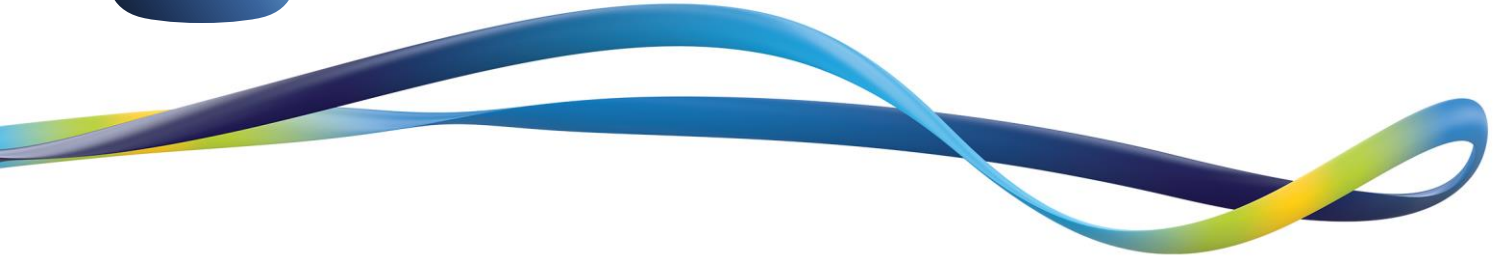




NETWORKS



INDEPENDENT ROLE OF THE DSO

ESB Networks Consultation

21st February 2023

Feedback to: consultations@esbnetworks.ie

DOC-301122-HPK

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1. Background

A financial incentive mechanism associated with the Independent Role of the Distribution System Operator (DSO) was introduced in the PR5 Regulatory Framework Incentives and Reporting (CRU20154¹) determination that issued in December 2020. The purpose of this consultation is to encourage our stakeholders to share your views on ESB Networks' approach in meeting the objectives of this incentive.

In Section 8.11 of CRU20154, the following areas are set out for consideration under this incentive:

- i. Transparency in the finance arrangements of ESB Networks; visibility and transparency of the DSO's debt allocation;
- ii. Governance and independence, including ESB Networks Board and Executive Director independence. The role of governance and independence is crucial for the DSO to successfully fulfil the new, more market-facing and pro-active role required by the Clean Energy Package and envisaged by the Climate Action Plan (CAP). For the DSO to successfully act as a neutral market facilitator, the DSO must be able to operate with the capability and independence to act flexibly and innovatively;
- iii. Neutral market facilitator; consumers', communities' and market participants' perception of the DSO as an independent entity will be important as the DSO will play a central role in the transition to a low carbon system and the new requirements placed on it by the Clean Energy Package. Therefore, it will be important that the DSO can act as an innovative neutral market facilitator and that it is clear that there is independence in planning and creating/operating new markets. Independence in planning, prioritisation and in the decision-making of IT related projects to support the DSO's role as a neutral market facilitator will be important, as well as increased visibility of network services provided to customers;
- iv. Enhancement of the compliance officer role and the existing ring-fencing arrangements; and
- v. Innovation independence and third-party collaboration; including independence in the decision-making across the innovation strategy and governance, independence of the innovation project pipeline prioritisation and project delivery, proactive dissemination of learnings and outcomes and third-party collaboration (i.e. project partners) as appropriate for the DSO's size and scale.

¹ <https://www.cru.ie/wp-content/uploads/2020/12/CRU20154-PR5-Regulatory-Framework-Incentives-and-Reporting-1.pdf>

The CRU will use an annual balanced scorecard approach to determine the financial allowance for this incentive, which will use, as a starting point, the proposals already provided by ESB Networks post draft determination.

The proposals in this consultation document are subject to CRU review and approval.

2. Introduction

The intention of this consultation is to set out in details the ESB Networks proposals regarding the *Independent Role of the DSO* incentive and receive feedback from our customers and stakeholders.

The areas of focus are:

- i. transparency in the finance arrangements;
- ii. governance and independence;
- iii. neutral market facilitator; and;
- iv. enhancement of the compliance officer role and the existing ring-fencing arrangements,

Throughout the remainder of the document, we have combined the objective associated with the second and fourth points from the list above as we feel that they are intrinsically linked

The other area, *Innovation independence and third-party collaboration* (item v. in Section 1 of this document) is referenced in this document but is not the subject of this consultation. Innovation is already covered in separate consultation documents issued by ESB Networks as part of the existing Innovation consulting process, as agreed with CRU. These annual innovation consultations will issue each February.

Table 1 sets out the overall allocation for the entire PR5 period. This is consistent with both the original 2021 plan issued to CRU in February 2021 and our Multiyear plan for 2022-2025 submitted to CRU in September 2021.

Areas for Consideration		Proposed PR5 Weighting	Total PR5 Allocation €M
(i)	Transparency in the finance arrangements of ESB Networks	50%	+10 / -5
(ii & iv)	Governance and independence, incorporating enhancement of the compliance officer role and existing ring-fencing arrangements	25%	+5 / -2.5
(iii)	Neutral market facilitator	15%	+3 / -1.5
(v)	Innovation independence and third-party collaboration	10%	+2 / -1

Table 1: Overall incentive weighting

Consistent with our previous submissions, ESB Networks propose that the incentive is as set out in Table 2 which details both when and what portions of the total incentive allocation are to be attainable

in each year of the PR5 timeframe. For (ii) the governance and independence element, this will be milestone based, where the various allowances are awarded as they are completed. For all other elements, we propose that they are spread out on a percentage bases across each of the five years in PR5, with (i) transparency in the finance arrangements incentive having a larger weighting in the first two years to reflect the importance to CRU of the early delivery of the associated actions. This will allow ESB Networks to implement changes and deliver on certain elements of the incentives early in the PR5 timeframe, in line with the Regulator’s requirements.

Areas for Consideration		2021 Allocation	2022 Allocation	2023 Allocation	2024 Allocation	2025 Allocation	Total PR5 Allocation €M
(i)	Transparency in the finance arrangements of ESB Networks	+3.5M ²	+3.5M	+1M	+1M	+1M	10
		-1.75M	-1.75M	-0.5M	-0.5M	-0.5M	-5
(ii)	Governance and independence, incorporating enhancement of the compliance officer role and existing ring-fencing arrangements	+0M	Milestone based	Milestone based	Milestone based	Milestone based	5 -2.5
(iii)	Neutral market facilitator	+600K	+600K	+600K	+600K	+600K	3
		-300K	-300K	-300K	-300K	-300K	-1.5
(iv)	Innovation independence and third-party collaboration	+400K	+400K	+400K	+400K	+400K	2
		-200K	-200K	-200K	-200K	-200K	-1

Table 2: Annual incentive upside/downside

² In their 2023 DUoS Revenue decision in July 2022, CRU decided to defer assessment of €2.1m of the €3.5m available under the Financial Transparency area for 2021. This was due to CRU’s ongoing consideration of ESB Networks’ embedded debt, lending framework and capital/liquidity proposals. A decision on these elements will be made by the CRU shortly.

3. Transparency of Finance arrangements

ESB Networks and ESB considers that raising debt at an ESB Group level remains the most efficient way to fund and is common practice amongst many utility companies in the UK, e.g. SSE, Scottish Power. Notwithstanding that, ESB Networks and ESB have committed to providing more transparency on the allocation of debt in a way that will meet CRU’s objectives as set out in the PR5 determination document.

Notional debt allocation will consist of: (i) embedded debt as at 1 January 2021 to be set at an amount equal to 55% of RAB; and (ii) new debt to fund net cashflow requirements, including refinancing of embedded debt, arising throughout PR5 and beyond. Implementation of the proposed arrangements will highlight a requirement for a transparent notional liquidity facility which effectively mirrors what ESB Networks would be required to do as a stand-alone entity, when it may be necessary to have standby facilities and fund ongoing cash requirements of the business in advance of a new long-term funding being raised, essentially a timing issue.

The following are the six milestones and timeline to achieving this aim:

	Milestones	Due	Status
1	Agreement on notional embedded debt assigned to ESB Networks as at 1 January 2021.	2021	Submitted to CRU on 6 th August 2021. Awaiting CRU approval
2	Agreement on the on-lending framework for New Debt than would apply from 1 January 2021	2021	Submitted to CRU on 22 nd October 2021. Awaiting CRU approval
3	Agreed terms of Working Capital / Liquidity Facility	2021	Submitted to CRU on 22 nd October 2021. Awaiting CRU approval
4	Amendment of existing agreements to reflect revised arrangements	2023 - 6 months after CRU approve milestones 1-3.	N/A
5	All changes required to systems and internal documentation in place	2023 - 6 months after CRU approve milestones 1-3.	N/A
6	Revised format of regulatory accounts and any other ancillary reporting required.	2023 - 9 months after CRU approve milestones 1-3.	N/A

Table 3: Proposed Transparency of Finance Milestones

Subject to appropriate governance, the delivery of individual actions may vary to reflect efficient delivery of the overall incentive priorities. The due dates in table 3 are intended to be indicative and for information only, and that the incentive outturn assessment will be based on achieving the overall annual deliverables, rather than meeting monthly/quarterly milestones.

Some further detail on each of the six key milestones:

1. Agreement on notional embedded debt assigned to ESB Networks as at 1 January 2021.

ESB Networks have provided CRU with a proposal around notional embedded debt as of 1 January 2021. The profile, maturity and interest rates associated with the notional embedded debt as at 1 January 2021 is linked to underlying actual debt raised by ESB. It is intended that this 1 January 2021 position will move over time in line with the notional funding requirements of ESB Networks calculated in line with the proposed notional funding principles which will be established as part of milestones 2 and 3 below.

2. Agreement on the on-lending framework for New Debt than would apply from 1 January 2021.

Once embedded debt is agreed, it is necessary to determine how debt will be allocated from January 2021. It is anticipated that where debt is raised by ESB Group specifically for ESB Networks it can be allocated to ESB Networks. However, a methodology needs to be agreed for allocating other debt and that methodology will consider operational cashflows of the business as well as the refinancing of embedded debt.

3. Agreed terms of Working Capital / Liquidity Facility

It is proposed that ESB Group provides ESB Networks with a notional liquidity facility which will be drawn down in periods where ESB Networks has a short-term (notional) funding shortfall in advance of a long-term (notional) funding transaction and allocation. ESB Networks have set out to CRU in the 2021 submission how this facility would operate and the terms of that facility.

4. Amendment of existing agreements to reflect revised arrangements

All existing operational agreements refer to the existing funding arrangements between ESB and ESB Networks, e.g. Operating Agreement, Memorandum of Understanding (MoU), licences, internal ESB agreements, etc. Assuming some of those documents will require CRU approval, ESB Networks proposes that once that interdependency is identified, a plan to hit agreed milestone will be agreed. A full review will be carried out of all ESB and ESB Networks agreements to ensure that the revised arrangements as agreed are fully reflected.

5. All changes required to systems and internal documentation in place

It is likely that the proposals in this paper may require significant changes to both ESB and ESB Networks processes and systems. As the extent of the changes are not known yet, it is

proposed that a full review of implications is carried out and a plan to implement required changes is agreed and delivered.

6. Revised format of regulatory accounts and any other ancillary reporting required.

This change may result in changes required to the audited regulatory accounts of ESB Networks. The format of those accounts and/or any other ancillary reporting required in this area needs to be considered and agreed with CRU and may include debt and gearing analysis.

ESB Networks believes that achieving these six milestones will provide further transparency to debt raised on behalf of ESB Networks. When these measures are agreed with CRU and are in place, ESB Networks will submit a report in Q2 each year reflecting the Networks Net Debts and funding requirement, based on the position as at 31st December in the preceding year.

4. Governance and Independence, to include enhancement of the compliance officer role and the existing ring-fencing arrangements

Enhanced governance and independence are crucial for the DSO to successfully fulfil the new, more market-facing and pro-active role required by the Clean Energy Package and envisaged by the Climate Action Plan. CRU have sought an incentives proposal with milestones that, once achieved, would demonstrate that ESB Networks has the capability and independence to act flexibly and innovatively. This combined approach, we believe, demonstrates a commitment to providing additional and enhanced assurance and transparency in relation to the independence of the ESB Networks business.

ESB Networks was established in a manner consistent with enabling the business to operate in accordance with its legal and licence obligations and the CRU-approved Compliance Programme. The legislative and licence obligations of the DSO include that:

- ESB Networks is required to have full managerial and operational independence from all other ESB businesses;
- There must be complete and effective separation of ESB Networks from all other ESB businesses;
- ESB Networks is required to have in place a compliance programme, compliance code of conduct, a compliance officer and report annually to CRU on compliance issues;

- ESB Networks must not discriminate in any way in favour of any third party with whom we do business, in particular in favour of any related business;
- information relating to the ESB Networks business which is commercially sensitive or confidential must be treated appropriately and not disclosed to any third parties;
- the provision of services by a related undertaking must be at arm's length; and
- there is a prohibition on cross-subsidies

In our 2021 proposals submitted to CRU, ESB Networks outlined additional measures designed to provide enhanced assurance and transparency in relation to the independence of the ESB Networks business, in the interests of facilitating regulatory oversight and increasing market confidence. In particular, we called out 4 milestones that we believe, if achieved, would deliver on all of CRU's objectives. They are as follows:

1. **ESB Networks DAC Board membership:** - to seek the approval of the Minister (with the concurrence of the Minister for Public Expenditure and Reform) to make changes to the board membership that result in a majority independent non-executive director membership by the end of PR5
2. **Legal undertakings from ESB:** - ESB Networks proposed to seek from ESB Board a legally-binding undertaking in relation to the exercise of its supervisory rights as a parent company
3. **Role of ESB Networks Managing Director** - ESB Networks proposed to document clearly the role of the Managing Director at ESB Group level demonstrating appropriate independence
4. **Enhancement of the Compliance Officer role and the existing ring-fencing arrangements:** ESB Networks proposed to ensure a full time resource is available to enhance existing licence compliance and assurance arrangements

It was not envisaged that any of the key milestones in this area would be fully achieved in 2021 but would be achieved from 2022 onwards. ESB Networks proposed that €5 million of the overall PR5 €20m incentive allowance is allocated for governance and independence as shown in table 4.

	Key Milestones	PR5 Weighting	Total PR5 Allocation €M
1	ESB Networks DAC Board membership	25%	+1.25 / -0.625
2	Legal undertakings from ESB	25%	+1.25 / -0.625
3	ESB Networks Managing Director role	25%	+1.25 / -0.625
4	Enhancement of the compliance officer role and the existing ring-fencing arrangements	25%	+1.25 / -0.625

Table 4: Governance and Independence Milestones

ESB Networks proposed that the payment for each key milestone will be due whenever the agreed criteria for that milestone is achieved.

The remainder of this section will cover these four milestones in more detail. Subject to appropriate governance, the delivery of individual actions may vary to reflect efficient delivery of the overall incentive priorities. The due dates given in the following sections are intended to be indicative and for information only, and that the incentive outturn assessment will be based on achieving the overall annual deliverables, rather than meeting monthly/quarterly milestones.

1. ESB Networks DAC Board membership

Milestones proposed for this particular objective are all completed, as shown in Table 5. Full details will be provided in 2022 Outturn report for this incentive, to be submitted to CRU in April 2023.

	Milestones	Target Completion Date	Status
1	Develop roles specifications and initiate executive search	Complete	Complete
2	Identify suitable candidates	December 2021	Complete
3	Final ministerial approval	June 2022	Complete
4	First board meeting held with majority independent directors	September 2022	Complete

Table 5: ESB Networks DAC Board membership Milestones

2. Legal undertakings from ESB

Whilst ESB Networks consider that the business is set up to deliver in accordance with its legal and licence obligations, to provide additional and enhanced assurance and transparency in relation to the independence of the ESB Networks business, ESB Networks proposes to seek from ESB Board, a legally binding undertaking in relation to the exercise of its supervisory rights as a parent company. This could include, for example, undertakings in respect of:

- a) Refraining from actions that would cause ESB Networks to breach its license;
- b) Protection of confidential information;
- c) Provision of information to ESB Networks to allow ESB Networks to comply with information requests from CRU; and
- d) Not exercising ESB’s corporate governance role in a way that would restrict, prevent, or distort competition in supply or generation of electricity on the island of Ireland.

	Milestones	Target Completion Date	Status
1	Legal undertaking drafted	December 2021	Complete
2	Undertaking approved by ESB Board	June 2022	Complete
3	Undertaking published by ESB Networks on website	July 2022	Complete

Table 6: Legal undertakings from ESB

Milestones proposed for this particular objective are all completed, as shown in Table 6. Full details will be provided in 2022 Outturn report for this incentive, to be submitted to CRU in April 2023.

3. ESB Networks Managing Director

ESB Networks’ Managing Director, in addition to managing the day-to-day operation of the ESB Networks business, is also a member of the ESB executive team.

Both ESB and ESB Networks ensure that appropriate governance arrangements are in place that ensures that the Managing Director operates in an independent manner. However, to ensure that this is fully transparent, ESB Networks proposed to document clearly the role of the Managing Director at ESB Group level demonstrating that independence. Milestones proposed for this particular objective are all completed, as shown in Table 7. Full details will be provided in 2022 Outturn report for this incentive, to be submitted to CRU in April 2023.

	Milestones	Target Completion Date	Status
1	Document role of Managing Director, Networks at ESB Group Level	March 2022	Complete
2	Publish on ESB Networks website	May 2022	Complete

Table 7: Milestones relating to ESB Managing Director

4. Enhancement of the Compliance Officer role and the existing ring-fencing arrangements

ESB Networks currently has an appointed Compliance Officer at senior management level as required by the DSO license. While this role is taken very seriously, it is not currently supported in a full-time capacity. As part of the suite of enhanced independence measures, ESB Networks proposed to ensure a full-time resource is available which will support the following requirements:

- CRU approval of appointment/removal of Compliance Officer;
- Compliance Officer to notify any substantial breach of licenses to CRU;
- Compliance Officer to submit Certificate of Resources to CRU; and
- Annual reporting on compliance issues to CRU

Augmented Compliance Officer responsibilities would include:

- Regular reporting to ESB Networks DAC Board and issuing recommendations on compliance programme and implementation;
- Compilation of evidence-based sign-off on license conditions;
- Compliance briefing and training of ESB Networks staff, ESB staff who interact with ESB Networks and contractors where appropriate
- Spot checks of license compliance
- Reporting annually to CRU on compliance issues

It is also proposed to carry out some further improvements that will further aid to transparency of the ESB Networks business. These improvements are as follows:

- Response to CRU consultations: All ESB Networks responses to CRU publications are now publicly available on the ESB Networks website, unless the content is deemed confidential in nature, to ensure that ESB Networks' views and proposals on regulatory matters are easily accessible and transparent for the public.
- ESB Networks DAC website: To provide the public with a greater insight into the independent governance structures and decision making of the Board by means of the ESB networks

website. This could include the role of the Board, Board member profiles, Board Code of Conduct and matters reserved to the Board for decision.

- c) Code of Practice for the Governance of State Bodies: ESB Group companies must comply in all material respects with the Code of Practice for the Governance of State Bodies 2016, a framework for the application of best practice in corporate governance by commercial State bodies. We propose that ESB Networks could make available to CRU a copy of its annual sign-off on the Code of Practice.

Below are the proposed milestones for this category of improvements. Once the fulltime resource to support the Compliance officer is in situ, the plans for the remaining milestones will be further developed and finalised in subsequent multi-year plans.

	Milestones	Target Completion Date	Status
1	Appoint full time resource to support Compliance Officer	2022	Complete
2	Commence Inclusion of ESB Networks responses to CRU consultations on ESB Networks website	2022	Complete
3	Develop a governance area within the ESB Networks website	Q2 2023	
4	Make available to CRU a copy of ESB Networks 2022 annual sign-off on the Code of Practice	Q2 2023	
5	Develop revised briefing/training packs for ESB Networks staff, ESB staff who interact with ESB Networks and contractors and commence new training cycle	Q1 2024	
6	Document and implement a revised licence condition sign-off process that incorporates evidence-based sign-offs	Q1 2025	

Table 8: Milestones for Enhancement of the Compliance Officer role and existing ring-fencing arrangements

5. Neutral Market Facilitator (NMF)

5.1 Background

For PR5, the CRU set out its objective for the role of the DSO to develop, in line with the provisions of the Clean Energy Package. To enable transformation of the Irish energy system, ESB Networks' role as DSO will grow and become more active, in particular with respect to the development and use of market based local ancillary/flexibility services, neutral market facilitation, coordination with the Transmission System Operator (TSO), and the facilitation and management of renewable generation, active customers, energy communities, storage and demand side response (including through aggregation).

In this context, the CRU identified “neutral market facilitation” as an area where the independence of the DSO, and the perception thereof in the wider market, is of particular relevance in the PR5 period. As such, ESB Networks committed that for projects or initiatives delivering neutral market facilitation (NMF) activities, a project initiation document (PID) specifically addressing the DSO's independence in initiative/project delivery, planning, prioritisation and decision making would be created.

The National Network, Local Connections “independence PID” was submitted to the CRU in Q1 2021, and addressed independence as relates to:

- project governance
- procurement
- vendor management
- skills/capability development
- ongoing ownership and maintenance.

5.2 The National Network, Local Connections programme

The National Network, Local Connections programme (NN,LCP) is a large programme of work, established to deliver the capabilities needed (people, processes and systems) in ESB Networks and for its customers and system users, to transform how the electricity distribution system is managed, and how customers and communities can participate in this.

This involves, for example,

- The delivery of a redesign and upgrade of ESB Networks operational control infrastructures, and extension of operational control capabilities to the local, LV network;

- The design and introduction of market and operational solutions (including local system services / flexibility market) to coordinate DSO system and market management with TSO and Single Electricity Market (SEM) activities;
- The establishment of technical standards and requirements for new technologies and services, so they can be securely integrated into distribution system operations;
- The delivery of effective channels to enable and empower participation, including dashboards and platforms supporting or providing visibility of local, community, and regional renewables, operational and market activity.

As a neutral market facilitation initiative, this programme includes activities enabling or relating to system operation, market operation, active management of variable generation and other distributed resources, active network management, visibility, forecasting, TSO/DSO coordination, platforms for access, participation and transparent market reporting, dashboards for community, local and regional involvement in the energy system, smart metering integration into system operation (enabling "smart DSO services").

The Programme involves a range of decisions which will materially influence capacity allocation and management, system operation, market design or operation, including design and delivery decisions relating to:

- Systems design, functionality, capabilities;
- Market design and operation;
- System services design and operation;
- TSO / DSO interaction;
- TSO / DSO data exchange;
- Operational data exchange with customer systems;
- Delivery strategy – sequencing, sourcing, phasing.

As such, it is important that the programme is operating in a manner which allows it to demonstrate and provide assurance that the DSO has sole control over project decision-making, delivery, planning and prioritisation as relates to the programme. The Programme had developed and adopted an Independence PID which seeks to provide transparency, assurance and actions to give confidence of:

- **Decision Making.** ESB Networks' control over decision making, planning and prioritisation, as relates to projects or systems responsible for capacity allocation and management, system operation, market design or operation.

- **Ringfencing.** The measures that ensure no other part of ESB Group can gain advantage from association with the DSO (e.g. through ring-fencing of systems, data and personnel), as relates to projects or systems responsible for capacity allocation and management, system operation, market design or operation.
- **Capacity.** ESB Networks' capacity to deliver, support and adapt systems responsible for capacity allocation and management, system operation, market design or operation.
- **Transparent and Participative Process.** The measures that ensure projects or systems responsible for capacity allocation and management, system operation, market design or operation are delivered in an open, consultative, participative manner.

Within the PR5 period, the programme will be delivered in a manner consistent with the provisions of the Independence PID document.

5.3 Ringfencing & Independence

The DSO licence requires that the various networks functions are independently managed, operated and effectively ring-fenced from all other businesses of ESB in terms of access to information, information systems and resources. This includes a requirement to ensure that services are procured from the most economical sources available, and that any agreements with other parts of ESB are at arm's length.

The regulated Operating Agreement between ESB and ESB Networks DAC, as approved by CRU, provides that ESB "shall provide the DSO on an arm's length basis", amongst other things, such goods, services and financial resources as are appropriate to enable the DSO to carry out its DSO responsibilities in accordance with applicable legislation.

The ring-fencing required under the DSO licence is supported by various governance and compliance documents including the DSO Compliance Programme and the ESB Networks Staff Code of Conduct, and the Memorandum of Understanding between ESB and ESB Networks DAC.

In its governance generally, and more specifically where the Programme proposes to utilise services provided by ESB Group, this will be in accordance with the requirements of this regulatory framework. i.e. such services will be provided at arm's length, ESB Networks' confidential or commercially sensitive information will be protected, independent decision making by ESB Networks will be preserved and there will be no cross-subsidisation.

5.4 Independence PID

ESB Networks documented a number of commitments in the Independence PID, which are summarised in table 5.1 below:

<p>Governance</p>	<p>Many key design decisions within the Programme are market sensitive, and Programme delivery planning and prioritisation will have market implications. As such, the Programme shall be governed in an independent manner wherein the DSO has clear and sole control over decision making.</p> <p>Transparent and participative decision-making processes is consistently applied, as part of the delivery of the Programme.</p> <p>ESB Networks collaborates and coordinates with the TSO through the Programme. There is extensive and systematic consultation with the TSO on matters delivered in the Programme which relate to TSO/DSO coordination (as set out in the TSO/DSO Charter and Work Plan). Decisions made in the Programme shall be consistent with a sustainable and secure operating model for DSO/TSO coordination.</p>
<p>Procurement</p>	<p>Procurement activities within the scope of the Programme will be delivered in an independent manner, given the market sensitive nature of many of the key design decisions, and the market implications of delivery planning and prioritisation.</p> <p>The programme shall have, and be able to demonstrate, direct access to the market for resources and expertise needed to deliver the programme. The programme may seek the support of ESB personnel when filling roles or resourcing new tasks, however ESB Networks holds ultimate decision-making authority for how these roles or tasks are resourced. Where sought and provided, support of this manner shall be provided on an arm's length basis.</p>
<p>Vendor Management</p>	<p>Third parties engaged in the delivery of the Programme or providing / delivering the associated systems or other assets, will be subject to independent ESB Networks vendor management structures. These shall be put in place on a case by case basis, as appropriate to a given vendor's role in or enabling the programme.</p>
<p>Skills and capability development</p>	<p>The programme shall be able to demonstrate ongoing capacity and capability planning, to ensure that core DSO capability requirements associated with neutral market facilitation and active system management are being developed or grown in ESB Networks, through the delivery of the programme.</p>

	<p>The programme shall prioritise the development, retention and growth of specific skills, expertise and capability related to critical DSO activities. These include but are not limited to:</p> <ul style="list-style-type: none"> • Market design and operation expertise • Power system engineering • Operational control systems management and support • Services / market systems management and support • Operational control architecture / engineering.
<p>Ongoing ownership and maintenance</p>	<p>The systems and platforms implemented in the programme relate to operational and market management and associated interactions. Their specification, design, and configuration/settings will influence system and market access, capacity allocation and management, energisation and de-energisation, and operational and market activities, for which the DSO is solely responsible.</p> <p>As such, ESB Networks shall undertake the ownership responsibilities relating to the management and maintenance of any systems and platforms to enable the delivery of active management of the system.</p>
<p>Systems landscape</p>	<p>Neutral market facilitation as implemented through the programme, relies on a diverse range of systems (“IT” and “OT”) addressing a breadth of operational, market, and customer interactional needs. As such, the models for sourcing, delivery, maintenance and adaptation of the associated systems landscape must support agile and independent DSO decision making and implementation.</p>
<p>Ways of working</p>	<p>Practical and efficient ways of working are needed to support the delivery of the programme while maintaining clear ringfencing and operating requirements as set out in the relevant licences, legislation and regulated agreements.</p> <p><u>Decision making</u></p> <p>From time to time, ESB Networks may seek the advice or support of ESB personnel with specific relevant expertise, to support decision making. Where ESB Networks seeks such advice or support, this may be in a range of forms, including meetings, workshops, or the secondment or assignment of individuals to aspects of the project. In such cases, ESB employees shall be responsible for providing clear, informed advice to the responsible decision maker in ESB Networks, who holds the responsibility for ultimate decision making.</p>

	<p><u>Information sharing</u></p> <p>On a case-by-case basis, ESB Networks may share information with ESB personnel when seeking specific support. This may include discussion, meetings, workshops or sharing files. Such information sharing shall be approved in writing on a case by case basis by the responsible decision maker in ESB Networks. Except where the information in question is already available in the public domain, a log of information shared, date, and receiving party, shall be maintained by the programme. These records shall be available for audit for the lifetime of the programme.</p> <p>Information shared shall be clearly identified as Confidential and may not be shared further without the explicit approval on a case by case basis of the original approver. Information may not be shared with personnel who are involved in activities relating to ESB’s generation or supply businesses.</p> <p><u>Capacity</u></p> <p>The programme shall have and be able to demonstrate direct access to the market for resources needed to deliver DSO sensitive roles. The programme may seek the advice of third parties or of ESB personnel with relevant expertise when seeking to fill roles or resource new tasks. This advice shall be provided on an arm’s length basis, and the programme will maintain ultimate decision-making responsibility for how these roles or tasks are resourced.</p>
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Table 5.1- List of various commitments and their summary documented in the Independence PID

5.4.2 Practical Examples

Briefings on independence requirements are provided to staff working on or interacting with the NN,LCP. Please see examples below of the briefing materials that have been developed and presented. The below slides were provided to NN,LCP board members, in advance of a monthly project board meeting, with the objective of providing them an understanding of the NMF incentive and what responsibilities fall under the role of the DSO.

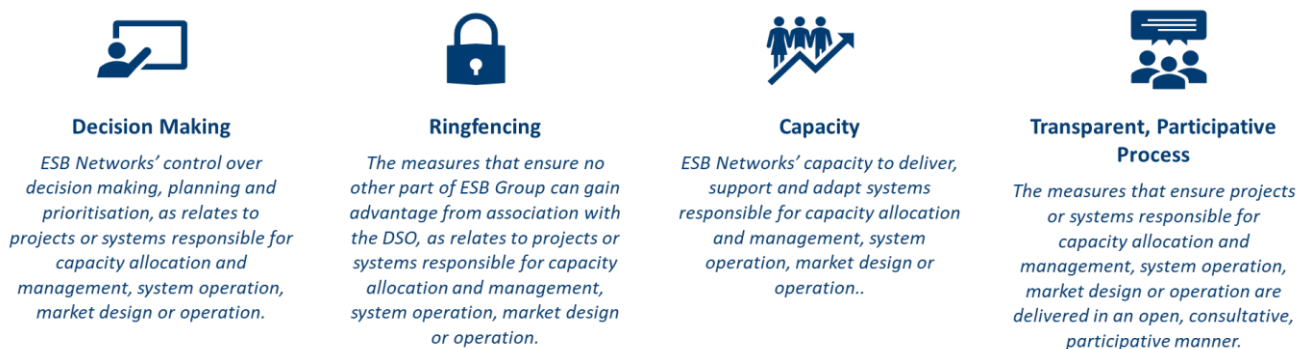


Figure 5.1: Overview of Independence NMF Incentive

Decision Making

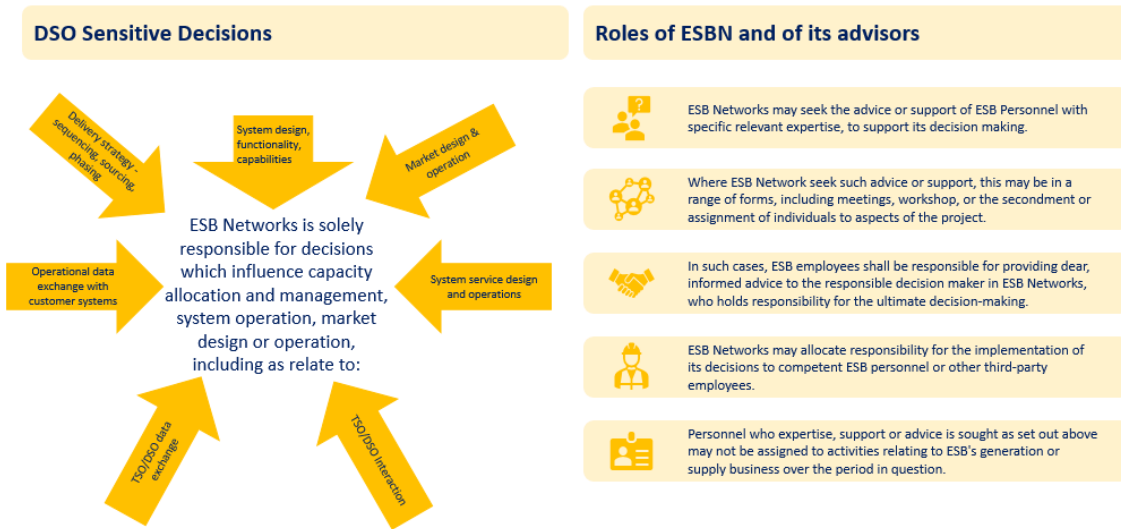


Figure 5.2- Components forming the DSO sensitive decisions and roles of DSO and its advisors in decision making

Information Sharing

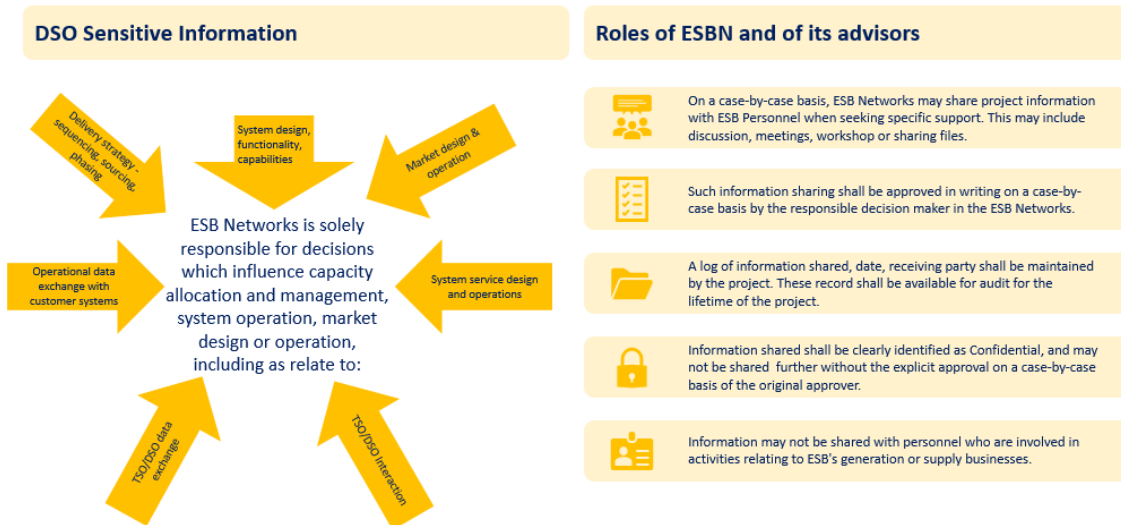


Figure 5.3- Components associated with DSO sensitive information and roles of the DSO

Capacity

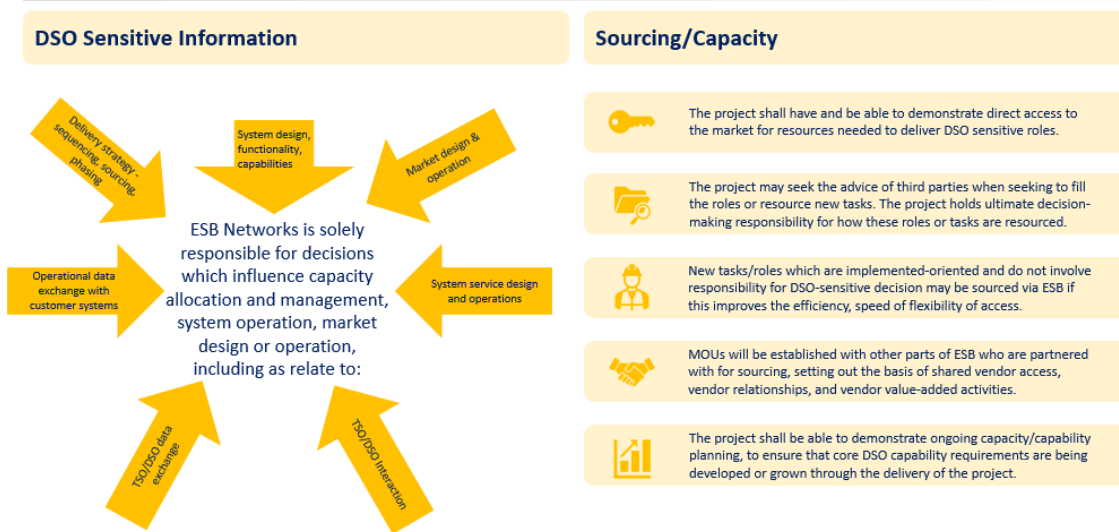


Figure 5.4- Components associated with DSO's roles and capabilities for sourcing/capacity

5.5 Assessing Independence

As part of the Independence PID submitted to the CRU in Q1 2021 and underpinning this incentive, delivery in line with the provisions in the National Network, Local Connections programme Independence PID are assessed through an annual audit. This audit assesses:

- How the programme is delivering on the provisions set out in the Independence PID;
- Whether there is strong compliance with ringfencing requirements such that sensitive information or decision making is not available to other parts of ESB in advance of being made available to all industry participants;
- Demonstration of open and consultative processes;
- Delivery of continuous improvement measures if these are recommended as necessary by independent auditors.

Any perspectives, findings or recommendations from this independent audit are shared with the CRU each year as part of the overall progress report on the Independent Role of the DSO.

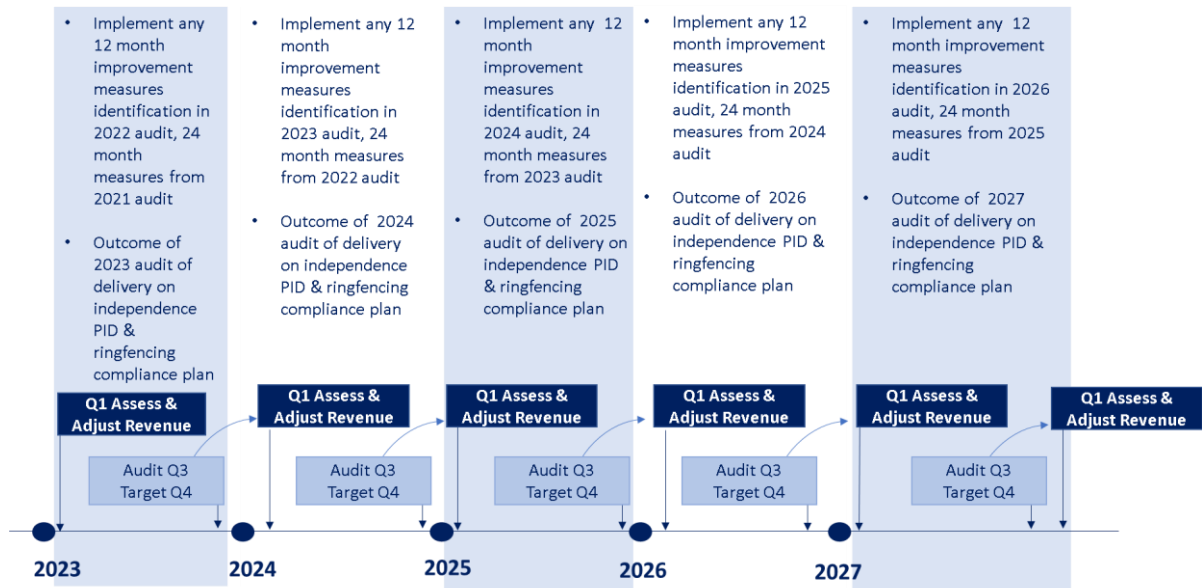


Figure 5.5- Roadmap with milestones from 2023-2027 for independence audit

Subject to appropriate governance, the delivery of individual actions may vary to reflect efficient delivery of the overall incentive priorities. The due dates in figure 5.5 are intended to be indicative and for information only, and that the incentive outturn assessment will be based on achieving the overall annual deliverables, rather than meeting monthly/quarterly milestones.

5.6 Actions included in Scorecard

Summary Scorecard

Section	Task	Scorecard Target	Proposed Scoring 2023 Upside	Proposed Scoring 2023 Downside
2021 Annual Audit	Implement any improvement measures identified in 2021 annual audit	Q2 2023	0.10	0.06
2022 Annual Audit	Implement any improvement measures identified in 2022 annual audit with a target delivery date in 2023	Q4 2023	0.25	0.12
2023 Annual Audit	Conduct 2023 audit against independence PID	Q3 2023	0.25	0.12

Table 5.2- Summary scorecard

Detailed Annex of Actions

Section	Recommending Action	Scorecard Target
Independent Project Governance	Consideration to be given to including 'independence' as a formal item agenda at the programme management / design authority meeting	Q1 2023
Independent Procurement	Ensure the requirements from the updated 'memorandum of understanding' mentioned above are communicated, implemented and embedded as required	Q2 2023
Independent Procurement	The Independence PID references a separate 'Memorandum of Understanding' (MOU) to support access to vendors. The programme should consider whether this MOU is required given the current plan to select one solution partner, whose remit will also include vendor management responsibilities in support of ESB Networks access to vendors on an independent basis	H1 2023
Ways of working	The Independence PID references a separate 'Memorandum of Understanding' (MOU) to support access to vendors. The programme should consider whether this MOU is required given the current plan to select one solution partner, whose remit will also include vendor management responsibilities in support of ESB Networks access to vendors on an independent basis.	H1 2023
Independent ongoing ownership & maintenance	Completion of the future state design and understanding capability gaps required to deliver and maintain this future state.	H1 2023

Section	Recommending Action	Scorecard Target
Transparency of system landscape	Completion of the future state design and understanding capability gaps required to deliver and maintain this future state	H1 2023
Information Sharing	Nominate NN,LCP specific Compliance Officer	H1 2023
Design Authority	Further increase transparency regarding the implementation to demonstrate the quality of the setup	H2 2023
	Swiftly implement recommendation of the previous audit to include an 'independence' agenda as a formal item on the DA meeting agenda.	H1 2023
	Clarify the Terms of Reference to ensure that the role of parties outside of ESB Networks is restricted to the delivery aspects of the programme	H1 2023
	Clarify the Terms of Reference regarding any arising needs for ring-fencing discussion on certain topics at the DA to ESB Networks members only.	H1 2023
Project Board	Consider including 'independence' as a formal item on the agenda of Project Board meetings	H1 2023
	Clarify the TOR for the PB regarding the roles and responsibilities of each member	H1 2023
	Clarify the TOR for the PB regarding any arising needs for ringfencing discussion on certain topics to ESB Networks members only.	H1 2023
	Conduct a Compliance Officer briefing on ringfencing of ESB Networks information with the current PB members.	H1 2023
	Track the progress against the commitments of the PID and check at least quarterly the progress against the planned actions .	H1 2023
	Update the PID at least annually, include recommendations from the previous audit	H1 2023
DSO/TSO Governance	Update the PID at least annually	H1 2023
	Define a timeline to finalise the TSO/DSO Operating Model to use it in communication with the CRU.	H1 2023
Procurement	The NN,LCP should periodically benchmark its procurement services received from ES.	H1 2024
Vendor Management	Nominate an ESB Networks employee within the NN,LCP to be responsible for the topic of Procurement and Vendor Management in relation to decision making	H1 2023
	Until the VMO is implemented, ES and the NN,LCP should consider measures to increase the transparency of ES's vendor management activities.	H1 2023

Section	Recommending Action	Scorecard Target
	Implement the Vendor Management Office concept.	H2 2023
	As part of VMO, develop the remaining vendor management tools as per the PID commitment.	H2 2023
Skills & Capability Development	When contracting the third-party vendor management solution provider, put in place provisions and KPIs to ensure improved agility and increased capacity to avoid future operational issues.	H2 2023
	Maintain the timeline to finish developing the Skills and Capability Matrix	H1 2023
	Continue developing the Learning and Development Curriculum and map it increasingly to the Skills & Capability matrix.	H1 2023
	Update the PID with the timelines for developments of both outputs to provide an update to the CRU and ensure means to check on the progress. ³	H1 2023
Ongoing Ownership & Maintenance	Upon the plan completion and introduction into practice, evaluate the actual outcomes and contributions of applying the Matrix and Curriculum.	H1 2023
	An explicit feedback loop should be established with the target model of systems landscape, as the results of the pilot projects become known	H1 2023
Systems Landscape	The previous audit's recommendation to complete the future state design and develop understanding of gaps is still applicable	H1 2023
	Develop the sourcing and supporting models for each step of the system landscape map	H1 2023
	Develop understanding of potential capability gaps resulting from the requirements regarding the delivery and maintenance of the Systems Landscape.	H1 2023
	Decisions around the Systems Landscape plan (model) should be subject to independence requirements as per section 3.2. Governance	H1 2024

Table 5.3- Detailed annex of actions

³ Please note that this action is referring to the NN,LCP independence PID

6. Have your say

ESB Networks are committed to facilitating the energy transformation as part of Ireland's decarbonisation journey. To enable this, we will continue to evolve as a distribution company and reshape the way we do business to reflect our customers' needs.

The CRU is enhancing the current incentive and the reporting framework during PR5. One of the new incentives focuses on the role of the DSO. This will give CRU assurance that the level of correct level of oversight is maintained and enhanced throughout PR5.

Stakeholders are invited to respond on:

- Whether the approach outlined in this document is aligned with the objectives of the Independent Role of the DSO incentive, as set out in the PR5 Regulatory Framework document, CRU 20/154?
- Specifically for the Neutral Market Facilitator element:
 1. Are the commitments made in the programme Independence PID sufficient to demonstrate independence?
 2. Are there other areas where you think the programme should be demonstrating independence?

We would welcome your feedback on our proposals to enhance the Independent Role of the DSO as outlined in this consultation. The closing date for receipt of feedback is Tuesday 21st March 2023. We look forward to hearing your views which will help further shape our plans for 2023 and beyond.

This consultation will provide valuable feedback on how we maintain our independent role as DSO. We value all forms of feedback. Please help shape our business offerings and plans in this space by sending us your comments to consultations@esbnetworks.ie. We look forward to hearing from you.