

## ESO RIIO-2 Stakeholder Group

# Transforming participation in smart and sustainable markets

### Our ambition

The ESO ambition is to be able to operate a carbon free system by 2025. To achieve this, we will need to attract significant new sources of flexibility onto the system which will require a transformation of our markets. By 2023, all market participants 1 MW and above will have equal access to all our ancillary service markets and the capacity market through a single integrated ESO markets platform. Our markets and actions will be aligned and coordinated with distribution networks and markets to drive maximum consumer benefit.

It is essential that our codes will facilitate the rapid change required to deliver our 2025 ambition and the UK's 2050 carbon reduction target. By 2025, our codes and code governance will no longer be perceived as a barrier to change. Code modification will work for hundreds of market participants, rather than the tens of participants for which the current process was devised.

### Guidance

Over the past few years we have worked closely with stakeholders to develop a shared understanding of how markets can change to help facilitate greater consumer value in RIIO-2 and beyond. Their high-level feedback and how we have responded to this is set out in the RIIO-2 ambition document. We are now developing more detailed proposals on how this ambition will work in practice and would welcome ERSG's input on a number of specific questions to help with this.

### Feedback on our proposals

#### Build the future ancillary service, wholesale and capacity markets

We have proposed that assets of 1MW and above will be able to participate directly in our balancing service markets and the balancing mechanism by 2023. Smaller assets such as households will be able to participate via aggregators.

A single platform will provide access to the capacity market and balancing services markets and would also act as an asset register. Our vision is that participants could register individual assets on the platform and then flexibly combine them to create capacity market units or balancing mechanism units. This is based on stakeholder feedback that the current approach to creating virtual units for the CM and our markets is difficult and inflexible. The platform could be extended to include other markets such as those run at the distribution level and be used to verify that stacking of value is legitimate

- What are your views on the 1 MW threshold for direct participation in the market?
- What are your views on the platform and the proposal to register at an asset level rather than as aggregated units?
- Is it useful to have historical and forecast data accessible in the portal? What data would be particularly useful?
- Should we focus only on our markets or open it to other markets such as distribution or community markets?

The current wholesale market and balancing mechanism were created almost 20 years ago, for a world of large, relatively inflexible generation; this is dramatically different from that which is envisaged in 2030 and beyond. As we

move towards a decarbonised, decentralised and flexible world, we need markets that allow the UK to meet its 2050 targets economically. We propose, working closely with all stakeholders, to deliver a wholesale and balancing market design by 2025 which is fit for the future. For the balancing mechanism, this could include: a review of gate closure; settlement period length; whether we should move to standard dynamics. A key question in the wholesale market is how prices are set in a world with large volumes of low-marginal-cost plant with Contracts for Difference (CfDs).

- Do you agree with the ambition to redesign the wholesale and balancing markets to be fit for the future and if so, what topics do you think should be in scope?
- Do you agree with the ESO taking the lead in this work?

## Develop codes and governance that are fit for the future

Government and Ofgem have launched the Energy Codes Review, a joint comprehensive review into the codes which govern our energy system. The aim of the review is to consider options for improving the existing arrangements, including scope for fundamental reform. This suggests a range of options from improving code processes, through merging some code bodies to radical change to the structure of codes.

We have engaged extensively with stakeholders and agree that the current codes and governance are not fit for purpose in a rapidly changing world. Our code processes need to work for hundreds of participants and this will not be achieved by simply refining some processes or merging some code administrators; both the content of the codes and the governance arrangements will require significant change. Many stakeholders have told us that the current governance approach is difficult to engage with as they simply don't have the time to attend or even follow the many modification groups associated with an open governance approach. We have also observed that it is difficult to drive strategic change in our current governance processes and as an industry have relied on strategic code reviews to freeze other potential change. Our governance approach is also quite different from that in other countries. We therefore propose working with our stakeholders to consider if another governance approach is more appropriate.

As part of the process we propose working with the DNOs to create a single Grid Code for distribution and transmission with a focus on providing minimum standards to allow safe and secure operation of the electricity systems. Supporting documents will provide examples of how the Grid Code requirements might be met.

- Do you agree that substantial change to the code content and governance is required?
- Is the Grid Code the correct starting point for our work and if so, do you agree that a single code for distribution and transmission is appropriate?
- Do you believe that we should consider a change in the governance approach, moving away from open governance with a reliance on modification groups?

## Ongoing stakeholder engagement

We have developed our ambition through engaging regularly with stakeholders both in structured forums and in our daily discussions. We have identified opportunities to engage with industry over the coming months to seek input and further refine our transformational activities.

- Do you support our approach to stakeholder engagement?

Channel	Date	Stakeholder groups	Approach
Bilateral meetings	Various	Existing and potential customers – demand and transmission connected parties and different technology types	More detailed discussion on our proposals
Transmission Charging Methodology Forum	Mid-March / April	Generators and suppliers	More detailed discussion on our charging proposals

Code panel meetings	Monthly	Various	Discuss our Code amendment process and Grid Code proposals
Industry association committees and meetings	Ongoing March, April and May	We have invitations from Energy UK, the Association for Decentralised Energy and Renewable UK to attend the relevant meetings to canvass member views on our emerging proposals for charging and market reform	Dependent on meeting but likely to include a presentation with Q and A
Power Responsive round table	10 <sup>th</sup> April	Small suppliers, DSR, aggregators and storage providers interested in access to ESO markets	Presentation with targeted round table on specific approaches for market development and participation to encourage debate, build ideas and capture views.
RIIO-2 stakeholder workshop	11 <sup>th</sup> April	All stakeholder groups	Targeted round table on specific approaches for market development and participation to encourage debate, build ideas and capture views.

## Ask of ERSG

ERSG's feedback is sought on the questions set out throughout the paper on the content and proposed stakeholder engagement.