

Incentives Monthly Monitoring Meeting

Meeting Minutes (July Q1 2021 Report)

Details

Date:	Friday 03 September 2021	Location:	Teleconference
Time:	10:00 - 12:00	Meeting Number:	36

Agenda

Ref	Time	Title	Owner
1	10:05 – 10:20	SME slot – Balancing Costs	ESO
2	10:20 – 11:00	SME slot – Future Energy Scenarios (FES) 2021	ESO
3	11:00 – 11:15	ESO to highlight notable points from the published report	ESO
4	11:15 – 11:30	ESO to take questions on the published report	ESO
5	11:30 – 11:40	Ofgem to give feedback on ESO performance and report format	Ofgem
6	11:40 – 11:50	Review actions & AOB	All

Participants

Name	Company
Jenny Mills	NG ESO
Phil Smith	NG ESO
Nigel Swan	NG ESO
Hannah Kernthaler	NG ESO
Archie Corliss	NG ESO

Name	Company
Maryam Khan	Ofgem
Luke Jones	Ofgem
Adam Gilham	Ofgem
David Beaumont	Ofgem
Luke McCartney	Ofgem
Eze Ejiogu	Ofgem
James Hill	Ofgem

Actions

Meeting No.	Action No.	Date Raised	Target Date	Resp.	Description	Status
35	100	12/08/21	31/08/21	All	Ofgem to send through examples of times they are asked for a legal view. ESO to discuss internally and agree approach	Open
36	102	03/09/21	10/09/21	ESO	ESO to follow up with Ofgem regarding the generation mix	Closed
36	103	03/09/21	10/09/21	ESO	ESO to respond to Ofgem's query regarding the inclusion of Black Start as part of Constraints in Metric 1A	Open
36	104	03/09/21	10/09/21	ESO	ESO to respond to Ofgem's question regarding trends in within-year outage change requests	Open
36	105	03/09/21	10/09/21	ESO	ESO to respond to Ofgem's query regarding the implementation of new products	Closed

Discussion and Questions

1. Balancing Costs

Nigel Swan talked through the July balancing costs, highlighting the main drivers of performance and cost saving actions taken by the ESO.

July balancing costs were lower this year than for the same period last year. Constraint costs remained lower as a result of changes to inertia management, lower wind, higher demand and good levels of network availability. Energy costs (non-constraint costs) remained higher than last year with higher Balancing Mechanism (BM) prices driven by, firstly, the ongoing scarcity of generation to meet margin requirements and secondly, the procurement of new products to maintain operability and save costs overall.

Demands continue to be higher than last year although the difference has reduced as the COVID-19 restrictions had eased by this time last year. July saw the lowest level of wind since July 2018 and as the majority of the wind was in England and Wales, this resulted in low constraint costs.

Energy costs remained similar for June and July, while the margin price began to increase in July.

Balancing Mechanism (BM) ROCOF (Rate of change of frequency) costs remained low in July following changes introduced through the Frequency Risk and Control Report (FRCR). The volume of ROCOF trades reduced in July but the cost of these was higher, which was driven by the increased cost of trades through interconnectors.

Nigel also talked through cost saving actions that were taken by the ESO during July.

Question	ESO response
To what extent were the higher prices in the BM due to scarcity of available generation compared to other factors?	Margins were tight in July and there was less plant available than there had been in the previous year. Summer is also the period when most outages take

	<p>place. The low wind levels in in July tightened margins meaning that generators were able to charge a premium due to less competition. The increase in wholesale prices was also a factor.</p>
<p>How does the ESO capture cost savings associated with real-time optimisation (for example where power stations are providing Black Start services), in its dispatch transparency tool?</p>	<p>These actions are tagged as ‘System’ and excluded from further analysis in the tool.</p>
<p>ESO stated that ROCOF costs had increased, despite traded volumes being lower, as a result of larger Interconnector spreads. What was driving those spreads?</p>	<p>This is driven by the difference between prices on the continent and GB. The continental price was lower in July and the UK price was higher therefore there was a greater spread and higher cost.</p>

2. FES 2021

Archie Corliss (ESO) presented on the Energy Scenarios (FES) 2021, following their launch in July 2021.

This year, the ESO had three times more stakeholder engagement than in FES 2020. There were more than 1700 interactions with over 1,200 individual stakeholders from 460 different organisations across the energy industry and wider. 90% of those at the launch event wanted the ESO to consider a virtual event again next year. The ESO will continue to welcome engagement for FES 2022 as we move to a more regional focus.

The scenario framework for FES 2021 is unchanged from FES 2020, with four scenarios representing a credible range of uncertainty in the Future of Energy

The four key messages from FES 2021 are as follows:

1. Policy and Delivery

Achieving net zero requires detailed policies and clear accountabilities, coupled with an immediate and sustained focus on delivery, to maintain the momentum provided by the Energy White Paper.

2. Consumer and Digitalisation

Consumer behaviour is pivotal to decarbonisation – how we all react to market and policy changes, and embrace smart technology, will be vital to meeting net zero.

3. Markets and Flexibility

Holistic energy market reform is needed to drive the investment and behaviour changes needed to deliver net zero and ensure security of supply at a fair and reasonable cost for all consumers.

4. Infrastructure and Whole Energy System

Significant investment in whole energy system infrastructure will be required over the coming decade – this should be optimised to ensure timely delivery and value for consumers.

Question	ESO response
What has been the historic speed of decarbonisation and how does it compare with the level of change that is required in the coming years?	It differs by sector. For example, the trend to date for speed of decarbonisation of heat and transport has been relatively slow. In some areas a step change is needed. Steady progression represents the minimum level the ESO would expect based on policy changes that are already in place.
Markets & Flexibility: Does the FES 2021 report go into detail regarding what kind of market models are needed or is that covered in separate reports?	It is covered at a high level in FES 2021 but will be covered in more detail in other reports.
Will there be another 'Bridging the Gap' document published this year given how well received it was in 2020?	Yes, this will be an annual project so there will be another Bridging the Gap document for 2021/22.
Is the scale of change we're expecting to see on electrolysis viable?	Based on engagement with stakeholders the ESO believes it is credible. The ESO doesn't expect to see electrolysis operating at a high load factor, but at a low load factor and ramping up when there are low levels of renewable generation.
Is importing power from Interconnectors a credible part of a future that reduces carbon output? When importing from interconnectors is carbon intensity a consideration for the ESO ?	The main purpose of importing through interconnectors is to provide flexibility rather than power. When carrying out the FES analysis, the ESO considers power imported in this way to be zero carbon as that is the internationally agreed accounting standard. However, the ESO also models a pan-European dispatch model to consider what power is available across Europe. The ESO carbon intensity app takes account of the generation mix in the countries we import from.
Will the ESO have the required tools to be able to maintain system operability if a gas free system is achieved by approximately 2030/2035?	Meeting security of supply as gas is phased off the system will be challenging, only one of our scenarios has all gas off the system by 2035. Working towards the ambition of being able to operate the system carbon free by 2025 will give us a lot of insight into the operability tools required.

3. ESO highlight notable points from the published report

Jenny Mills (ESO) talked through the key points from the July Q1 report.

4. ESO to take questions on the published report

Question	ESO response
Has the Dispatch Transparency tool led to much feedback from stakeholders on why actions are taken out of merit order?	We will cover this in the Stakeholder Evidence section of Role 1 of the Incentives Mid-Year Report.

In metric 1A in the monthly reports, the ESO is including Black Start costs in the Constraints section, however the benchmark wasn't set in that way so Black Start should be excluded from Constraint costs.

ESO to follow up with Ofgem on this point.

Has the ESO observed any trends in within-year outage change requests over time, and has this been impacted by the number of parties connected?

ESO to look into this question and respond.

5. Ofgem to give feedback on ESO performance and monthly report format

James Hill raised a concern that the ESO was introducing new products with more of a focus on implementing at pace and less focus on achieving the lowest cost to consumers through the product design, and that this could lead to unnecessarily high costs being incurred.

Ofgem reiterated comments they had made to the ESO earlier in the week that the Incentives Reports have improved significantly following changes made recently.

6. Review actions & AOB:

The ESO and Ofgem reviewed and updated the previous actions.

The following question was raised in relation to Action No. 97:

Question	ESO response
Has the ESO observed any trends in within-year outage change requests over time, and has this been impacted by the number of parties connected? Could the ESO provide data on the number of outage change requests per year and the number of connection applications received per year?	ESO to look into this question and respond.

Appendix – Previously Closed Actions

Meeting No.	Action No.	Date Raised	Target Date	Resp.	Description	Status
35	93	12/08/21	03/09/21	ESO	ESO to propose and update the delivery schedule for the revised EU deliverables	Closed
35	94	12/08/21	03/09/21	ESO	ESO to flag if there are any delayed deliverables which are going to be a challenge to deliver	Closed
35	95	12/08/21	19/08/21	ESO	Provide a response to the 'GB Voltage Screening report' question	Closed
35	96	12/08/21	19/08/21	ESO	Provide a response to the 'RRE 1H constraints cost savings from collaboration with TO' question	Closed

35	97	12/08/21	31/08/21	Ofgem	Ofgem will follow up with their transmission team to see if there are any follow up questions regarding NAP.	Closed
35	98	12/08/21	19/08/21	ESO	ESO will consider what elements of the report to discuss at the Ofgem/Panel bilateral meeting and will feed in beforehand.	Closed
35	99	12/08/21	31/08/21	ESO	ESO to investigate if there are ongoing works to develop additional balancing costs metrics or thoughts on changes.	Closed
35	101	12/08/2021	31/08/2021	Ofgem	Ofgem to send follow up questions on the specific confidential balancing cost saving actions if further clarity is needed	Closed