

Incentives Monthly Monitoring Meeting

Meeting Minutes (Q3 2021-22 Report)

Details

Date:	Thursday 3 February 2022	Location:	Teleconference
Time:	10:00 - 12:00	Meeting Number:	41

Agenda

Ref	Time	Title	Owner
1	10:05 – 10:20	SME slot – Balancing Costs	ESO
2	10:20 – 10:35	SME slot – Net Zero Market Reform	ESO
3	10:35 – 10:50	SME slot – Balancing Market Review	ESO
4	10:50 – 11:05	SME slot – RRE 2B Diversity of service providers	ESO
5	11:05 – 11:15	Review publications of CM notices on 24 January	ESO
6	11:15 – 11:25	ESO to highlight notable points from the published report	ESO
7	11:25 – 11:35	ESO to take questions on the published report	ESO
8	11:35 – 11:45	Ofgem to give feedback on ESO performance	Ofgem
9	11:45 – 11:55	Review actions & AOB	All

Participants

Name	Company
Jenny Mills	NG ESO
Phil Smith	NG ESO
Jess Rivalland	NG ESO
Hannah Kernthaler	NG ESO
Cristian Ebau	NG ESO
Simon Targett	NG ESO
Claire Thorpe-Morris	NG ESO
Nigel Swan	NG ESO

Name	Company
Sotiria Kordi	NG ESO
Craig Perks	NG ESO
Luke McCartney	Ofgem
James Hill	Ofgem
Luke Jones	Ofgem
Maryam Khan	Ofgem
Adam Gilham	Ofgem

Actions

Meeting No.	Action No.	Date Raised	Target Date	Resp.	Description	Status
37	106	05/10/21	23/11/21	ESO	ESO to investigate possible gaps in the data for Operating Reserve trades volume. Update: ESO to bring an update to the next monthly meeting.	Open
41	121	04/02/22	04/04/22	Ofgem	For RRE 2B Diversity of service providers, consider if data that is being reported on is suitable, particularly STOR for next reporting year. Reporting should remain consistent for the remainder of 2021/22 reporting year.	Open

Discussion and Questions

1. Balancing Costs

Cristian Ebau and Hannah Kernthaler talked through the November balancing costs, highlighting the main drivers of performance.

The balancing costs for December were £327.2m with the majority of cost categories reduced from November 2021, and cost outturn was more in line with October 2021. Wholesale power and carbon prices have remained high this month impacting on the higher than previous balancing costs. Energy costs continue to be high, in particular Operating Reserve, Fast Reserve and Reactive costs, resulting in high offer prices in the Balancing Mechanism (BM). The average monthly margin price fell from £304/MWh in November to £198/MWh in December. December's costs were significantly higher this year than last year due to the increase in both energy and constraint costs.

Demand was largely in line with last year's trend. There was a lower volume of constraint actions, related to power flow restrictions, than this time last year due to lower wind output. RoCoF costs are significantly lower than last year due to the implementation of the Frequency Risk and Control Report recommendations.

Question	ESO response
High energy prices in the BM seems to still be attributed to higher prices in the wholesale market. Ofgem note that there is a gap between what is being seen in the wholesale markets as an average day in the BM, versus what is seen during slightly tighter days in the BM. ESO reporting makes no mention of what happens at times of scarcity and the increase in prices.	There has been an uptick in offer prices due to increased wholesale prices and carbon costs. This is significant if you look over the whole year. In addition there are higher prices seen in the BM on tighter days. Going forward, the ESO will draw this out in its reporting.
The Operational Transparency Forum (OTF) appears to steer away from talking about individual days and gives a more high level overview of the costs. Ofgem would like to know what is still driving those expensive days.	ESO noted the resource burden associated with this detailed reporting, which may distract from other activities to bring down costs. In general, the message is similar: it was a tight system and therefore prices of actions are inflated. This means that even if the volume is going down, the overall cost is increasing.

Wind output graphs have different axes, which makes it difficult to compare between them. Ofgem would appreciate consistency in future.

The ESO will look to clarify this in future reporting.

2. Net Zero Market Reform

Simon Targett talked through the net zero market reform project and stakeholder feedback. The project was established at the beginning of 2021, and the primary objective is to publish a set of recommendations on the future direction of market reform by April 2022. This project is focussed on the longer term by looking to 2035 and 2050 and will be reviewing the full suite of GB markets. BEIS and Ofgem have full visibility with regular meetings to discuss updates.

The project has been split into three phases, phase 1 was an initial scoping phase where the ESO carried out a high level analysis of the current GB landscape and international case studies, as well as interviewed industry stakeholders. Phase 2 was split into two elements, the case for change and the case for market reform, and then the identification of possible market design options. Phase 2 came to an end in November which was followed by an initial report and a large stakeholder event. Phase 3 began in December and will go into more detail of the different options that have been taken forward, with a final presentation of recommendations planned for April.

In terms of stakeholder engagement, various sections of industry have been consulted and the ESO will use this feedback when considering recommendations. The ESO have hosted 10 large events consisting of formal webinars or workshop style events, and also conducted many bilateral discussions with groups and organisations. Online surveys have also been used to enable stakeholders to share feedback outside of events. Negative feedback has been addressed.

Question	ESO response
When is an outcome expected from the recommendations and roadmap?	At the end of March a markets forum event will be held where the ESO will present on the recommendations. This will be followed by a formal report to be published in April 2022.

3. Balancing Market Review

Nigel Swan gave an overview of the Balancing Market Review, this work has been undertaken due to a series of unprecedented high-cost days between September and December. ESO have appointed consultants and finalised the scope for current behaviours on high-cost days, a review of ESO data and wider market information, a review of existing market rules and their impact on behaviours, and stakeholder insights on behaviours and their thoughts on current market rules. Frontier Economics is to lead the review, Cornwall Insight will support with stakeholder engagement, and Lane, Clark and Peacock (LCP) will undertake the data analysis. The final report is to be shared in early April.

Question	ESO response
Does the ESO have a view on how the review is being undertaken and what is being looked at?	LCP are currently working through all the data. The ESO is maintaining distance from the analysis, so as not to unduly influence the review.
Has Ofgem seen the scope and direction of what the consultants are looking at?	ESO have been engaging regularly with Ofgem, and the scope of the review has been published on the ESO website.

4. Regularly Reported Evidence (RRE) 2B Diversity of service providers

Sotiria Kordi and Craig Perks talked through the responses to Ofgem's questions sent ahead of the meeting regarding data tables and treatment of Dynamic Containment for RRE 2B Diversity of service providers. Ofgem felt there were some discrepancies on the data being reported on for Reserve involving STOR procurement. Ofgem felt it would also be helpful to understand Frequency Response, Constraints and Reactive. Craig described how each service is reported on.

- STOR - the ESO report on contracted volumes rather than on delivered volumes for any contracted unit that could be instructed or awarded a tender each month.
- Fast Reserve - Report on contracted volumes and the highest available volume for each unit for each month. Available volumes can change throughout the month for a unit.
- Mandatory Frequency Response (MFR) and Reactive - Report on contracted volumes for every unit, Figures only apply to a single day and not the whole month.
- Constraints - Report on contracted volumes for all contracts that are live for any part of the month, some are live for the whole month whereas others are live for part of the month. The highest available volume on a specific day for each unit for the relevant month is captured, and the sum of those values is presented in the report.
- Firm Frequency Response (FFR) - Methodology is similar to Constraints. We report on the highest volume for each unit that has been contracted for a particular EFA block for the relevant month, and the sum of those values is presented in the report.
- Treatment of Dynamic Containment (DC) - Methodology is similar to FFR. We report on the highest volume for each unit that has been contracted for a particular EFA block for the relevant month and the sum of those values is presented in the report.

Question	ESO response
STOR is still unclear. Can this be expanded on?	With STOR, the figures received is any contract that could tender for a daily service. The ESO take the value of tenders that could have occurred, however the amount that gets awarded tender is often lower. Essentially, we are reporting on the capability of all pre-qualified units.

5. Publications of Capacity Market Notices (CMN) 24 January

Jenny Mills talked through the times and communication channels for reporting the CMN on 24 January 2022.

6. ESO to highlight notable points from the published report

Jenny Mills talked through the key points from the December Q3 2021-22 report.

7. ESO to take questions on the published report

N/A

8. Ofgem to give feedback on ESO performance

Ofgem provided positive feedback regarding the C16 early consultation process in that the ESO reached out early for more stakeholder feedback.

9. Review actions & AOB:

- North Sea Link action 117 was addressed
- The ESO will reach out to the teams on the outstanding actions
- Jenny Mills is moving onto another role within the ESO

Previously Closed Actions

Meeting No.	Action No.	Date Raised	Target Date	Resp.	Description	Status
40	115	06/01/21	7/01/21	ESO	ESO to move meeting on 'Mid-year report - feedback on content and structure' back by one week.	Closed
40	116	06/01/21	31/01/21	ESO	ESO to provide an update on the likely timescale for the ESO's cost benefit analysis of procuring balancing services at a GSP level.	Closed
40	117	06/01/21	31/01/21	ESO	ESO to provide a response regarding whether the North Sea Link interconnector was restricted in November 2021 and if so, the impact on RoCoF and response costs.	Closed
40	118	06/01/21	24/01/21	ESO	ESO to share the definitions for the operating reserve graphs.	Closed
40	119	06/01/21	24/01/21	ESO	ESO to provide more detail on 'making better use of wind power, building on the Power Available phase 2 go-live in March 2021' as mentioned in relation to recent updates to the BM Control Room systems.	Closed
40	120	06/01/21	26/01/21	Ofgem	Ofgem to share contact details of Brian O'Neill, for ESO to contact regarding the Virtual Energy System.	Closed