

Markets Advisory Council

Meeting 28th April 2022

Agenda:

1. Intro and Recap of Previous Meeting
2. Markets Timeline (including timetable for reporting to Ofgem Performance Panel)
3. Overview of Markets Roadmap and Markets Winter 2022/23 Priorities
4. Introduction to BEIS Review of Electricity Market Arrangements (REMA) – given by BEIS
5. Next Steps for Net Zero Market Reform
6. Update on Future System Operator
7. Topics for future meetings
8. AOB

Topics Discussed

1. Markets Timeline

A summary of the key activities and projects for the next 12 months was presented to help attendees understand Markets' priorities and the key milestones. The volume of work was noted, along with the need for a clear approach to prioritisation and the challenge of keeping stakeholders informed. In that regard, a discussion was held around reporting requirements especially in relation to Markets performance which are substantial but necessary to provide Ofgem and industry with the information they need to understand performance. It was noted that ESO is due to present its mid-scheme report to the Ofgem Performance Panel in May. This is a process which invites stakeholder views through an Ofgem 'call for evidence', an overall 'rating' of performance by the Panel, and ultimately a financial outcome determined by Ofgem.

2. Markets Roadmap and Winter Priorities

A summary of the most recent Markets Roadmap was presented along with two of Markets' key priorities for Winter 2022/23 (the overview of work on BM Operational Standards and the development of a Local Constraint Market). Attendees were invited to comment on the following questions:

- i. Do you think the Markets Roadmap is fit for its purpose?
- ii. Do you agree with the market design principles?
- iii. Do you have any thoughts on our priorities for this winter?
- iv. What else would you prioritise?

The key points from the subsequent discussion were as follows:

- The Markets suite of products looks complex. There was a request for a summary to be produced of the desired 'end state'.

- There was feedback that the operational requirements underpinning Markets' evolving product suite are not clear to industry. Providing a rationale for why ESO needs to procure particular products, where there are trade-offs in its objectives, and what it is prioritising would help industry better understand the product roadmap. This would help stakeholders understand where Markets is taking a strategic decision that may not have immediate stakeholder benefit. Markets has taken the action to summarise how changing system operability requirements are informing its transformation of its products (and the trade-off between modifying existing vs launching new products).
- MAC members provided feedback on the new Markets Principles that have recently been published as part of the ESO Markets Roadmap (see pre-read pack). There was agreement that the principles are particularly helpful where they illustrate trade-offs or tension between market objectives and where they are testable. The discussion supported the need for further engagement on this topic, particularly in relation to the wording of the investment criteria, and whether the principles are achieving everything they should.
- It was agreed that ESO's suite of products should cohere with the broader set of flexibility products that are available to the market, such as with DSO flex products, and a separate session would be held at a future meeting to explore this in more detail. This could cover the related topic of revenue stacking.
- In addition to its work on BM operational metering, ESO Markets should be making a strategic decision on metering across different services.
- Longer-term, there is scope for ESO to streamline the product launch process by anticipating what it will need from market participants (e.g data/ registration processes) rather than focusing solely on its next step in the launch process.
- There was discussion on the launch of Dynamic Containment as an example of Markets' improving how it designs and launches new products. ESO committed to presenting a 'Lessons Learned' session on Dynamic Containment.
- Members provided feedback that some of the reporting metrics, which Markets is required to provide, are difficult for industry to understand. To ensure industry engagement on Markets' performance, metrics should be formulated accounting for what is valuable to industry (e.g dispatch transparency).
- Members raised that more information was needed to help market participants understand what revenue stacking opportunities are available for ESO products.

3. BEIS' Review of Electricity Market Arrangements (REMA)

BEIS shared the scope and timing of the REMA review. There was general agreement that the MAC could provide a valuable role in giving BEIS feedback on its market reform work. There was also consensus amongst members that ESO should continue its Net Zero Market Reform work and not wait for REMA work to be concluded.

4. Net Zero Market Reform (NZMR)

Markets provided a summary of the conclusions from Phase 3 of its NZMR program and updated members on its plans for future phases. Attendees were asked the following questions:

- i. Do you agree with our prioritised next steps?
- ii. How can we best work with industry and policymakers to maintain momentum in the debate around market reform?

Key discussion points on Net Zero Market Reform were:

- ESO could do more to clarify what problem it is solving for by proposing Locational Marginal Pricing (LMP). For example, does Markets see LMP as a solution to medium term congestion costs or part of a longer-term vision?
- Related to this point, Markets needs to clarify what is the counterfactual of not introducing reforms to locational signals. For example, what assumptions is it making about transmission network build?
- There was discussion surrounding the scale of the change being proposed. Members suggested that there is scope for Markets to evidence that it has fully assessed all alternative solutions to LMP as a solution for the issues it raised at Markets Forum. This might include communicating how its market reforms interact with ESO's vision for transmission network investment and planning.
- Given rising congestion costs in the medium term, Markets might additionally show that it is working on 'no regrets' actions for congestion costs and other locational issues and where these can be parallel tracked alongside larger-scale reforms such as zonal or nodal pricing.
- It would also be helpful for Markets to show it understands why stakeholders have concerns and to communicate how it intends to approach them going forward.
- Ofgem agreed to come and present the scope of their Technical Assessment of LMP at the next meeting.

5. Markets and the Future System Operator:

Markets updated members on how ESO is planning its transformation to Future System Operator, focusing on the role of Markets in the new organisation. Key points made by MAC members were as follows:

- Members commented on the potential for overlap in the work of the Markets function with that of other entities such as BEIS. They raised that it is important for Markets' success in the FSO that its remit is clearly defined. There was agreement on the value of ESO/ the FSO providing a strong "fiercely independent" voice on Markets-related matters.
- The emphasis of communications around the decision by BEIS and Ofgem to create an FSO has largely focussed on ESO no longer being part of National Grid plc. Thought is needed on the positive identity and capability of the future organisation, recognising its critical role across both electricity and gas. This will require a clear mission, intentional building of a new identity and consideration of the skills and technology required for success.

Future Attendees:

The Chair noted that the Council is now at 16 members (plus observers from BEIS and Ofgem) and he was keen to ensure that it remained a manageable number. That said, a search for a member to represent consumers is ongoing and there was a request to seek two additional representatives – one from a large generator and one from a transmission operator.

There was discussion but no decision on whether there is a need to invite a member from the devolved governments.

Topics for Future Meetings:

- Further updates on the Markets Roadmap and Net Zero Market Reform, considering the actions and points noted above.
- Alignment of the plans and priorities of the ESO and DSO's and how ESO is approaching whole system coherency.

- Discussion about Winter 2022/23: What is Markets' outlook and what scenarios is it testing against.