

# Proposal to create a Markets Advisory Council

## Summary

The ESO has a central role today in GB energy market design; this role has the potential to further expand as BEIS, Ofgem and industry consider roles of a future system operator. We propose to establish an independently chaired 'Markets Advisory Council' (or MAC) to inform our approach to strategic market design and delivery, based on robust evidence, international best practice, and the needs of and impacts on wider industry.

## Context

ESO sits in a privileged position at the heart of the electricity sector, responsible for the design and operation of balancing markets that represent billions of pounds of revenues for market participants, ultimately passed through to consumers. As EMR Delivery Body, we are also responsible for the allocation of more than £1bn of revenues per year through the CM and CFDs. The size of these markets is increasing year on year as the system transitions to net zero.

Given this role, we are also looked on by BEIS, Ofgem and wider industry to have a leading voice in the direction of wider GB electricity markets. To this end, we have established our Net Zero Market Reform programme, through which we are undertaking a review of all electricity market arrangements and delivering recommendations on how they should be reformed. We are working closely with BEIS and Ofgem on this topic, via our NZMR program, and tri-laterally as both Government and Regulator further develop their perspectives on future market reform.

Our own ancillary and balancing markets must continue to evolve, to keep pace with the changing landscape and to ensure we facilitate an affordable energy transition while keeping the lights on. We must ensure that these reforms and plans are in line with industry requirements and expectations, to provide the certainty and transparency required for timely investment, and to give the industry confidence that we are prioritising reforms appropriately and making the right decisions.

We do not take these responsibilities lightly and we are aware that we do not have all the answers. We believe that by opening our market design work to the perspectives of industry and academic experts, innovators and international best practice we will achieve better outcomes for consumers.

## Objectives of the Markets Advisory Council

1. To help ESO set the strategic direction for market reform, both in ESO balancing services and in our recommendations for wider GB energy market and policy reform
2. To embed stakeholder perspectives and international best practice in our market reform and design thinking (e.g., international, innovators, other sectors)
3. To provide input on our priorities and plans (e.g., reviewing our market reform plans and progress against them, providing input and feedback on changes and / or prioritisation)
4. To support in ensuring transparency, certainty and stakeholder confidence around our strategic priorities and decision making, and to help ESO proactively and effectively communicate these to industry
5. To provide ESO with timely feedback of changing industry priorities and concerns, allowing us to proactively build these into our plans

## **Bringing the Role of the Markets Advisory Council to Life:**

### ***In challenging the ESO's strategy for market reform the MAC could:***

- Identify and discuss key drivers and risks for future market reform (macroeconomic, technological, policy, consumer etc)
- Identify and discuss best practice for strategic market reform from international markets and non-energy sectors
- Review and challenge ESO's view of what good looks like for future (2025 to 2035) markets
- Review and challenge ESO's objectives and principles for market design (currently outlined in Net Zero Market Reform and Markets Roadmap)
- Challenge our approach to communicating our strategy, helping us to communicate more effectively

### ***In challenging ESO's plans to deliver against its market reform strategy the MAC could:***

- Review and challenge ESO's Markets Roadmap, helping us to review and reprioritise our reform plans
- Identify and discuss key risks to the success of our Markets Roadmap
- Challenge our approach to communicating our plans, helping us to communicate more effectively

### ***In providing input on our strategic priorities and plans the MAC could:***

- Review and challenge ESO's market performance against stated objectives and principles
- Discuss key themes of stakeholder feedback
- Support ESO in feeding these elements of performance and stakeholder feedback into our overarching strategy and Markets Roadmap

## **What is out of scope for the Markets Advisory Council?**

The purpose of the MAC is not to provide general communication of information and updates to industry as this will continue through other forums e.g., Markets Forum. Nor will the MAC co-create detailed product and service design, as this will continue to happen through dedicated product working groups, workshops, webinars, and consultations

While the MAC does not have official powers to direct/make change, the ESO considers the council to be an important body, with a key role in supporting and challenging the ESO in its markets work. We are committed to careful consideration of the input of the council, and to transparency in our thinking and ultimately our decision making.

## **Membership – outline of potential size and makeup of the Council**

We consider that an Advisory Council of up to 20 members would strike the appropriate balance between bringing the right mix of backgrounds / skill sets / interests to the table, whilst remaining an effective / manageable size.

We would propose to engage members covering GB market participants and industry bodies, academia, international expertise, consultancy, Think Tanks, and potentially other 'independent' experts. We will seek to ensure Council membership is representative of the diversity of the communities we serve.