Incentives Monthly Monitoring Meeting

Meeting Minutes (April 2022-23 Report)

Details

Date:	**Thursday 09 June 2022**	Location:	**Teleconference**
Time:	**10:00 - 12:00**	Meeting Number:	**44**

Agenda

Ref	Time	Title	Owner
1	10:05 – 10:20	**SME slot – Balancing Costs**	ESO
2	10:20 – 10:35	**SME slot – Dynamic Moderation & Dynamic Regulation**	ESO
3	10:35 – 10:50	**SME slot – Summer Outlook Report**	ESO
4	10:50 – 11:00	**ESO to highlight notable points from the published report**	ESO
5	11:00 – 11:10	**ESO to take questions on the published report**	ESO
6	11:10 – 11:20	**Ofgem to give feedback on ESO performance**	Ofgem
7	11:20 – 11:30	**Review actions & AOB**	All

Participants

Name	Company
Laurence Barrett	NG ESO
Phil Smith	NG ESO
Jess Rivalland	NG ESO
Cristian Ebau	NG ESO
Sophie Van Caloen	NG ESO
Filippos Panagiotopoulos	NG ESO
Faye Relton	NG ESO

Name	Company
Alex Haffner	NG ESO
Maryam Khan	Ofgem
Samar Ahmed	Ofgem
Adam Gilham	Ofgem
Eze Ejiogu	Ofgem
James Hill	Ofgem
Kirstin Nazareth	Ofgem

Actions

Meeting No.	Action No.	Date Raised	Target Date	Resp.	Description	Status
41	**121**	04/02/22	August 2022	Ofgem	For RRE 2B Diversity of service providers, consider if data that is being reported on is suitable, particularly STOR.	Open

43	**124**	31/03/22	30/06/22	Ofgem	Ofgem to speak to EMR team to provide feedback to ESO regarding RRE 2C	Open
44	**125**	09/06/22	30/06/22	Ofgem	Ofgem to calculate and approve benchmarks for metrics 1A, 1B, 1C. Forecasting metrics 1B and 1C approved. Waiting on 1A.	Open
44	**126**	09/06/22	29/07/22	ESO	Consider how to report cumulative data in monthly reports	Open
44	**127**	09/06/22	August 2022	All	Organise wind forecasting deep dive sessions	Open

Discussion and Questions

1. Balancing Costs

Cristian talked through the April balancing costs, highlighting the main drivers of performance. Total spend to balance the system in April 2022 was £108.4m. Constraints and non-constraint costs and volumes have decreased when compared to March. Cost outturn was the lowest since July 2021. Wholesale power, and carbon prices have remained high this month impacting on the higher than previous balancing costs. All cost categories are higher in April 2022 than April 2021 except for RoCoF. All actions taken by the ESO are significantly more expensive driven by continued high wholesale market prices and the related pricing behaviour in the Balancing Mechanism (BM). RoCoF costs remain at a significantly lower level due to the savings made through the implementation of the Frequency Risk and Control Report. Overall metered wind output has been lower in 2021/22 than 2020/21.

Filippos talked through the total cost overview for the whole of April day by day, highlighting the most expensive days. He also discussed the prices submitted in the BM per Settlement Period (SP).

Sophie talked through a number of other cost savings actions taken by the ESO during April.

Question	ESO response
What is driving the low non constrained volumes? Is the market balancing better so the net balance volume is as an absolute value lower?	With healthier margins and a relatively stable wind output, along with optimised procurement of services to deliver multiple operability challenges, this results in fewer actions. This causes lower volume and improvement on operational actions.
How does a larger and healthier margin mean you have to do less in the balancing space?	There always has to be a minimum margin to make sure we can operate safely the system. What the ESO does is compare what's provided by the market and then often have to take some action to reposition and that's what's costing money. So when we say healthy margin, it means that the market was providing this, so there were less actions taken from all sides and were able to reposition some grants to ensure we have a sufficient headroom and foot room available.
How does this coincide with a predominately short market?	A short market depends on the position compared to what the demand forecast is, it's the efficient allocation among generators so there's sufficient headroom and foot room.

On the day by day breakdown, on 24 April, the amount of £5.29m are England and Wales constraints. What is driving this, as it appears to be the largest constraints costs for the whole month.	This is due to outages and network configurations that were exacerbated by embedded high PV generation leading to lower demand. This scenario required BM actions for most of the day for both voltage control and system inertia.

2. Dynamic Moderation & Dynamic Regulation

Faye talked through launch of Dynamic Moderation & Dynamic Regulation. Part of the ESO's role is to maintain a stable system frequency at around 50Hz. In order to achieve that we need different services available at different times. Frequency response services automatically react to changes in system frequency within seconds, whilst reserve services provide additional sources of power over longer timescales. The services support us in managing frequency both in a normal operational scenario, known as pre-fault, and in post-fault situations where there is a sudden change in generation or demand. System inertia is decreasing, and we are seeing more variation in supply and demand on the system. These means we need faster-acting frequency response to support our operations as we move to a de-carbonised electricity system.

We have recently introduced the new suite of frequency response services that will replace our existing dynamic frequency products. These new products are Dynamic Containment, Dynamic Moderation and Dynamic Regulation (DC, DM, DR). We are also moving procurement closer to real time, which will give providers more flexibility and increases the efficiency of our procurement. We want to encourage a greater range of providers to participate in our response markets including existing monthly FFR providers (many of which are smaller DSR units), wind generators and interconnectors alongside the strong and growing participation we already see from battery storage units. The proposed new reserve services are still under development, and we are currently engaging with industry on their design.

Faye went through how the ESO is approaching the creation and development of DC, DM and DR. It's an iterative process where feedback shapes and refines each service. She also went on to talk about the progress to date on response reform services and what's coming up in the year ahead.

Question	ESO response
The development has been fast paced on these three products. Need to maintain momentum and ensure the products translates to a reduction in balancing costs. Industry need to understand priorities on why certain parts of services go live first.	Fast pace has had pros and cons with conflicting stakeholder feedback. This year we intend on more transparency and a plan the ESO can commit to along with guidance documents. We plan to articulate priorities and have cemented the services development process which we plan to share with industry.
How confident are the ESO in delivering these and are there mitigation plans?	We are currently recruiting for resources and aim to fulfil the empty roles. Another risk is people don't sign up to the plan, this has been shared since March. We have been sharing lessons learnt for reserve perspective. Allowing six weeks to review consultation response, needs to be time for modelling and analysis. There is also more time to engage internally and externally.

3. Summer Outlook Report

Alex went through the Summer Outlook Report's key messages on market prices and measures to reduce costs, security of supply, and managing the system for low demand. The ESO continue to monitor the impact of Ukraine.

Weather corrected minimum transmission system demands for summer 2022 are expected to be just 0.1GW lower than last summer, with high summer peak demands slightly higher as COVID-19 restrictions are lifted. Weather variability will have an effect on demands over the summer. The demands presented on the previous page use seasonal normal weather conditions for the time of year, however weather variations can cause fluctuations around the central case. We expect to be able to meet normalised transmission demand and our positive reserve requirement at all times throughout the summer, including throughout the shoulder months of April and September. Based on current data we expect to be managing periods where inflexible generation output plus flexible wind output exceeds minimum demand and, therefore, will need to take actions to manage this. Under higher wind conditions, we could also see a small number of periods where inflexible generation output alone may exceed minimum demand. There is potential for greater exports across interconnectors from GB to France than in previous years, however high prices and uncertainty related to the situation in Ukraine makes the import/export pattern across the interconnectors to continental Europe this summer very uncertain.

Summer 2022 is expected to present similar operational challenges as Summer 2021. We expect that the necessary tools will be in place to enable safe, reliable, efficient system operation.

Question	ESO response
Have the ESO looked at the actuals that have tracked against the 1 in 10 year weather risk level?	For winter we have a dedicated review document, we do not have one for summer as winter outlook has historically been seen as the more important one. In the summer review, we include a few slides on the previous summer's forecast against the outturn demand.
Is the ESO doing live tracking?	The ESO write the documents then move back onto change of scenarios which takes up the bulk of the year. This is the type of issue which is covered at the Occupational Transparency Forum. The snapshots are a factor which goes into the next forecast.
Regarding the ranges on the demand variability, is this data publicly available?	Yes, we publish the data workbook alongside the report.

4. ESO to highlight notable points from the published report

Laurence briefly went through the key points from the April 2022-23 report.

5. ESO to take questions on the published report

Ofgem asked about the 106% accuracy for RRE 2E. ESO responded that this is a significant deviation from where we would like to be and expanded on the difficulties in forecasting something that is so variable in terms of market dynamics. The ESO are concerned as we are moving towards fixed BSUoS pricing, we are aware that the number is not ideal, and we are focussed on understanding on how to improve the model.

Ofgem queried the changes concerning the underlying data set to produce the forecast for RRE 2E. ESO replied that that there we a couple things we changed. We improved our constraint modelling, and as we have been progressing the code modifications for the fixed BSUoS pricing, we have constructed a new modelling approach for forecasting and recently starting using this. This is something we need to review.

6. Ofgem to give feedback on ESO performance

N/A

7. Review actions & AOB:

- Action 125 added regarding benchmarks for metrics 1A, 1B, 1C
- ESO asked if reporting content should be cumulative or by year. Ofgem mentioned their scoring is an assessment for the previous 6 months made on a rolling basis. The mid scheme reporting was useful by focussing on the last 6 months with a cumulative reporting on the deliverables.
- ESO queried if monthly reports should have cumulative data. Ofgem would be interested in seeing this progress. Action 126 added.
- Considered if a wind forecasting deep dive session would be useful. Ofgem said it would be useful but not a priority. Action 127 added.
- Balancing costs deep dive sessions timings discussed
- Discussed mid scheme stakeholder event and panel session. The stakeholder event will need more promoting in future. For the panel session it would be more beneficial to have face to face in the future.
- ESO are working towards the Ofgem and Panel Q&A on the mid scheme report.

Previously Closed 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.	Closed
42	**122**	03/02/22	10/03/22	ESO	ESO to provide detail on the drivers of the higher margin price in January	Closed
43	**123**	31/03/22	14/04/22	Ofgem	Ofgem to create invite for Mid Scheme event and share with the ESO	Closed
42	**122**	03/03/2022	10/03/2022	ESO	ESO to provide detail on the drivers of the higher margin price in January	Closed
42	**123**	03/03/2022	10/03/2022	ESO	ESO to provide details of any actions taken in recent months to improve wind forecasting.	Closed