

# Markets Advisory Council

Meeting 5<sup>th</sup> July 2022

## Agenda:

1. Introduction and Recap
2. Business Plan 2
3. Markets Roadmap: Operational Requirements and ESO Product Landscape
4. Distributed Flexibility Strategy
5. Net Zero Market Reform
  - a. BEIS REMA Update
  - b. Ofgem LMP Technical Assessment Overview
  - c. ESO Update
6. Winter Outlook 2022/3
7. AOB

## Topics Discussed

### 1. Business Plan 2 (BP2)

The purpose of this session was to share ESO's BP2 planned activities and approach. Members asked whether ESO is planning for the period after BP2, and how it sees the role of the MAC for this future period.

ESO confirmed that it will reflect on the extent to which feedback from MAC can be incorporated into future business planning activities, recognising that future business planning will be determined by the role of the FSO.

### 2. Markets Roadmap: Operational Requirements and ESO Product Landscape

Following a request from MAC members at the April meeting, ESO shared a briefing on how ESO's product landscape is changing to meet GB electricity operability requirements for net zero. The purpose of this session was to get members' feedback on whether ESO's balancing product landscape is structured coherently around GB's emerging electricity operability requirements and whether ESO's products align with other products in the market such as DSO flexibility products.

Key points from the subsequent discussion were:

- What ESO procures is clear; how ESO procures is not. For example, there is a lack of clarity on ESO's capability to procure small amounts of aggregated demand response and what factors into its decision making when choosing whether to use a particular asset.
- ESO must consider how to communicate what kind of flex it needs.
- There is a trade-off between defining products broadly so that they are accessible to a wider portion of the market, including enabling innovation for new entrants, and ensuring that the product is useful for meeting ESO's operability requirements.

- More thought might be given to whether products need to be centrally dispatched but could instead respond to market price signals.
- ESO is good at sharing its design processes and decisions with external stakeholders, but it is not clear the extent to which participants' ideas or feedback are taken on board in the Control Room.

Asked whether it would consider asking participants what they can provide, ESO noted that it is starting a project which will explore technology and capabilities of Balancing Services Providers. It will update members on this project at a future meeting.

ESO additionally committed to share what it is doing to encourage innovation in the long-term design of its products as well as further details on its procurement approach at a future meeting.

### **Distributed Flexibility Strategy**

In response to previous feedback, ESO has created a new team to focus on bringing distributed flexibility into its markets.

The purpose of this session was for ESO to present the approach and scope for a new distributed flexibility strategy, explaining it will include a market analysis of current and future distributed flexibility, define a distributed flexibility vision for 2035, assess gaps in current market and policy structure and provide recommendations for reforms.

The following discussion covered:

- Data will be crucial for ESO understanding of what flexibility is available. Members suggested that how data sharing between platforms is achieved should be within the project scope.
- Deeper engagement from ESO with the distribution network is critical: an example was given of where a transmission-connected battery providing ESO ancillary services, in malfunctioning, affected the reliability of supply to 5 thousand homes on the distribution network.
- Taking a system wide view on coherency (by the ESO) was welcomed by some members, while others stated what is required from ESO on distributed flexibility is straightforward and developing a coherent strategy should not be at the expense of fast action. ESO should coordinate with BEIS/Ofgem (e.g. full chain flexibility) and also pay attention to European progress on distributed flexibility.
- Some members posited that technology inclusivity rather than technology neutrality is desirable. ESO must consider how different technologies supply a requirement and develop market designs that facilitate participation. Other members pointed out that while being inclusive, ESO should take care not to inadvertently subsidise products that aren't commercially viable.

ESO committed to providing a deeper dive on its work in distributed flexibility and to update the MAC at a future meeting.

### **Net Zero Market Reform (NZMR)**

The purpose of this session was to share BEIS', Ofgem and ESO's work on market reform and to show where and how the three workstreams interact. We did not have time to cover ESO's NZMR Phase 4 plans and approach. ESO has subsequently agreed with the Chair that ESO will share the detail of its Phase 4 position at the next MAC meeting and what it plans to recommend in its response to BEIS' REMA consultation.

Ofgem presented an overview of their technical assessment of nodal pricing. Ofgem explained that it recognises any decision on nodal pricing adoption is not in its remit, and that the purpose of this study is to inform the wider industry and Ofgem's own decision-making on the topic.

The Members:

- Agreed that a study that demystifies nodal pricing will be valuable for encouraging more fact-based discussion.
- Asked whether Ofgem is also considering ‘no regrets’ ways to address location-based issues such as congestion while government is undertaking the REMA process.

Ofgem responded that:

- It is important that they are aware of changes that are happening over the next few years and how this may affect the argument for LMP.
- LMP would be one part of a wider set of market reforms. Consideration is needed about what additional market features would need to be built alongside LMP.

BEIS gave a verbal update on the REMA approach and process, noting that:

- The consultation document has been drafted. BEIS have had substantial input from Ofgem and has worked closely with ESO on future system needs considerations.
- The consultation is focused on the medium/long term rather than the issues in today’s market. It sets out what the market design should deliver, the methodology for assessing options, and the options they have identified across 5 areas (wholesale markets, operability, capacity adequacy, low carbon support, flexibility).
- A key focus in their assessment of different options will be accounting for real world implementation challenges as well as economic theory and optimal design.
- BEIS plan to do extensive stakeholder engagement in the Autumn on specific design options and on combinations of packages.

The subsequent discussion covered:

- Given that the market reforms will have huge wider economic impact, it is important that BEIS coordinates with other key departments such as Treasury and the Department for Transport.
- Responses to the consultation will be diverse, reflecting many vested interests; a key challenge for BEIS will be how to filter through these positions.
- Larger companies will have an advantage in properly resourcing their consultation response. BEIS will need to ensure these companies don’t have undue influence.
- There is confusion, especially from international investors, on the direction of GB electricity markets. Greater external-facing coordination between ESO, BEIS and Ofgem would be helpful.

### **Winter 2022/3 Update**

- The purpose of this session was to update the MAC on ESO’s approach to sharing information with the wider market about how it is planning for this winter (given the current energy crisis) and what steps ESO is taking to ensure security of supply.
- ESO shared that there will be an early winter outlook announcement this summer to allow extra time for preparation.

### **Topics for Future Meetings:**

- ESO’s future plans for Net Zero Market Reform
- ESO’s plans to facilitate innovation in its markets
- Overview of ESO provider mapping
- ESO procurement approaches (Single Markets Platform/ Enduring Auction)

- Deep Dive on Response Reform Lessons Learned (planned for this meeting but postponed due to a tight agenda)
- Follow up on the Distributed Flexibility Strategy.