

Meeting 26th July 2023

Markets Advisory Council

Agenda:

1. Introduction, actions from last meeting
2. Response to member presentation on accessing ESO balancing markets
3. Code Governance Reform
4. ESO/DSO Coordination and Governance
5. AOB

Topics Discussed

1. Chair's Opening Remarks

Steve Jennings began the meeting setting out how the agenda was intended to develop several of the themes raised at the May meeting, such as small-scale flexibility assets accessing ESO markets and the role of Codes in raising barriers to entry.

Members then provided feedback on the extra meeting covering ESO's Net Zero Market Reform program presentation on Investment Policy. Members raised that:

- The session had been helpful to develop the ideas put forward in the government's Autumn consultation, although there is a need to develop these design options beyond theoretical concepts.
- Locational pricing would constitute a major change for some investors, and there is a desire for ESO to show it has thoroughly considered alternatives.

2. Response to Alastair Martin's May presentation on barriers to accessing ESO markets

At the last MAC, member Alastair Martin presented on the experience of distributed flexibility providers accessing its balancing markets. In this meeting ESO provided an initial response which will be continued in future meetings. ESO's presentation outlined where its product development could involve providers at an earlier stage; how it is reforming its engagement and product design process; and the trade-offs between reducing barriers to entry for new providers and ensuring that services are secure. The subsequent discussion covered:

1. Whether ESO could provide a more frictionless experience for distribution-connected assets by anticipating where data from DNOs/DSOs would be required and asking for it in advance, so that it is in place when a new party is qualifying for a market.
2. Whether ESO's product development process is agile, and how an agile development process aligns with ESO's more traditional stakeholder engagement process. One member noted that industry engagement, traditional IT development and agile product development are three very different processes.

3. While ESO is making progress in some areas, there is still insufficient pace and drive being translated to operational teams to meet its stated ambitions.

ESO raised that to address these and previously voiced concerns, it is introducing a new department to focus on flexibility which will develop a top-down strategy. The draft strategy will be shared with the MAC for feedback.

3. Energy Code Reform (ESO and Paul Troughton)

ESO had raised in the pre-read its support for substantive reform to the Code Governance process. To begin the session, MAC member Paul Troughton provided insight as an industry participant of the time/resource required to pursue code changes and how his experience in the UK compared with other jurisdictions such as Ireland and Australia.

The discussion included:

- Agreement from several MAC members that the current Code process is too time-consuming and expensive, particularly for small/resource-constrained companies. The challenge of balancing due consultation and timely decision making was discussed.
- Several members raised that the issues in code governance have been discussed repeatedly with Ofgem and government over the last decade but have not resulted in any change.
- Some members suggested that any review of the Code Governance process should be open to radical reform, with one member pointing out that the energy industry is unique in having codes. They said that the review should explore the extent to which codes are required at all, given the presence of regulators and other public bodies to oversee the system.
- Several members pointed out that, when necessary, the code process can deliver change quickly (such as during Covid) and that care should be taken to ensure industry can continue to be involved in governance decision-making.

4. ESO/DSO Coordination and Governance (ESO and Sotiris Georgiopoulos)

The objective of this discussion was to allow the ESO and MAC member Sotiris Georgiopoulos to share their views on where current ESO/DSO coordination could be improved before a discussion on Ofgem's proposed Market Facilitator role and ESO's appropriateness for that role.

The introductory presentation on current challenges facing ESO/DSO coordination covered challenges in coordinating ESO/DSO stacking; the lack of standardisation across DSO markets; how DSO flexibility procurement differs from ESO products; and the importance of data exchange for effective cross-party coordination.

The following discussion included:

- The need for learning by doing, given the relatively slow progress that has been made so far via sequential reform approaches.
- The need for stronger standardisation: currently, providers have difficulty finding sufficient customer interest in participating in localised market trials before a standardised product can be rolled out country-wide.

The discussion on Ofgem's proposed Market Facilitator role and ESO's appropriateness included:

- Whether ESO is the right body to take on the Market Facilitator role, given the other areas it will be assuming as FSO.
- More clarity is needed on what activities the Market Facilitator organisation would undertake and whether ESO or other organisations have the appropriate skills and capabilities.

5. AOB

There was a request for future meetings to cover:

- Follow up on Code Reform proposals
- How the potential roles of ESO/FSO fit together (including the Regional Systems Planner and Market Facilitator)