

Meeting 22nd November 2023

Markets Advisory Council

Agenda:

1. Introduction, actions from last meeting
2. Head of Markets Update
3. Introduction to ESO Flexibility Strategy (Yujia Du, Zohreh Mohammadi)
4. Product Development & Engagement Strategy (Jon Wisdom)
5. Net Zero Market Reform & REMA Update (Cian McLeavey-Reville, Rob Hewitt)

Topics Discussed

1. Chair's Opening Remarks

Introducing the November meeting, Steve Jennings raised that Flexibility has been a key focus of previous MAC meetings. One outcome of these discussions has been that ESO has created a team focused on Flexibility. Their session would illustrate how ESO is building on feedback from previous MAC meetings.

2. Head of Markets Update (Claire Dykta)

Claire Dykta shared her reflections on what ESO Markets has achieved in the last year, including facilitating new assets such as Electric Vehicles accessing the BM and the successful rollout of the Enduring Auction Capability platform. She raised that ESO Markets has not always met expectations, particularly in how it integrated stakeholder feedback into development of its products, and that this had been reflected in Ofgem's scoring for Markets in ESO's incentive plan. As ESO looks to address these issues and to move towards being whole-energy, rather than solely electricity-focused, the MAC will be more important than ever as a critical friend. As ESO transitions to FSO, and the MAC takes on the whole energy role, ESO will also be reviewing the composition of the MAC.

In the subsequent discussion, MAC members asked particularly about the ESO transition to FSO. Topics included:

- Whether heat networks were in scope of the FSO and the Regional System Planner role. Members raised that it would be important to have market consistency between regions.
- How FES will evolve to support the development of more centralised strategic planning
- How gas network decommissioning is being managed, and FSO's role in the gas transition

3. Introduction to the ESO Flexibility Strategy (Yujia Du, Zohreh Mohammadi)

ESO presented the Mission Statement, objectives and initial timeline of its new strategy for Flexibility (see slides). The conversation covered:

- ESO's commitment to facilitating seamless movement between markets. One member raised whether the commitment to assets being able to move seamlessly between markets is desirable, since it implies continued operation of multiple markets at different levels, which is not optimal in other network systems. Others raised that this vision seemed to imply continued support for value in ancillary service markets, when moving value into the wholesale market should be ESO's ultimate aim, and that consolidating value in as few markets as possible is desirable. Others expressed support for the phrase since it implies acknowledgement of the need for liquidity.
- Members welcomed ESO's holistic approach and the ambition of its mission statement; however, several members expressed concern that a new strategy could distract ESO from important workstreams which are already in train, and do not require new strategic oversight, such as operational metering.

Further questions on the wording of the Flexibility Strategy Mission Statement included:

- Whether ESO should call out that future markets need to be digitally enabled
- What is ESO's definition of 'low carbon'?
- What does being an international leader mean, given the significant differences between system needs depending on geography and market size. Could ESO introduce specific KPIs to track progress?
- That there needs to be clarity that this strategy is short/medium term focused, and therefore doesn't include new technologies such as electrolyzers. ESO clarified that it planned to present on its new Whole Energy strategy at the next MAC.

ESO committed to presenting the draft Flexibility Strategy and the 5 year Roadmap at a future MAC.

4. Product Development & Engagement Strategy (Jon Wisdom)

The objective of this session was for ESO to share its engagement strategy, and to get the MAC's feedback on its product development process. ESO flagged that a significant portion of the time taken to develop new products is determined by regulatory process.

Members asked what accounted for delays between proposition development, product development and supporting IT, and what could be run in parallel.

The discussion covered the trade-off between expedited development and stakeholders not being given sufficient time to scrutinise proposals and service terms. There was debate as to whether formal consultations could be held before ESO shares service terms, with ESO stating that its stakeholders often require seeing service terms before being able to fully identify the implication of particular design decisions. One member asked whether it would be possible for ESO to launch a 'beta' version of new markets, as in other industries. ESO suggested this would likely not pass regulatory criteria.

One member raised whether a checklist could be put in place before the development of new services, to validate whether a new idea meet key criteria. Another member raised whether upfront ESO consultation and decision on whether a new product rollout would be accelerated or not could help to better align industry expectations and ESO planning.

ESO is reflecting on this feedback and will update the MAC with plans for future improvement.

5. Net Zero Market Reform & REMA (Cian McLeavey-Reville, Rob Hewitt)

- Rob Hewitt discussed DESNZ' REMA process to date, and the likely timings and key points of the upcoming second consultation. He flagged that in the upcoming phase, there will be continued focus on the distribution of risk and incentive.

- ESO shared the key conclusions of its Phase 4 assessment of investment policy in Net Zero Market Reform. It also committed to updating the council on its work on Scheduling at the next MAC.