

Meeting 21<sup>st</sup> February 2024

# Markets Advisory Council

## Agenda:

1. Introduction, actions from last meeting
2. Director of Markets Update
3. Review of ESO Flexibility Strategy (Zohreh Mohammadi)
4. Scheduling & dispatch case for change (Cian McLeavey-Reville, Izzie Sunnucks)
5. ESO Whole Energy Market Strategy update (Martin Crouch)

## Topics Discussed

### 1. Chair's Opening Remarks

Introducing the first meeting of 2024, Steve Jennings welcomed new MAC member David Carroll from Eirgrid and guests from ESO's Flexibility Market Strategy and Whole Energy Market Strategy teams. Steve updated on actions which had been progressed since the last meeting, including a conversation between some MAC members and ESO's product development teams to share feedback and pain points on ESO's design of new ancillary services. ESO agreed a summary of these recent discussions would be played back to the group at the next MAC.

### 2. Director of Markets Update (Claire Dykta)

Claire Dykta provided a short update on progress of the National Energy System Operator (NESO), the appointment of Kayte O'Neill as COO, and Martin Crouch as Interim Head of Gas Market Development. Matt Magill was also welcomed as the Interim Director of Markets as Claire takes up her new role as Director of Strategy and Policy. Claire also signposted the industry webinars which ESO are running in the next few weeks to advertise new NESO roles and capabilities.

Claire updated the group that the MAC is likely to evolve into a whole energy forum. ESO propose to hold 121 sessions with existing MAC members to gather feedback about the current focus of the MAC and discuss future plans. These conversations will be held before the next MAC meeting with an anticipated presentation of conclusions at the next meeting.

One member asked about whether NESO "day one" is likely to be a big bang approach to which Claire replied there will be plans to advertise this milestone accordingly, but the comms approach is still being finalised. Another member stressed that NESO should manage any unrealistic expectation from stakeholders as it launches the new organisation, especially what is achievable from Day 1.

### **3. Review of ESO Flexibility Strategy (Zohreh Mohammadi)**

Zohreh Mohammadi (ZM) attended with Amy Weltevreden and Yingyi Wang from ESO's Flexibility Market Strategy team to follow up on ESO's Flexibility Strategy, as introduced at the previous MAC. ZM advised that the objectives for this project have since been revised and the focus of today's meeting is on the 'processes' which refer to how ESO plan to achieve the vision.

The key discussion points were as follows:

- One member fed back that outcomes focussing on 2028 may not immediately resonate with new ministers or a new government who might ordinarily be focussed on a 2035 decarbonisation target. Therefore, it is important to tell the story more holistically, including progress to date, and to introduce intermediate milestones up to 2028 and beyond.
- Another member stated that it is imperative that ESO state the importance of low-carbon flexibility in reaching net zero, and acting as a hedge against delayed transmission build. It is vital that low-carbon flexibility has a core focus within NESO as an organisation. It was also queried later in the discussion whether DESNZ has appropriate ownership of flexibility in its organisation and that it should commit to holding industry, NESO and others to account.
- Another theme which emerged throughout is the overlap with REMA and what may or may not be achieved for flexibility through these reforms. Members agreed that ESO's flexibility strategy needs to realise benefits up to and during any REMA reforms, which may include wholesale market reform but not until the ~2030's. It was confirmed that possible reforms to address interconnector flows sit in the REMA programme.
- Members debated the prioritisation of different problems and reforms, as well as whether implicit or explicit signals to incentivise flexibility are the right approach. The MAC advised that ESO's top 3 priorities were not immediately clear, so this was a recommendation to adapt following this session. There was a consensus that both implicit and explicit signals are required to stimulate and grow the provider base, whilst allowing markets to function effectively and medium-term reforms to deliver (e.g., MHHS).
- One member advised that there are plenty of projects which ESO can do now, in advance of any REMA reforms; this includes settlement, metering, stackability, and DSO/ESO co-ordination. It was stressed that ESO must not prioritise behind closed doors but continue to utilise industry expertise. Another member shared that a 'slicing' or 'layering' approach may work – i.e., make the E2E process work for one set of providers and then increment, rather than trying to perfect each leg of the value chain for everyone all at once.
- Impacts on stakeholders were raised. ESO should not lose sight of how each flexibility market objective would directly address the needs of each stakeholder. This can't all land on one day in 2028; it needs to be performed iteratively and visibility of key milestones should be provided by ESO. ESO shouldn't look to perfect everything on day one, but instead things should be able to adapt and grow. It may be helpful to segment flexibility by ensuring security of supply, relieving congestion, and balancing the oversupply of renewables.
- The final key observation was around understanding the size of the requirement and trying to grow investor confidence. The MAC admitted that flexibility had made good returns in recent years but shaping the size of the requirement into the 2040's would help efficient investment. ESO has its own FES modelling which make assumptions around contributions from flex, and this could be leveraged and better advertised. One member encouraged NESO to be even more ambitious despite GB already being a world-leader in this space.

Zohreh rounded off the conversation by updating the MAC on ESO's upcoming engagement plan which included the Markets Forum in March and further review of the Call for Input responses from industry. ESO advised they would provide a further update at the next MAC meeting.

#### **4. Scheduling and dispatch case for change (Cian McLeavey-Reville, Izzie Sunnucks)**

Cian McLeavey-Reville (CMR) introduced the topic by commending DESNZ on the efforts to accelerate the REMA programme, of which dispatch is a significant part. ESO have been asked to lead on several REMA work packages, including dispatch reform.

CMR set out ESO's fundamental concerns with current dispatch arrangements and the Balancing Mechanism (BM) and how this is manifesting into significant issues, such as skip rates in the BM.

Izzie Sunnucks (IS) provide more detailed insight into the issues ESO have identified in the 'case for change' part of the project so far. The discussion is summarised below:

- IS set out how ESO are inadvertently becoming a 'proactive balancer' rather than a 'reactive balancer' due to the amount of intervention in the BM and the requirement to optimise the system across time. IS described how ESO is required under its licence to balance the system in the most cost effective way overall, rather than selecting the cheapest prices for each settlement period. This means that actions taken now will influence the actions which may or may not be required later, which can be a key cause of skip rates in the BM.
- IS explained three key categories of issue which have been identified:
  1. Energy markets don't provide scheduling incentives in line with system needs and operational requirements.
  2. Incomplete visibility of market outcomes, and limited access to some resources, impacts coherence between wholesale market and balancing.
  3. The current dispatch mechanism does not facilitate effective optimisation of costs and unit constraints over time.
- One member provided a helpful explanation of NIV<sup>1</sup> chasing, how this propagates, and the impact on the system operator not having visibility of any of these actions. The group discussed how portfolios containing embedded wind and fuel-burning assets may be adopting this strategy under the current market design of portfolio-level balancing.
- The poor transparency in the BM market and the size of the NIV chasing issue were discussed. One member suggested comparing the BMU register with CM register to allude to how much embedded generation is currently invisible and uncontrollable to ESO.
- Members discussed the interactions between the lack of visibility and missing incentives, and how better market incentives may reduce the need for ESO to have extensive visibility of all assets and visa versa. Some international comparisons were drawn with Australia and Italy where more implicit signals exist; for example, through zonal wholesale markets in Italy or lower barriers in Australia for flexible demand to schedule according to price.
- Another member welcomed the way this debate had been presented by ESO and they are keen to see the interactions with zonal pricing explored in more detail.
- A debate was had around where interconnectors fit into the scheduling and dispatch bigger picture. IS advised they fit predominantly into the visibility and control issue, and it is important to recognise that interconnectors do not behave like traditional, dispatchable plant and the way that we access them is quite different. A MAC member supported this and said there are often misconceptions in industry and Government as to how interconnectors currently behave and how they could in the future. Another challenged this view which suggested further discussion could be warranted as part of ESO's external engagement.

---

<sup>1</sup> Net Imbalance Volume

- IS shared the next steps for the scheduling work and how ESO were planning to engage with industry through an in-person workshop in March to test the case for change. A final report will then be issued following the workshop to whole of industry. The focus will then turn to identify and validate solutions to these issues and evaluate how successful they may be in advance of or as part of REMA.
- One MAC member encouraged NESO to be proactive and firm in moving this forward, and not allow the debate to go round in circles.

The group agreed to bring possible solutions back to the MAC in July (two meetings' time) following canvassing with industry.

## **5. Whole Energy Market Strategy (Martin Crouch)**

Following brief discussion at the previous MAC, Martin Crouch (MC) shared ESO's growing responsibility to explore market strategies more broadly than just electricity. MC updated the group that ESO is currently in a scoping phase which is expected to last 6 months and that there is a clear interest to learn from others who have already been doing work in this field. The target for September is to outline the case for change.

Steve Jennings queried whether this work would absorb Future of Gas and MC advised that this will be much bigger and broader in scope and will look out decades ahead of time. Future of Gas will continue to run in parallel with this work.

One member provided useful insight into work which was ongoing in the academic sector in this space and agreed to connect with MC following this MAC meeting.

A discussion was had around how a glide path is established to 2050 and to prevent it appearing like a sudden flick of a switch. One member suggested setting out different examples of "how much and how fast" in terms of gas network usage and uptake of flexibility in the electricity sector. It was suggested this could be done through an interpretation of FES.

One member highlighted the importance of innovation and tech to create new opportunities for solving this challenge, which the group agreed was instrumental.

A MAC member challenged whether ESO were the right body to be doing this work. CMR confirmed that this a role which has been explicitly placed on ESO by Government in the formation of NESO.

The group agreed that this is certainly a topic which MAC should be engaging on, and there is an open invitation to come back to the MAC to review the case for change.

Meeting closed.