

Markets Advisory Council

Meeting 22nd March 2022

Attendees

Steve Jennings (Chair)

Andrew McAleavey

Marzia Zafar

Richard Nourse

Rebecca Sedler

Cathy McClay

Paul Troughton

Simon Virley

Alastair Martin

Guy Newey

Mark Copley

Angela Love

Rob Gross

Angus Macrae

Observer attendees:

Rich Smith

Rob Hewitt

ESO:

Kayte O'Neill

Kyle Martin

Izzie Sunnucks

Apologies:

Rachel Fletcher

Topics discussed

There was an opening discussion on the key challenges for ESO Markets. A range of topics were covered which can be summarised in the following 10 themes:

1. **Energy crisis:** The UK and Europe is facing an unprecedented energy crisis that is having a massive impact on the cost of living. The ESO needs to ensure it is responding appropriately to this crisis without impacting its longer-term plans for net zero.
2. **Flexibility markets:** The existing market design was not constructed to incentivise flexibility. More flexible capacity is required to meet net zero and it is critical that consumers have access to flexibility markets and services.
3. **Ensuring clarity on the ESO long-term roadmap:** The transition to net zero is a 10 to 15 year process that entails a fundamental shift in how energy markets operate. It is important to have clarity on this roadmap and where ESO Markets should focus.
4. **Big change vs incremental change:** ESO Markets must consider whether to pursue incremental change, which may be insufficient for the challenge of net zero, against the risks of taking on large-scale transformation programs.
5. **Next steps for Net Zero Market Reform work:** How can ESO markets most productively follow up the first phase of this work given that decisions on its major conclusions sit with BEIS.

6. **Identification of big-ticket material items:** The Markets Advisory Council wants to advise on key topics that will be most impactful, for example the role of Market Design in reducing cost of capital.
7. **Boundaries of the ESO:** For the ESO to be successful in driving largescale reform it needs the appropriate mandate. It is not currently clear to industry how the ESO's role in the energy system is being demarcated from that of BEIS and Ofgem.
8. **Stakeholder management and approach to communications:** ESO Markets must consider how to gather stakeholder feedback given that many of the most important voices are operationally focused and cannot devote substantial time to ESO events. The ESO must help stakeholders to understand how its different workstreams interconnect.
9. **Speed:** There is a need for ESO Markets to act decisively and at speed to ensure reforms to its markets can generate maximum benefits to market participants.
10. **Representation:** The Markets Advisory Council needs appropriate representation from the key parts of the value chain including DSOs, consumer advocates, transmission operators and potentially large generators.

Strategic Objectives

We discussed and agreed the key strategic questions for the Council and added an additional point around the mandate of the ESO and whether there is clarity around how the ESO's role (especially in relation to market reform) is demarcated from BEIS and/or Ofgem. In addition, the Council debated the stakeholder management point and this has been amended to reflect the discussion.

The updated questions are:

- Is the ESO setting the right direction for market reform and could improvements be made?
- To what extent does the ESO embed stakeholder perspectives and international best practice in market reform recommendations and design thinking?
- Are the ESO's priorities and plans appropriate or what changes would we recommend?
- Is the ESO managing communications with stakeholders effectively and proportionally?
- Are there changes to industry priorities and / or concerns which need to be built into the ESO's plans?
- Does the ESO have the mandate to fulfil its roles and objectives? Are there areas where greater clarity is needed on how the ESO's role is demarcated from BEIS and/or Ofgem?

Proposed priority topics for future meetings

In the light of the key challenges and strategic questions, we discussed the priority topics for future meetings recognising that we want to sequence topics around the ESO's roadmap for change where possible. The following topics were suggested:

- Immediate plans and priorities for ESO Markets in the light of the current crisis
- Markets Roadmap especially the strategic objectives and principles.
- Next steps for Net Zero Market Reform.
- Future Systems Operator (if there has been an announcement) and how this enables the ESO's ability to address the strategic questions.
- The boundaries for ESO Markets and how far we think they should go especially in relation to market reform.
- Stakeholder management and comms.

Future MAC attendees

We discussed the composition of MAC and whether we have representation from all key parts of the value chain and, as a priority, we agreed to identify representatives from a Consumer group, from Transmission Operators and DNO/DSOs.