

Meeting 9th September 2022

# Markets Advisory Council

## Agenda:

1. Introduction and Recap
2. Winter Update
3. Future System Operator (FSO) programme
4. REMA Update
5. Provider Capability Update
6. AOB

## Topics Discussed

### 1. Winter Update

The purpose of the session was to update members on the measures ESO is taking for this winter and to get feedback on how effectively ESO is communicating its preparedness for the winter.

Since releasing its early winter outlook, ESO has been challenged on some assumptions in its scenarios and is currently updating its approach ahead of the full Winter Outlook publication, due early October.

ESO listed the measures it is taking for this winter, including ensuring that coal remains online and the launch of a demand flexibility product for retail and commercial consumers. ESO has had to defer/change the direction of some work (for example the Power Responsive team being used for the Demand Flexibility Service) to prioritise

Members agreed that ESO's communications strategy and level of engagement has been good. They urged ESO to consider how it can ensure that the measures it is taking now are enduring for the next and following winters.

### 2. Update on the Future System Operator (FSO) Programme

The purpose of this session was to update members on the FSO programme and to discuss the future role of the FSO and of the MAC.

ESO shared the draft timeline of the evolution of the FSO, emphasising that the organisation will be developed over time and therefore will not take on all its ultimate statutory roles from Day One.

Key points from the subsequent discussion were:

- Ownership of the FSO: while the decision on the FSO is clear that it will be a public organisation, with operational independence from BEIS, the future framework agreement defining the relationship between BEIS and the FSO will have scope for variation and is currently being determined. ESO noted that the FSO will continue to be economically regulated;

that it wants to remain democratically accountable via its incentive structure; and that its work will continue to be driven by stakeholders.

- Potential for change in regulatory structure of GB energy industry: the retail and gas crisis may lead to changes in the energy industry. There is an opportunity for the FSO to be part of the solution.
- The FSO should consider wider institutional obstacles to change (e.g the planning system) in addition to classic 'cross-vector' whole system planning.
- The FSO should ensure it is engaging with devolved governments, given the significance of local planning laws and the increasing locational important of energy system planning.
- There was debate about how the FSO's role will be clearly delineated from BEIS and Ofgem.
- The FSO will have an important future role in both strategic planning and market delivery. It will be important for the new organisation to articulate how these roles interact.
- The FSO will be aware of its recommendations playing into a complex political context. Ensuring it is seeking a plurality of voices and is interrogating the definition and future role of markets will be key.

The FSO team states its desire to continue engaging with the MAC and the MAC's potential for an enduring role in the FSO, although consideration is needed for how the MAC can represent whole-system considerations. The FSO team agreed to come back to the MAC to continue seeking its views.

### **3. ESO Approach to BEIS' REMA Consultation**

The purpose of this session was for ESO to update members on its approach to the BEIS REMA consultation response, focusing on the 'Investment' assessment, to understand members' views on REMA and also on different policy proposals for short-term fixes to wholesale markets.

During the subsequent discussion, members' comments included:

- The 'case for change' set out by ESO for its work on 'Investment'-related market reforms was not fully evidenced.
- ESO messaging about its position on key policy and subsidy mechanisms lacked clarity and could be misinterpreted as not being supportive of, for example CfDs. This is not the case, so messaging will be made much clearer. More broadly the Council advised ESO to consider how its external position lands alongside evolving government positions.
- Council members asked whether issues of network access and connections queues were also being accounted for in ESO's framework
- The MAC was asked to give its views on short-term measures being put forward for this winter. The discussion covered different ways of decoupling the price of renewables from that of gas and whether they were likely to be available for this winter.

### **4. Provider Capability Project**

ESO briefly noted that it is launching a project to better understand the technical and commercial characteristics of new providers trading in its markets. ESO launched the project following feedback from the MAC that the design of ESO's markets was sometimes prohibitive for certain provider types. An update on the project will be provided at a future meeting.