

Meeting 8<sup>th</sup> March 2022

# Markets Advisory Council

## Agenda:

1. Introduction, actions from last meeting
2. Markets Roadmap Update
3. Reflections on winter 2022/3
4. Update on Net Zero Market Reform Phase 4
5. DESNZ/Ofgem update
6. Flexibility overview
7. AOB

## Topics Discussed

### 1. Chair's Opening Remarks

Steve Jennings provided a recap of the December meeting and the endorsement of the new format for future meetings. The chair confirmed both actions from the last meeting had been followed up (concerns around the Balancing Reserve market and engagement in NZMR Phase 4).

### 2. Update on Markets Roadmap

The purpose of this session was for ESO to summarise the main messages in the upcoming Markets Roadmap publication. Cian McLeavey-Reville explained which markets had seen significant progress in 2022 (for example the new Frequency Response and Stability markets) and where there had been some delays (for example the new Reserve products).

The subsequent discussion covered:

- Member uncertainty as to the purpose of the roadmap, and what feedback from industry ESO was hoping for: ESO explained that the original purpose was to give long-term visibility of ESO's product suite and to set out how the various products interact.
- Members questioned whether the annual release give sufficiently timely updates of implementation changes. ESO confirmed it is looking into providing a more interactive roadmap that is updated through the year.
- One member raised that it is less interested in seeing new markets established than existing markets improved, such as the Balancing Mechanism.

### 3. Reflections on Winter 2022/3

David Wildash updated members on how ESO had managed this winter and on the measures it took to ensure security of supply during the gas crisis. The discussion focused on the Demand Flexibility Service (DFS) and how ESO is planning for next winter.

**DFS:**

- ESO shared that the live DFS service was used twice, delivering 300MW capacity. At the latest count there were 30 different organisations covering 1.6m MPANs participating.

The discussion covered:

- The test for ESO will be in how DFS evolves from being an emergency out of market service to a product with market confidence. Members asked whether ESO set metrics it will use to measure future success, with one member emphasising that the total cost of DFS payments rather than price per unit, since DFS providers are not eligible for Capacity Mechanism and other payments.
- Whether ESO was aware of the international evidence suggesting consumer engagement in DSR drops over time. There was consensus that any future residential product would require automation to become established.
- There was discussion on how the cost structure of DFS compares to other ESO markets. For example, the current DFS service cannot be stacked, there are no penalties, and it is only dispatched in extreme settings.
- ESO confirmed that it does plan to publish information on how different supplier commercial offers influenced consumer engagement.

**Other items:**

- Members raised that next winter is also likely to be impacted by the gas crisis, with the added pressure of the removal of c.1GW of triad response. They suggested ESO might engage with the Energy Intensive Users Group, and ESO said it would follow up.

**4. Net Zero Market Reform**

ESO described its objectives for the independent Baringa assessment and NZMR Phase 4: to move the REMA debate forward into thinking how investment policy design can be combined with different wholesale market options. ESO confirmed the feedback from the Baringa assessment will inform its full Phase 4 publication planned for this summer. ESO also set out its workplan on centralised scheduling and dispatch that it intends to feed into the REMA debate and raised the importance of coordinating market reform with network planning and charging reform.

The subsequent discussion covered:

- The impact of the Inflation Reduction Act on investment in GB, and the added impact of the political cycle not being conducive to making decisions.
- The importance of accelerating low/no regrets options. There was some agreement in the council that it could work to identify potential measures.
- There was disagreement as to whether ESO has listened to stakeholder pushback on locational pricing. ESO agreed to share its forward workplan to provide members and industry more visibility of how it is integrating stakeholder feedback into its analysis.

**5. DESNZ/Ofgem Update**

- DESNZ updated members on the process for its REMA consultation this year. In response to members asking what low regrets options could be accelerated, DESNZ raised that REMA's whole system scope meant that identifying promising options takes time since their influence on other parts of the system must be checked.
- Ofgem discussed their work on distribution-level flex markets, long term reforms to charging and connections. It intends to publish its report on locational pricing as soon as possible.

## **6. Flexibility Overview**

Following the suggestion at the December MAC to have subsequent sessions on flexibility, Energy Systems Catapult presented their view of the role of flexibility and the gaps in the current policy landscape.

Key points from the discussion included:

- The importance of securing dispatchable generation during periods of low wind output.
- There is a lack of data on what distribution level flexibility is currently connected which is impacting its development
- Assessments of hydrogen should consider whether the electricity system is being modelled as 'closed loop' or 'open loop' – i.e hydrogen derived from electricity production can be diverted outside of the electricity system for industrial or other processes.
- The scenarios shown by ESC reveal substantial uncertainty as to the future capacity of different flexible technologies. At what stage can investors be sufficiently certain of a scenario to invest?

## **7. AOB**

- Steve Jennings and the ESO team will consider how to take forward the next flexibility session and potential ways to move forward on 'quick wins'