

part of eex group



EPEX SPOT response to consultation on the ESO's approach to Distribution System Operation

21.05.2021

Ref. 0001A

Introduction

EPEX SPOT welcomes the opportunity to participate in the consultation on the ESO's approach to Distribution System Operation by National Grid ESO.

EPEX SPOT SE operates physical short-term electricity markets in Great Britain, Central Western Europe, the Nordic countries, Switzerland and Poland. Our markets, bring together market participants and allow them to trade close to real time, based on reliable price signals, taking into account updated renewable production forecasts and/or consumption expectations. Competitive markets deliver reliable price signals for electricity, flexibility, gas and CO₂ emissions and thereby enable sector integration. By solving complex optimisation problems with a growing number of actors, markets drive costs down and ultimately benefit consumers and maximize social welfare.

EPEX SPOT takes an active role in Great Britain not only through the organization of wholesale markets, but also through participation in the stakeholder groups. We invest and innovate in trading systems and provide expertise in market design to contribute to the successful development of the British power market.

We welcome that NGENSO addresses this important topic with a dedicated strategy that covers planning and network development, market development and network operations to enable the energy transition.

1. The ESO's principles to enable the DSO transition.

- Q. Do you support our proposed principles and approach to the DSO transition?

EPEX SPOT supports that an integrated and coordinated energy system shall be at the heart of the GB economic recovery post-COVID-19. Coordination between the ESO and Distribution System Operators (DSOs) is one of the most promising pathways to a decarbonisation of the decentralised energy system, allowing the optimisation of the energy system across all voltage levels. **Market-based mechanisms with clear roles and responsibilities provide price signals that allow transparent decision-making by system operators (for both grid development and operations) and distributed energy resources (DER) service providers (for investment and participation).**

2. Our proposed 2025 vision

- Do you agree with our proposed high-level vision?

EPEX SPOT agrees with the proposed 2025 vision and the ten areas of coordination. Indeed, they cover all timescales: from the long-term development down to the real-time operations.

- Do you have any comments on our proposed high-level vision?

As variable renewable energy sources (RES) rapidly grow and their penetration increases in the electricity mix, the market design must evolve around unlocking the true value of flexibility: this can be achieved by **reflecting the time and locational value of DER**. Furthermore, renewables should fully contribute and fully react to the

relevant price signals. Revenues can be generated from different markets, such as wholesale energy markets, markets for Guarantees of Origins, ESO & DSO markets and PPAs, thus facilitating revenue stacking.

Flexibility markets can integrate demand-side flexibility. They create a price signal for flexibility by matching flexibility supply and demand from flexibility providers and system operators, respectively. This allows system operators to manage their grid efficiently and reliably, while flexibility providers can create a value through their flexible assets. The coordination between ESO and DSO through a clear approach and adequate tooling (platforms, rules and procedures, etc) are success factors for flexibility markets to flourish and meet their objective of delivering the time and locational price signal.

- Do you believe that there are any further co-ordinating functions between ESO and DSO that we should be considering?

EPEX SPOT finds the described coordinating functions between ESO and DSO suitable under the condition they would be **fully implemented in a timely manner**.

- Do you have any comments on the draft vision for each of the 10 co-ordinating functions as described in Annex 1?

EPEX SPOT has identified the following points:

On system development,

- **When focusing on non-wire commercial alternatives such as flexibility markets, capacity reservation from a few days up to a few years ahead of delivery is a powerful asset.**

On the network access planning,

- A timely connection to the grid and reduction of maintenance down times are key concerns for the ESO and DSOs, the asset owners and ultimately end consumers. **Access to the grid can be facilitated through market-based flexibility markets.** Market-based flexibility would help the ESO and DSOs in optimizing and ultimately reducing the lead time of connection of RES to the grid, thereby helping to achieve renewable targets faster.
- For this purpose, 2 distinct markets are of relevance
 - Primary market where ESO and DSOs as the sole buyers of the flexibility from flexibility providers
 - Secondary market where flexibility capacity or obligation is traded between flexibility providers.
- These **markets will unveil the value of flexibility across time and space** and will foster investment from DER service providers.

On the service procurement,

- **Standardisation of products, harmonised procurement rules and transparency from ESO and DSOs will provide stability and long-term visibility to DER service providers** to ensure a level playing field between technologies. This will ultimately result in a higher participation of DER service providers to all markets in which they would be eligible to bid and trigger the appropriate investments when and where needed.

On the charging and access,

- To enable RES development in a cost-efficient way, the ESO and DSOs need to have the right incentives. These incentives have an impact on end consumers through the grid tariffs that are used to recover system operators' costs. As a general rule, **regulated price elements in the grid tariff blur the efficient price signal and end consumers cannot access the true value of electricity.**

On the service dispatch,

- A seamless ESO-DSOs coordination becomes even more crucial when dispatching assets. As grid-connected flexibility assets are instructed to modify their generation or consumption, the **impact of such activation on the other voltage levels must be understood and the subsequent unavailability of that same asset must be made clear** to the system operator who did not trigger the instruction.
 - Furthermore, EPEX SPOT advocates for separate markets for separate needs, e.g. distinct balancing products, distinct congestion management products to prevent mixing price signals.
- What additional activities do you believe the ESO needs to undertake to facilitate our 2025 vision?

There are still **barriers to market access and participation**, e.g. barriers to demand-side flexibility (often from transport, heating and industry) to participate in electricity markets, also complexity of the electric system often not designed for small players (such as balancing responsible party scheme or participation to ancillary services).

Real-time information about the state of the grid would facilitate making educated decisions in all timescales under consideration.

3. Proposed next steps

- Do you support our proposed next steps?

When looking at the timeline and next steps to meet the 2025 vision, EPEX SPOT welcomes very much the different steps foreseen but also calls for more transparency on ESO and DSOs side. Access to markets for all energy resources, transparency, monitoring and forecasting are key factors to enable the energy transition. This is, however, not only needed for consumption and generation, but also for grid planning and system operators' flexibility needs (size and location of needs, time of tender, tender framework and tender results).

- Is there anything more you believe we should be doing to facilitate the DSO transition?

EPEX SPOT encourages ESO to maintain the dialogue in an open and transparent manner with all interested stakeholders. Furthermore, the ESO should investigate ways to make it possible for **assets connected to the grid (RES, batteries, demand response, electric vehicles, power-to-X) to be able to extract the maximum value out of the existing and future markets** such as wholesale, balancing, ancillary services, flexibility, and guarantee of origin. Therefore, lifting barriers is key in facilitating participation in multiple compatible mechanisms. This will allow them to generate revenue outside of support mechanisms and react to as well as contribute to the price signal of different markets. It will enable the power system to make full use of the potential that renewables offer, ultimately leading to a clean and reliable power system.

About EPEX SPOT

The European Power Exchange EPEX SPOT SE and its affiliates operate physical short-term electricity markets in Central Western Europe, the United Kingdom, Switzerland, the Nordic countries and Poland. As part of EEX Group, a group of companies serving international commodity markets, EPEX SPOT is committed to the creation of a pan-European power market. In 2020, its 303 members traded 615 TWh – a third of the domestic consumption in the countries covered. 49% of its equity is held by HGRT, a holding of transmission system operators.

Contact Details

Aniss Sari
Senior Strategy Officer
a.sari@epexspot.com

Henrike Sommer
Senior Public & Regulatory Affairs Officer
h.sommer@epexspot.com

Howard Wright
Head of Public & Regulatory Affairs UK
h.wright@epexspot.com

EPEX SPOT SE, 5 boulevard Montmartre, 75002 Paris (France), info@epexspot.com, www.epexspot.com

Public & Regulatory Affairs: publicaffairs@epexspot.com

Offices: Transformatorweg 90, 1014 AK Amsterdam (The Netherlands); Marktgasse 20, 3011 Bern (Switzerland); Treesquare, Square de Meeûs 5-6, 1000 Brussels (Belgium); Rahel-Hirsch-Straße 10, 10557 Berlin (Germany); 11 Westferry Circus, Canary Wharf, London E14 4HE (United Kingdom); Mayerhofgasse 1/19, 1040 Vienna (Austria)

POWER FOR TODAY, POWER FOR TOMMOROW