

2020/21 End of Year Event

Responses to Stakeholder Questions

15 June 2021

1. Does the ESO have a plan to be less inward-looking? At times, it seems the ESO does not recognise the negative impact of its actions on the wider industry?

The ESO continues to improve transparency of data, decisions and processes across our activities. While there is much more that we can - and will - do on this front, stakeholders tell us that we have made good progress. We have seen that greater transparency and cocreation leads to hugely valuable feedback and engagement. This helps us to build a deeper understanding of what's important to our customers and industry, and how our work impacts them.

There are many examples of this across the 2020-21 performance year in Role 2 and beyond, including the Operational Transparency Forum, the Road to Net Zero Electricity Markets stakeholder events, and co-creation of roadmaps for reserve reform, reactive reform, and strategic code change.

We have a clear direction of travel and intent to continue to build this transparency and engagement. We strongly encourage industry to continue engaging and sharing how our work can impact them positively or otherwise.

2. Have NG ESO responded to the paper from SSEN on Transmission Charges in the North of Scotland?

We have responded directly to SSEN with our views on their paper on transmission charges published in February. We have regular conversations with stakeholders about network charging and how this impacts different stakeholders in different ways.

We agree with the SSEN paper that there is benefit in reviewing the underlying TNUoS principles and methodology. We believe that charging reform should be introduced in a coordinated way wherever possible, with suitable lead times. This will ensure that industry can understand the impacts on their business models and adapt to the changes.

Clear locational signals are important for driving efficient network investment; we believe that there is value in making improvements to the existing regime. We also see the potential for fundamental review of locational charges in coordination with wider market reform (such as that being explored through our Net Zero Market Reform project – this was the topic of a deep dive session during our Road to Net Zero Electricity Markets event).

3. The issue of salami slicing contracts bringing on small, narrowly capable plants but making large, flexible plants impossible to finance is not just a question of stackability. It is also the contractual uncertainty which greatly inflates the recoveries a flexible plant must put into each bid. How will you address this?

Bundling products together has benefits for those assets which can provide multiple services at the same time. But it inhibits competition and market access for smaller parties, lacks transparency of both our requirements and the market price for individual services, and may result in higher prices for

consumers. Unbundling and standardisation of our balancing services was supported by industry through our SNaPS consultation in 2017.

The decisions we make over the duration of our procurement are based on the overriding principle that we are delivering value for consumers. Long term contracts provide benefit for developers, as they can support investment funding in new flexible assets which would otherwise not be funded. This then ensures that the ESO has a larger pool of potential providers which can increase competition. However, where there is already competition, long term contracts can lock us into paying for a service which may be above the market price and act to stifle innovation and competition. Short term contracts also give us the ability to manage our services to meet operational needs closer to real time, and avoid the risk of over- or under-procurement.

Through the work we are doing on the reform of balancing services and pathfinder projects, we are investigating both long and short term markets for flexibility. We believe a mix of both approaches will best deliver value to the end consumer.

We would also note the Clean Energy Package and Electricity Balancing Guidelines require us to move our procurement of some balancing services to close to real time markets to ensure low carbon, storage and demand side providers can better participate and balancing service costs reflect the real time cost of energy.

4. Why is ESO still unwilling to end bilateral spin gen contracts? Hindering competition

The spin gen product is only being retained until such time as a stability market can deliver a competitive alternative, and we explained our rationale for not including it in reserve product reform in the consultation in March. We are working with a consultancy over the summer to deliver robust options for potential stability markets and will be engaging with the industry on this in the next few months. In parallel, we are working with spin gen providers to understand how we can deliver greater transparency over the usage of this product. Ultimately, we see the introduction of the Quick Reserve product as reducing the need and usage of spin gen for any reason other than inertia and voltage control.

5. Can you update us on progress on the RDPs?

A full breakdown of our progress on RDPs in 2020-21 can be found in the [End of Year Report Evidence Chapters](#) (including pages 108, 115 and 126). The current position can be summarised as;

- Co-ordinated intertripping functionality (N-3); the first joint project with UKPN went live in late 2020. Planned works with WPD and SSEN are now progressing.
- Transmission Constraint Management (TCM) services in UKPN & WPD areas; high level commercial arrangements have been agreed. More detailed IT development is now underway with both DNOs and a number of co-creation workshops are now taking place. Joint forums have been established with the other DNOs to ensure a consistent approach. Initial engagement with service providers is now underway.
- Generation Export Management Scheme (GEMS) with SPEN; Stage 1 Active Network Management (ANM) integration work is now largely complete. Significant design work has been completed with SPEN to allow the procurement of the GEMS technical solution in 2021.