Power Responsive Steering Group
Note of Twenty Third Meeting

30th July 2021, 13:00-15:30 hrs

This note was prepared by National Grid Electricity System Operator (ESO)
This meeting was hosted virtually.

1. Welcome and introductions

John Twomey (chair) opened the discussion, held under the Chatham House rule.

This Steering Group meeting the Future System Operator consultation and Flexibility Platforms. The group had an overview from BEIS on the FSO consultation which looks at the UK System Operator becoming independent and heard from distribution networks on the current and future use cases and benefits from market platforms which was followed by an in-depth group discussion.

2. DSF Horizon Scan

BEIS & Ofgem covered the following current and upcoming policy activities:

- W/C 26TH August 2021 BEIS released a package of consultations and call for evidence documents such as the Smart Systems and Flexibility plan which had a variety of documents within that included a call for evidence on what policy framework the industry needs in place for long duration storage.
- The Energy Digitisation Strategy has been released and looks at what the industry needs to do to optimize the data that the system runs on and how to digitalise the system to deliver net zero at the lowest cost.
- Consultation released on the Future System Operator.
- Consultation released on Energy Code Reform which sets out the preferred option for Ofgem to be the strategic body for codes in the future.
- Document published on the Offshore Transmission Network review which also looks at the future regulatory framework for multipurpose interconnectors.

3. Presentation: Future System Operator Consultation

BEIS and Ofgem are consulting on the establishment of an expert, impartial Future System Operator (FSO) with responsibilities across both the electricity and gas systems in order to drive progress towards net zero while maintaining energy security and minimising costs for consumers.
Within the scope of this consultation are the roles, responsibilities and organisational design of the current system operators for gas and electricity plus high-level approach to implementation. The aim of the consultation is to gather views on the case for change to an FSO, the proposed high-level roles that the FSO would be suitable to fulfil, and on potential organisational models for the FSO.

The objective, subject to consultation and Parliamentary approval, is to establish an FSO able to drive progress towards net zero while maintaining energy security and minimising costs for consumers. An FSO able to do this will need to be given appropriate roles in the energy system and have the necessary characteristics to fulfil them effectively. BEIS and Ofgem believe that an FSO that has such roles, functions and characteristics should help realise:

- Optimised reductions in network and balancing costs by supporting Ofgem and industry in using investment optimally to deliver a secure electricity and gas supply with net zero emissions at least cost.
- Co-ordinated system development by ensuring that decision makers (such as government and Ofgem) understand impacts across the energy system, so that we can ensure that decisions taken in one area actively support, rather than hinder decarbonisation of other sectors; and
- Efficient technology decisions by providing engineering insights to government, Ofgem and industry into the fundamental system operability challenges presented by new technologies,

so that government, Ofgem and industry can better identify lower cost technology mixes to reach net zero;
- Increased innovation by supporting the development of rules and standards that remove barriers to new technologies and business models, so that lower cost pathways to net zero will become available to us while maintaining a resilient system.

- Consultation can be found here: https://www.gov.uk/government/consultations/proposals.
- Consultation responses are requested by 28 September.

4. Presentation: New Industry Platforms and their impact on DSF markets, providers and system operators

Flexibility Platforms can effectively facilitate flexibility markets through providing signals for investment, the incentives for asset owners to make them available on the network and a venue for buyers of flexibility to signal their needs and to contract for services. Flexibility Platforms can enable these incentives by facilitating trading and dispatch of flexibility products.
Ofgem's definition is that a flexibility platform is an IT platform where the coordination, trading, dispatch or support services for flexibility markets take place.

The focus is on new platforms for distributed energy which will need to coordinate with other markets, including existing balancing markets and ancillary services markets.
There are two principal types of Flexibility Platform:
- Peer-to-peer platforms - those which facilitate energy trading between individual businesses or prosumers, operating at local levels.
- Grid services platforms - those which provide a wide range of grid services, often involving greater DNO and ESO coordination and involving either large assets, or smaller assets that have been aggregated together to meet grid requirements.

Currently the market platforms we have seen are generally in their infancy and are being trialled around the UK. Over the past few years there has been a number of trials to look at the viability of platform business models and whether they provide the expected benefits to both parties involved with the trading.

The group heard from a distribution network who covered:
- DSO's enabling flexibility platforms through standardisation of data.
- The benefits of flexibility platforms pushing innovation, digitalisation and price discovery.

The discussion focused on the following questions posed by the DNO:
- Route for standardisation of the system is clear, but what about platforms?
- How do they interact with each other? Should this be encouraged or just co-ordinated by SOs?
- What is the role of licenced entities, versus platforms versus marketplaces versus aggregators?
- What is the business revenue model? Do the benefits fall in the same direction as costs?
- Who bears risk across these different models? Is it different for technical vs financial?
- How is any residual balancing activity carried out between gate closure and real-time?