

Meeting 3rd May 2023

Markets Advisory Council

Agenda:

1. Introduction, actions from last meeting
2. Accessing ESO balancing markets (Alastair Martin)
3. No regrets actions to speed up delivery of Net Zero power system (Rob Gross and Simon Virley)
4. Considerations for implementation of nodal pricing (James Samworth, Angus Macrae, Guest speaker Maddie Brookes)
5. AOB

Topics Discussed

1. Chair's Opening Remarks

Steve Jennings provided a recap of the March meeting. He raised that the agenda for this May meeting had been explicitly developed in response to feedback in March that there is a need to focus on low regrets actions that can progress in parallel to the REMA decision-making process, and to consider implementation pathways where nodal pricing is pursued. Reviewing the actions from the last meeting, ESO confirmed that it has issued the updated version of the Markets Roadmap and was exploring introducing an interactive version in the future.

2. Demand Side Flexibility Market Access for Growth (Alastair Martin)

MAC member Alastair Martin presented on the experience of distributed flexibility providers accessing its balancing markets. The presentation highlighted:

1. The importance of the customer contracting relationship for informing what aggregators seek from ESO markets: For example, I&C energy managers require existing repeatable revenue streams before contracting, while merchant investors are more willing for their asset to move between markets provided the asset is used.
2. Past occasions where aggregator access to ESO markets has been delayed or disrupted due to technical details, issues were not foreseen until the implementation process was well advanced.
3. The difference in outlook and focus between aggregators and traditional retail suppliers is not well understood. Where retail suppliers' focus is on managing collateral, wholesale trading and billing, aggregators trade in closer to real time markets, and are more agile in where they trade.
4. Structural imbalances in how existing and new asset types are treated when accessing ESO markets.

The subsequent discussion covered:

- The importance of reforms to code governance for unlocking innovation and DER access into new markets. Several stakeholders raised that progressing a code can take several years, and that policymakers have been reluctant to focus on improving code reform.
- The tension between making ESO's products more certain and creating better functioning markets which meet ESO's service requirements for operating the system.

ESO raised that it would like to identify a set of critical issues which if they were addressed would shift the dial on DER access to its markets.

3. No regrets actions to speed up delivery of Net Zero power system (Rob Gross and Simon Virley)

Simon Virley and Rob Gross presented a set of ideas for low regrets policies which could be taken to accelerate the UK's energy transition before larger decisions such as wholesale market reform. While the majority of actions were outside of ESO's current remit, the presenters raised that movement on the low regrets options (e.g faster transmission planning) would impact REMA and therefore potentially ESO's position on market reform.

The discussion covered, amongst other things:

- Whether there should be mention of infrastructure that connects the UK to Europe, and what can be done in terms of alignment with European policy and market coupling.
- While the presentation focused on the role of Ofgem and government, networks and system operators already have significant scope to address connections and further consideration was needed for how they could do more in this area.
- The slow connections process: the development process is viewed as linear; however, given connections are sold as options, more might be done to facilitate secondary trading of connections rights to ensure projects which are in a position to go ahead are front of the queue.
- The need to consider access, wholesale market reform and charging holistically.

4. Considerations for implementation of nodal pricing (James Samworth, Angus Macrae, Guest speaker Maddie Brookes)

The objective of this discussion was to allow MAC members to:

1. Comment on ESO's position on LMP (provided in the pre-read) and
2. Provide input and guidance on what would be needed to support a successful implementation, in the event LMP were pursued

Angus Macrae and James Samworth first presented on ESO's rationale for locational pricing. They questioned whether rising congestion costs should justify changing/strengthening the way locational signals are sent; the importance of intraday balancing volatility for causing increased redispatch; and raised that ESO has not provided evidence to justify the extent to which interconnector and storage two-way flows are exacerbating congestion. The presenters highlighted the risk of greater cost of capital during a transition to locational pricing, and on an ongoing basis as prices may become harder to forecast.

Maddie Brookes then provided Octopus' view: that it is important to treat flexible assets equally to generation, and that not using market reform to coordinate flexible resources could lead to additional capacity requirements to meet peak demand. The BM is not conducive to residential DER participation since it requires explicit bidding and does not provide clear value signals. Using local constraint markets to manage thermal congestion would further fracture value and limits the scope of the signal.

The subsequent discussion focused on what would need to be in place to support a successful implementation of LMP. Points raised included:

- There is a need for ESO to demonstrate that the operational efficiencies would be meaningful
- Connect and Manage was a policy pursued intentionally by ESO, and would need to be honoured through grandfathering
- A decision on consumer exposure to locational prices is needed
- Detail of how an offshore grid could be managed between a GB nodal market and an EU zonal market
- Assurances that generators would not bear downside risk of network build out
- That the demand side would be able to participate in the nodal wholesale market, including a transparent centralised algorithm to ensure fair treatment

5. AOB

There was a request to discuss at future meetings:

- The ESO to consider a 'challenge and response' session to respond to some of the key stakeholder questions
- A longer conversation on the role of the demand side in future markets
- Dispatch and operability considerations in a market with a high proportion of CfD-contracted assets