

A photograph of a forest with tall, thin trees. A glowing yellow path winds through the trees, creating a sense of movement and light. The path is composed of several parallel lines that curve and loop through the forest. The overall atmosphere is serene and natural.

ESO Markets Forum

November 2023

Welcome to Markets Forum



Karen Thompson-Lilley
Customer & Stakeholder Strategy Manager

Leads on Customer & Stakeholder Strategy across the Markets function

Email: karen.thompson-lilley@nationalgrideso.com

Housekeeping



Wifi – select Park Plaza Hotel (there isn't a password)



No planned fire drills so if you do hear an alarm, make your way to the nearest fire exit



Please submit your questions via Sli.do - the code is **#MF2023**



Please make sure phones are on silent and if you need to take any calls, please do so in the lobby



The main sessions in this room will be recorded - the recording with the slides from the day will be available on the website afterwards

Any questions, feel free to ask anyone with an orange ESO lanyard

Agenda

10:00 - 10:10	Welcome
10:10 – 10:30	Introduction and welcome from Head of Markets
10:30 - 11:05	How the current market is structured and is operating now
11:05 - 11:40	How our markets are being developed
11:40 - 12:15	Longer term market reform
12:15 - 13:00	<i>Lunch</i>
13:00 – 13:45	1 st breakout session
13:45 - 14:30	2 nd breakout session
14:30 - 15:00	<i>Break</i>
15:00 - 16:00	Panel session
16:00 - 16:30	Summary, Q&A and close
16:30 - 17:30	<i>Optional drinks reception & industry networking event</i>

Markets Stands are running in the refreshment breaks in the lounge area.
Please pop by to make the most of your day!

Markets Leadership team



Claire Dykta
Director of Markets

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Head of Markets Development

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Head of Market Change Delivery

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Jamie Webb
Head of Market Frameworks (interim)

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Cathy Fraser
Head of Market Requirements

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Markets Forum

Objectives of the day:

1) To give an overview of all our market development activity so you know what is going on and why

2) Find out how best to engage with industry to share updates and receive feedback

Markets Engagement

You told us you would like to see the following enhanced:



Themes of feedback



Escalation routes



Project deep dives
and next steps



Transparency of
Markets priorities



Visibility of Market
policy decisions



Virtual and in person
events



Details of key
contacts



Updates on the
Markets Roadmap

What we will commit to do:

- We will provide a greater cadence of Markets events with clear content whilst ensuring we are available, transparent, and consistent in our messaging across industry

Next steps – your feedback

1. Do all the areas suggested cover the content you would like to see regularly? If not, what is missing?
 2. What cadence of update would you prefer?
 - Monthly updates
 - Quarterly updates
 - Six updates a year
 - Other suggestions
- Any in person events will be alternated between London, Cardiff and Glasgow



Vote now on Slido: #MF2023

Introduction to Markets



Claire Dykta **Director of Markets**

With over 20 years experience, Claire has been at the forefront of changes in the UK Power sector. Claire also sits on the Advisory Board for the Oxford University-run UK Centre for Research on Energy Demand.

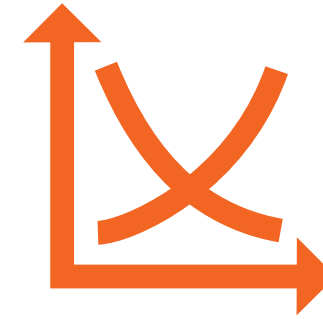


How the current market is structured and is operating now

Our Outlook for Winter



Short Term Market issues we are addressing



Products and Services delivering in 2023/24



Outlook for Winter 2023/24

Margins

4.4GW (7.4%) de-rated margin

Slightly higher than last winter under our Base Case.

Assessed against wide range of scenarios

Under normal market conditions margins expected to be adequate and within Reliability Standard.



Close Cooperation & Support

Working closely with our neighbours in Europe

Reciprocal support with neighbouring countries

Continual liaison with Transmission Owners in GB



Winter Preparations

Prepare and plan for a wide range of eventualities

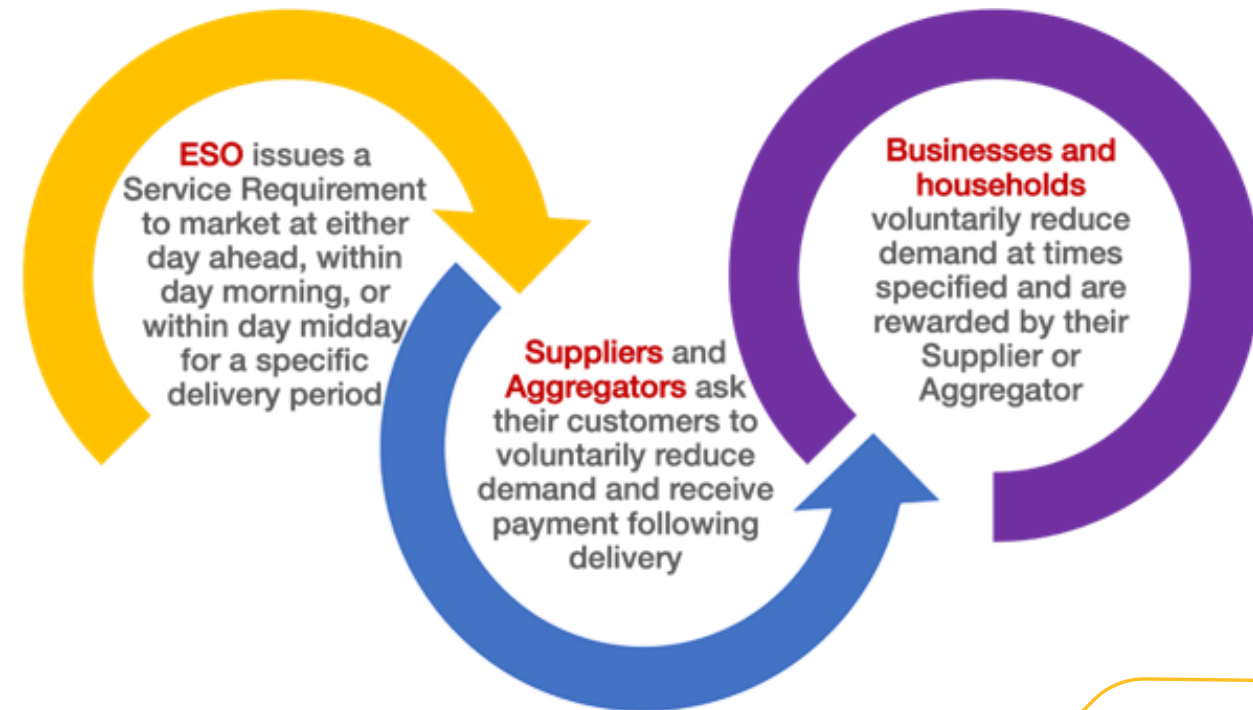
System Tools

Market outlook – improved European energy situation

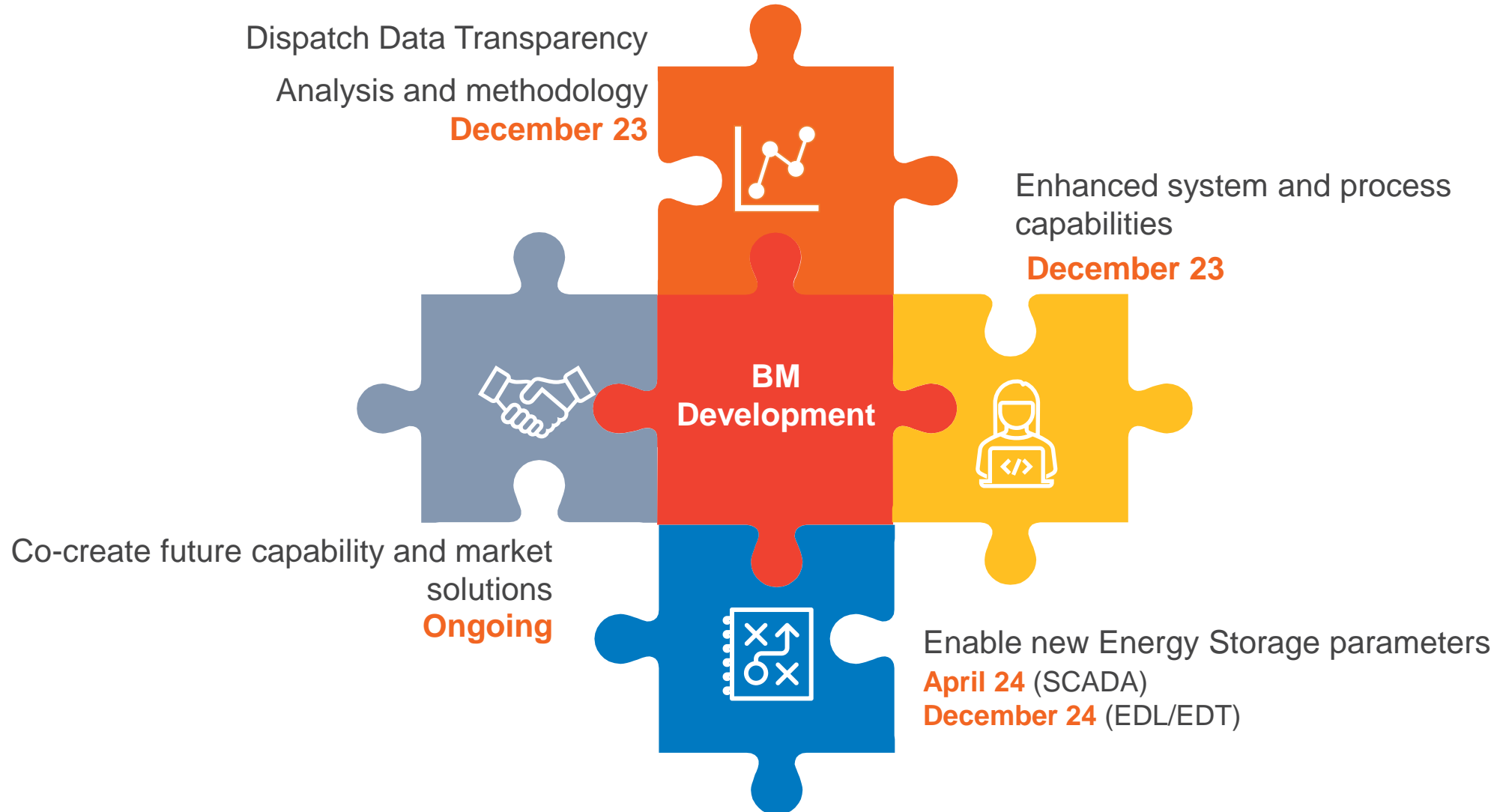
French nuclear fleet capacity returned to pre-pandemic levels

Demand Flexibility Service

Ofgem approval granted 27th October 2023



Balancing Mechanism Development



Enduring Auction Capability (EAC)

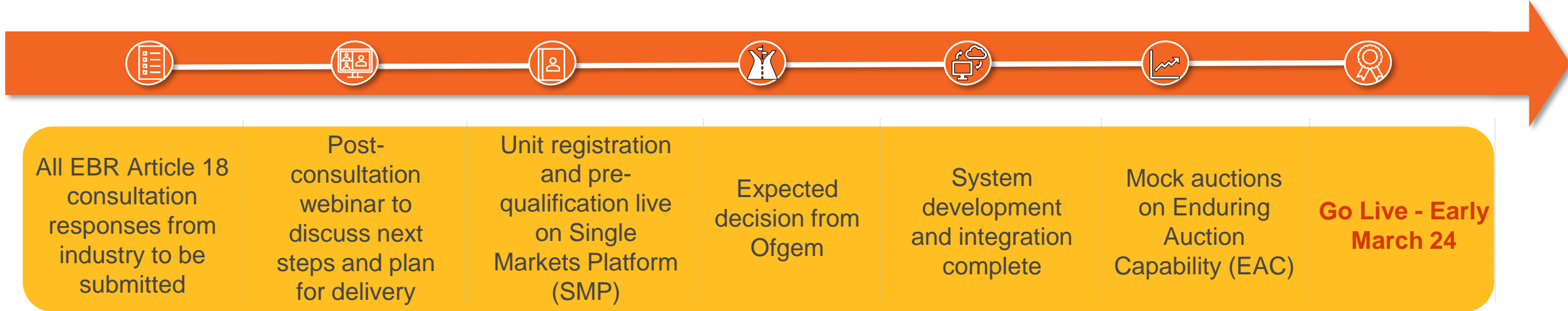


- ★ Co-optimised procurement generating market value and delivering for consumers
- ★ Scalable and extendable to reserve and response services
- ★ New reserve services will launch on EAC when delivered in 2024



EAC platform launched 19th October 2023. First Auction 2nd November

Balancing Reserve - Timeline



Current Status:

- **EBR Article 18 consultation** for the market closes on **26th Nov**
- **Planned submission to Ofgem** – **End of November 2023**
- **Mock Auctions** scheduled for **February 2024**
- **Go-Live - Early March 2024***

**subject to regulatory approval*





How our markets are being developed

How the market is being developed - Ancillary services

Key activity to look out for 2025 – 2030:

Balancing Mechanism

- Higher levels of automation allowing smaller units to be dispatched in BM

Frequency Response and Reserve

- Intraday markets

Voltage

- Short, medium and long term procurement

Stability

- Short, medium and long term procurement

Thermal

- Significant network build to meet NOA7 and Holistic Network Design (HND) outcomes
- Continued tactical commercial interventions

Restoration

- DER and renewables contracted
- Distribution Restart Zones introduced by 2028

For more information see here: <https://www.nationalgrideso.com/research-and-publications/markets-roadmap>

Promoting wider access to our markets

We are working to remove any barriers to entry for renewables and non-traditional technology in our ESO markets, focussing on the Response and Reserve Services.



Understanding any technical, commercial and regulatory blockers



Collaboration with industry on identification and solution development



Potential trials to understand and prove capability



Recommendations for change required from ESO, Ofgem & DESNZ

Charging Reform

- Charging for use of the network plays a key part to meet net zero- need to have the right market conditions
- Need to be operating more flexibly and efficiently to benefit end consumers
- Reduce distortions and recover revenue in a fair way
- Allow for better investment signals to support efficient design and use of the network

BSUoS reform

Fixed BSUoS implemented in April 2023 creating savings for consumers through reducing risk premia

BSUoS reform

Enduring Fixed BSUoS solution TCMF Sub-Group established to collaborate with industry on the next steps

TNUoS reform

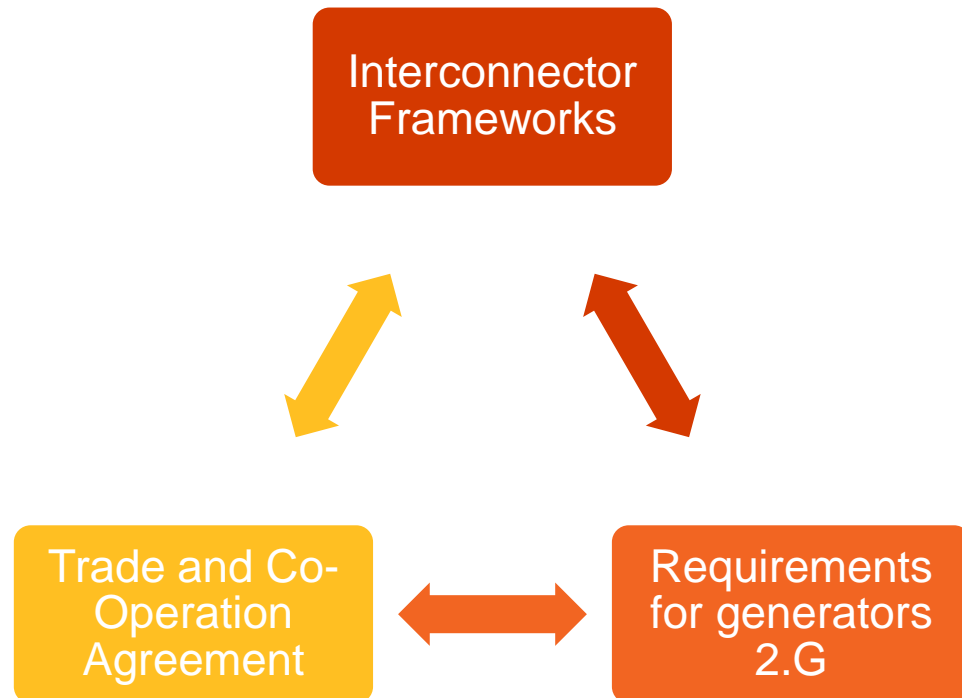
TNUoS Taskforce

TNUoS reform

10-year projection

Additional Reform

European Cross Border Development



Other Reform Activities

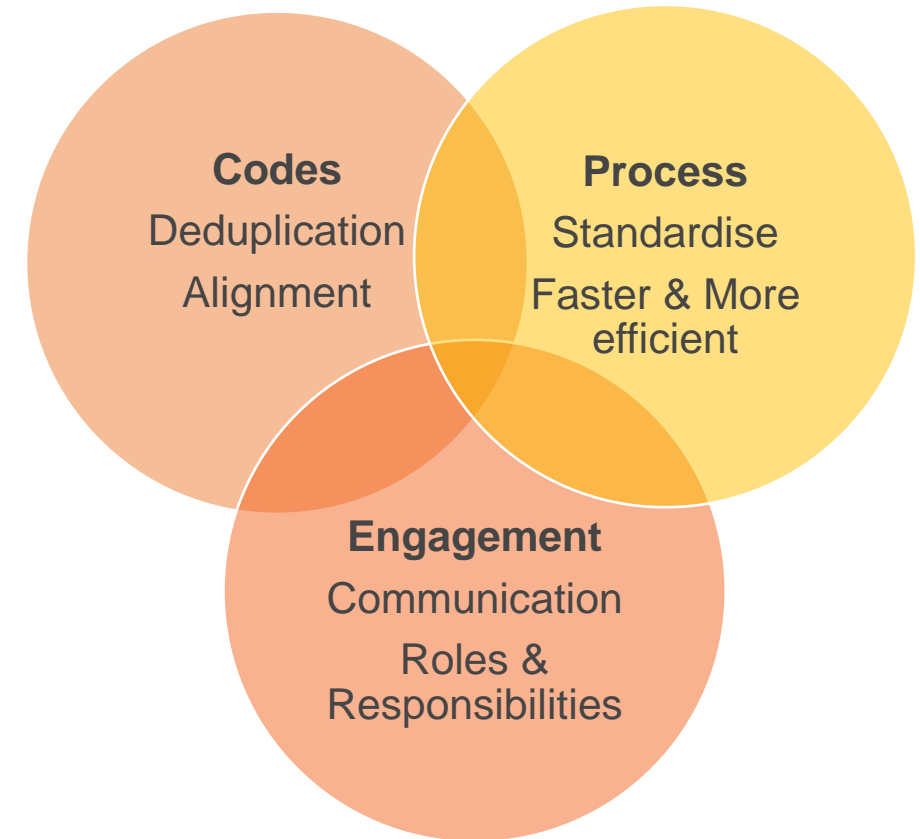
Market Wide Half Hourly Settlement

Whole Electricity System Energy Reform

How can the codes and frameworks facilitate this change?

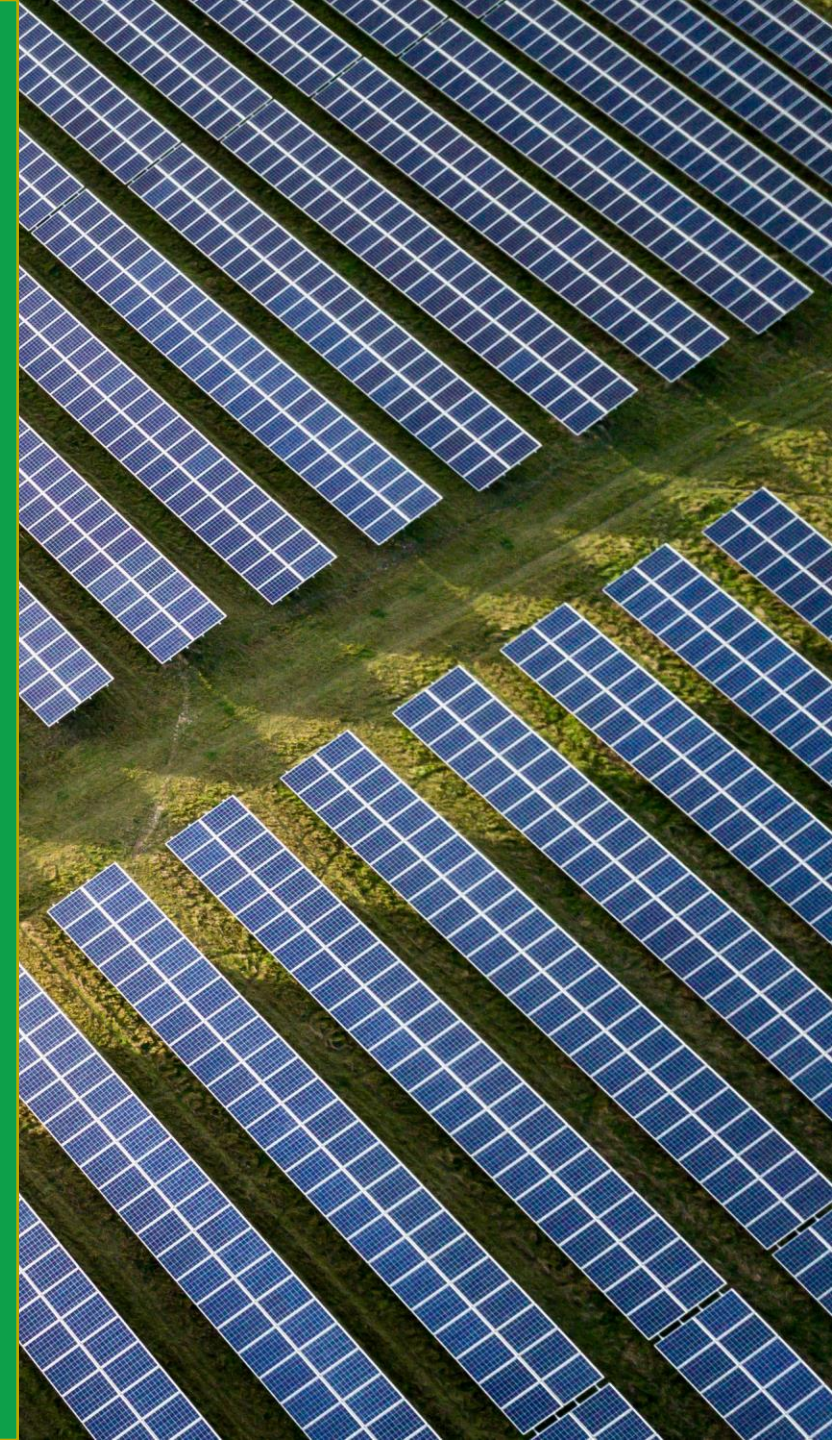
Energy Code Reform

- FSO is restructuring the UK Regulatory and Controls landscape
- Challenging Targets for the UK Electricity System to Net Zero
 - Required new technology and process
- Current approach is not fit for purpose
 - Complex
 - Duplication
 - Slow/costly
 - Barriers to entry
- ESO wish to lead, influence and inform thinking. We are looking at what we could implement now as quick wins, and some longer-term changes that will support the transition to a Code Manager





Department for
Energy Security
& Net Zero





Department for
Energy Security
& Net Zero

Capacity Market 2023: Phase 2 proposals and 10 year review

Consultation closes at **11:45pm on 8 December 2023**

Two-part consultation – respondents can answer one or both parts:

- Online; or
- Via the response form to electricity.security@beis.gov.uk or DESNZ via post

See [GOV.UK](https://www.gov.uk) for further info.

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Part A: Strengthening security of supply and alignment with net zero – Phase 2 consultation

Builds on January 2023 Phase 1 consultation including proposals on:

- Strengthening security of supply
- Accelerating investment in low carbon technologies

Part B: Review of the Capacity Market – call for evidence to inform the 10-year review

To meet statutory requirement for 5-yearly reviews, conducting a call for evidence on CM performance.

Published alongside [Technopolis' independent evaluation of the CM.](#)

Part A: Strengthening security of supply and alignment with net zero – Phase 2 consultation

Strengthening security of supply proposals:

- Follow-up changes to penalty timelines;
- Further temporary amendments for mothballed plant;
- Clarifications for Reg 50 and CM / CfD participation regulations.

Accelerating investment in low carbon technologies proposals:

- Addressing challenges around battery degradation;
- Multi-year agreements for low carbon, low CAPEX technologies (new 3-year agreements and 9-year CAPEX thresholds);
- Longer-term agreement options for low-carbon technologies;
- Supporting growth of domestic DSR;
- Amending the Extended Years Criteria.

Decarbonising the Capacity Market – proposal on publishing emissions data

Part B: Review of the Capacity Market – call for evidence to inform the 10-year review

There is a statutory requirement to review the CM every five years – following publication of the Five-year review in 2019, the Ten-year review will be published by summer 2024.

To inform the Ten-year review we commissioned an independent CM evaluation (the Technopolis Report) and are conducting a call for evidence seeking views on:

- The extent to which the CM has achieved its objectives;
- Whether the objectives remain appropriate; and
- If they can be achieved in future in a way that imposes less regulation.

The Technopolis Report has been published alongside the Phase 2 publications and is available at:

<https://www.gov.uk/government/publications/evaluation-of-the-capacity-market-scheme>



Longer term market reform

The market faces 3 key challenges

The investment challenge



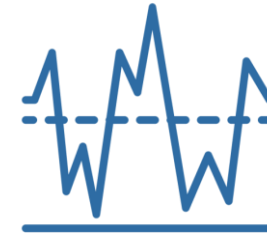
How to drive **sufficient** and **efficient** investment at needed pace that meets REMA objectives?

The adequacy challenge



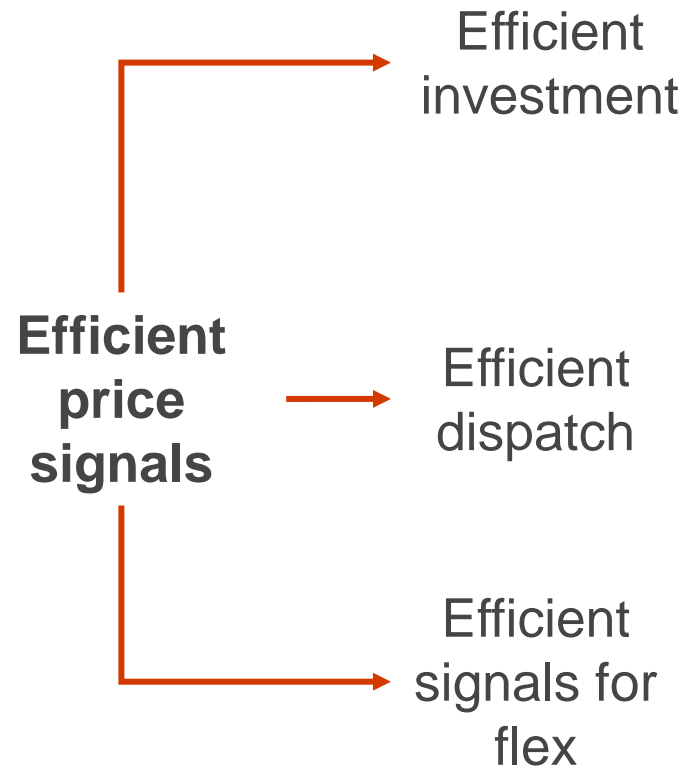
Maintaining system adequacy will become a very **different proposition** – much longer tight periods

The flexibility challenge



Need for greater **within-day flex** to manage increasing supply and demand **volatility**

Accurate, granular wholesale market signals are foundational



Locational wholesale pricing can bring significant consumer and socioeconomic benefits, but we must consider:

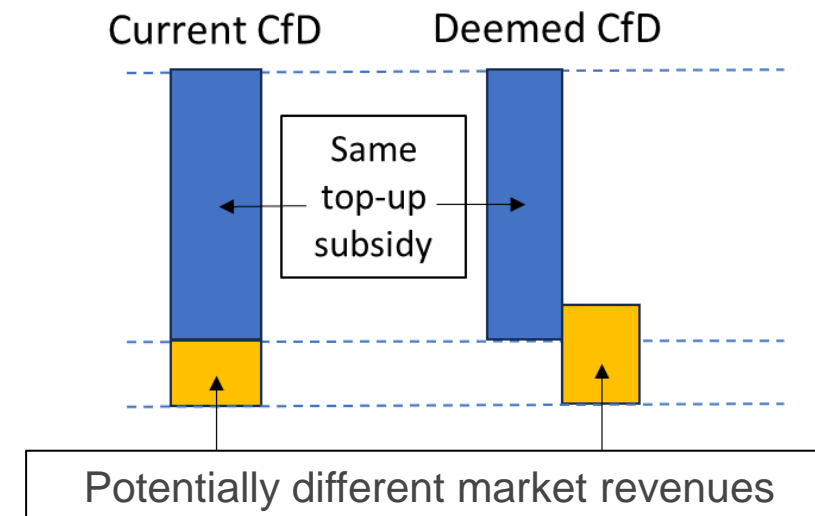
1. Investment policy to maintain low cost of capital
2. Implementation timelines and complexity
3. Whether dispatch reform is needed

CFD reform should achieve right allocation of risk between generators and consumers

CFD reform decisions should depend on:

1. Decision on wholesale market and dispatch reform
2. Fair allocation of risk between producers and consumers
3. How locational signals should be sent to generators

Existing CfD vs Deemed Generation CfD



CM reform: short-term improvements but 2030 system may need fundamental reform



In the short term, optimise:

- Improve reliability performance and reliability metrics
- Strengthen ambition of innovation and de-risking support
- Manage transition for unabated gas
- Strengthen energy efficiency policy



In the long term, more fundamental change:

2030+ policy choices should be informed by:

- Changing system conditions and associated criteria for adequacy policy to achieve
- Decision on wholesale market design

Our Vision For Flexibility



Vision:

By 2028, Great Britain is the international leader in flexibility enabling all low carbon flexibility to move seamlessly between markets driven by effective signals, delivering whole system value to consumers

*Join the flexibility
strategy breakout this
afternoon to find out
more*



ESO

To achieve that vision, we will pursue the following outcomes



Join the flexibility strategy breakout this afternoon to find out more



Coordination of Markets is essential

Opportunities to deliver value across Markets:

- DSO-ESO Coordination (Market Facilitator)
- Market Wide Half Hourly Settlement



Lunch

The breakout sessions will start at 1pm

Lunch is available in the lounge area

**Remember to visit the Markets Stands
& don't forget to play the ESO game!**

Breakout Rooms

13:00 – 13:45

1st breakout session:

- Charging Reform – **Waterloo room**
- Market Insights – **South Bank room**
- Flexibility Strategy – **Main room**

13:45 – 14:30

2nd breakout session:

- Charging Reform – **Waterloo room**
- Market Insights – **South Bank room**
- Flexibility Strategy – **Main room**



Break

The next presentation will start in the main room at 3pm

Refreshments are available in the lounge area

Remember to visit the Markets Stands & don't forget to play the ESO game!

Industry Panel

A photograph of a forest with tall, thin trees. A glowing yellow path, composed of several parallel lines, winds through the trees from the foreground into the distance. The path is bright and stands out against the darker forest floor. The trees are mostly evergreens, and the ground is covered in moss and low-lying vegetation. The lighting is soft, suggesting a misty or early morning atmosphere.

Industry Panel



Panel Host

Merlin Hyman

Chief Executive of
Regen



**Bridgit Hartland-
Johnson**

Chief Specialist for
System Integration
at Orsted



Karl Byrne

Director of the
Climate
Infrastructure
Group at
BlackRock



Rebecca Sedler

Managing
Director at
National Grid
Ventures



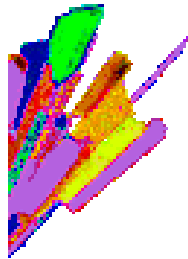
Dr Robyn Lucas

Director of
Analytics at Modo
Energy

Summary



ESO game - Balancing the grid



An aerial photograph of a river with white water rapids. Several bright blue, glowing energy-like streaks are superimposed on the image, curving across the water. The water is a mix of deep green and white foam.

Q&A

Slido code - **#MF2023**

Please join us for the drinks reception in the lounge area

If you haven't already, please fill out a feedback form on your experience today