



Bringing Energy
Together

ADE Response to Ofgem Call for evidence on ESO's six-month performance 2021-23 | 1 November 2021

Context

The ADE welcomes the opportunity to respond to Ofgem's call for evidence on National Grid ESO's performance over the 2021-23 regulatory period, and specifically for the period April 2021 to September 2021.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, low-carbon and user-led energy system. The ADE has more than 145 members active across a range of technologies, including both the providers and the users of energy equipment and services. Our members have particular expertise in demand side energy services including demand response and storage, combined heat and power, heat networks and energy efficiency.

Overall evaluation

The ADE welcomes much of the ESO's work over the 2021-23 regulatory period and specifically for the period April 2021 to September 2021. The high-level goals that the ESO is pursuing are the right ones and are ambitious and challenging.

However, we have significant concerns with the decision-making process and some of the decisions taken by the ESO over this period. This is given more importance given the ongoing discussion regarding the introduction of a Future System Operator and the ESO's potential role therein.

Role 1 – Control Centre Operations

Activity 1a: System operation - Balancing efficiently; Oversight of balancing services markets

The ADE welcomes the ESO's ambition for wider access to balancing and wholesale markets. In particular, the ADE celebrates the continued success of the VLP route to the BM. The ADE hopes that the success of VLPs will provide the foundation for routes to the wholesale market via the success of BSC modification P415.

The ADE welcomes the Dispatch Transparency tool which enhances transparency by the publication of a 'skip rate' on how often plant is not dispatched in merit order in the BM. However, it is not yet clear whether this is leading to the ESO dispatching assets in the most cost-effective way and in particular, some of the ADE's members are still being told that they are too small to be dispatched in the Balancing Mechanism (BM) and have been consistently overlooked despite being the cheapest dispatch option. It is evident that BM technology reforms must continue to be prioritised in order to ensure efficient dispatch of assets of all sizes.

Role 2 – Market development and transactions

Activity 2a: Market design - Balancing and ancillary service market design

The ADE welcomes the ESO's ambitions to reform balancing and ancillary service markets. The ADE supports the key drivers for market reform identified by the ESO, including increased competition, zero-carbon operation, changing system conditions and increased transparency. However, product designs have created significant barriers to market participation for segments of industry, and further reform is essential to enable the ESO to achieve its vision of liquid balancing service markets. These are outlined in detail below.

The ADE has called for a more consistent and engaged approach to consultation on balancing service reforms from the ESO. Whilst the early engagement through workshops on product designs was welcome, engagement with industry remains relatively unstructured and there is resistance within the ESO to conduct a structured, formal process of consultation and engagement. The reasons for this often seem to be that the ESO fears that it would take too long. However, these are important decisions which will be better made with a proper process for industry engagement. Looking forward to the debate on the Future System Operator, stakeholder trust that the ESO is making important decisions that affect which business models are successful in a transparent and structured way will become even more important. The ADE considers that like BEIS and Ofgem, the ESO's decisions have a significant impact on the market, and like these organisations, the ESO should therefore have a clearer and more consistent approach to industry consultation. This should include at the minimum: a requirement to formally consult, a requirement to publish a cost-benefit analysis describing the impacts of the change and why they are positive or negative overall and a requirement to publish a full response to consultations that sets out in detail the feedback received from different parts of industry.

In particular, the approach to taking a decision on baselining and visibility across the entire product suite has been inadequate. In requiring 60-min ahead nominated baselines for reserve as well as response services (and likely the entirety of the product suite), the ESO has diverged from the ENA, the DNOs, the Capacity Market design and international precedent.

Further, in focusing so narrowly on how to improve visibility through balancing service baselining, the ESO has missed the broader, strategic question of how to achieve good system visibility in a future system which is very likely to have a significantly more active demand-side.

For the goals of market participation, transparency and competition to be achieved, more reliable and effective consultation with industry on these issues is required and the ESO needs to think more strategically about what the findings regarding demand-side response arising from its FES scenarios as well as other modelling mean for its system operations.

Secondly, the decision-making process and decision itself on aggregation limits for reserve and response has also been unsatisfactory.

While the ADE welcomed the ESO's decision to move the locational boundary for aggregation from GSP to GSP group for the soft launch of Dynamic Containment (DC) in 2020, subsequent discussions have not yielded any progress. Review of this was promised through a piece of work called "Wave 2 reforms" which did not materialise. Following this, the ESO have held a number of bilateral meetings with industry and workshops with the ADE and others. However, the ESO have not set out clearly a comprehensive view of the risks they are concerned about (only summaries) and they have not stated whether they are already incurring cost as a result of these risks and if not, why such limits are needed immediately and ahead of the IT upgrade programme's delivery in 2025 which will make <1MW assets visible and thus, these risks manageable.

With respect to the launch of sister products, Dynamic Regulation (DR) and Moderation (DM) scheduled for the first quarter of 2022, there is still no definitive outline of their parameters and volume requirements. These should be published as soon as possible to allow industry to prepare.

The ADE is disappointed that there remains no plan to phase out or reduce volumes drawn from Mandatory Frequency Response (MFR) by 2025. This goes against the commitment to promoting competition in all markets.

Activity 2a: Market design - Close to real time procurement

In general, the ADE supports the ESO's shift towards day-ahead procurement of its balancing services, but would encourage the rate of this shift to increase. As mentioned above, the day-ahead procurement of the new frequency response products is an important step in this direction.

Activity 2b: Electricity Market Reform - User experience with the EMR portal

The ADE welcomes continued efforts to improve user experience of the EMR portal in the coming year. However, it notes persistent issues with the prequalification portal for the Capacity Market which places significant burden on industry. Furthermore, misinterpretation and communication of rules, although subsequently remedied, have affected user experience.

Activity 2c: Industry codes and charging - Managing codes changes

In the Workgroup Consultation for 'CMP361 & CMP362: Balancing Services Use of System (BSUoS) Reform' the ESO estimated that their maximum working capital would be £300m. However, they have not clearly justified why they could not raise more as a credit facility and why it's cost-effective for the system for industry to bear so much of the cost when industry is likely to have higher borrowing costs than the regulated ESO.

Role 3 – System insight, planning and network development

Activity 3b: Operational strategy and insights - Producing analytically robust scenarios and long-term forecasts

The ADE strongly supports the ESO's work on Future Energy Scenarios and the System Operability Framework (SOF) and encourages its continuation going forward. In particular, increased focus on heat in FES 2021 has been a positive development. Likewise, the ADE and its members welcomes the publication of the ESO Quarterly Performance Reports and their utility for industry. It recommends that these reports are made more accessible, timely and include updates on DM and DR.

It is recognised that, given the significant reforms being undertaken, resources are stretched. However, Account Management and response to queries has been lacking and should be improved to aid market certainty.

Activity 3c: Optimal network investment - Regional Development Plans

The ADE recognises the importance of the RDPs for improving ESO/DNO coordination and appreciates the recent engagement from the ESO on how DSR and distributed generation can play a part in these plans.

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