



Bringing Energy
Together

ADE Response | Ofgem ESO call for evidence 2021-23: End of scheme review | 20 April 2023

Context

The ADE welcomes the opportunity to respond to Ofgem's ESO call for evidence 2021-23: End of scheme review.

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 160 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 2020-23 regulatory period. The high-level goals that the ESO is pursuing are the right ones and are ambitious and challenging.

In particular, we commend the ESO on the work being undertaken by Power Responsive, especially since Autumn 2023 and believe with continued momentum this can alleviate some of the issues discussed below.

We also note the importance of the Demand Flexibility Service and its expeditious delivery. This was a truly innovative service and we hope that, with adjustments, it can continue to play a vital role in maintaining a secure electricity system.

A lot of work remains to be done, however. The ADE would welcome far clearer communication from the ESO in a number of areas, detailed below, and a more consistent approach to working with industry in product design and market reform. The ADE would also encourage a much more ambitious approach to moving volumes from bilateral contracts into competitive markets.

Role 1 – Control Centre Operations

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

Wider Access

The ADE welcomes the ESO's ambition for wider access to balancing and wholesale markets. In particular, the ADE appreciates 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.

Furthermore, the ADE supports the work being undertaken by the Power Responsive Operational Metering Working Group to investigate routes for EVs into the BM. We believe

this work should be delivered at pace and note its potential in transitioning some of the volumes discovered during DFS to within market services.

Skip rates and the Balancing Capability Strategic Review

As has been a consistent source of feedback throughout the BP1 period, industry remains dissatisfied with the number of out-of-merit actions, or 'skips', being taken and the BM and more importantly – how these skips are reported. We support the work being undertaken by the Balancing Capability Strategic Review but consider that an interim solution is needed until the Open Balancing Platform (OBP) is fully operational.

In particular, the Dispatch Transparency Tool is clearly not fit for purpose. While the Tool repeatedly reports less than 1% of skips as being unaccounted for, there is strong anecdotal evidence and ESO communications that indicate this is an underestimate. At a Dispatch Transparency event held in Wokingham in December, certain points were communicated to industry. In particular:

- When it's busy in the control room and operators take an out-of-merit action because of its volume, this is not considered a 'true skip', rather they look to what caused the business eg constraint, frequency etc and the action therefore is attributed to operational conditions in the tool not as a result of the limitations of manual dispatch.
- When making decisions on whether to dispatch 1x20MW unit vs 20x1MW units, control room takes into account discrepancies in unit forecasts. Even though the probability of average discrepancy may be similar, it is easier for them to phone the 1x20MW in case of a fault than 5x1MW units. There also seemed to be a higher level of mistrust of smaller volume unit accuracy.
- Since engineers can more readily recall the parameters of large assets (eg pumped hydro storage requirements) rather than the duration of many small batteries, this can impact their decision making.

The ADE would contend that none of the above should be logged in the Tool as 'operational' and therefore unpreventable. We support Ofgem's request for more narrative around dispatch decision making in the BP2 RRE and equally understand ESO's concerns around practicality. Therefore, we believe the reason code needs to be amended to adequately take account of the limitations of manual dispatch. This serves a dual purpose: a) it will allow us to get actual transparency of dispatch decisions; and b) it will give Ofgem, ESO and industry a metric against which to judge how effective IT reforms undertaken during BP2 are.

Role 2 – Market development and transactions

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

The ADE welcomes the ESO's ongoing reform of 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, the designs of certain products have presented significant barriers to market participation for segments of industry, and further reform is required to enable the ESO to achieve its vision of liquid balancing service markets. These are outlined in the sections below.

Ancillary Service Reform

Over the course of BP 1, communication on market reforms, and delays in particular, has been patchy. At the beginning of the period, there was little consultation before the presentation of the final service design for DC, leading to significant issues essentially being 'baked in' from the outset. An example of this was the decision to allow aggregation at GSP only and although this was later reversed, it represented an unnecessary strain on resources as the issue was resolved.

Other design choices have led to ongoing engagement since the launch of the first new service. While the ADE has had very productive engagement with ESO on the issue of nominated baselines being the default parameter for new products, this has been a two year process and even as we reach a solution, implementation will not take place until April 2024 at the earliest. The alternative approach using derived data, as proposed by the ADE and its members, has been well received by the ESO. This delay undermines the objective of the markets reform to remove barriers, increase participation and create competitive markets. The longer certain types of aggregation are precluded from the market, the longer it will take to fulfil these objectives, including getting more low carbon assets on the system.

Further issues with the product designs of DM and DR involve the initial volume requirements, stacking and auction approach. While we appreciate the progress towards the Enduring Auction Capability (EAC) progress has been very slow and industry has not been consistently informed of delays or the reasons behind them. Again, delays such as this create inefficient market conditions for flexibility providers, despite continuing acceptance from ESO of their necessity for system decarbonisation.

Mandatory Frequency Response (MFR)

The ADE continues to believe MFR should be reduced or phased out by 2025. The bilateral nature of this service draws volume away from commercial response markets and contrasts with the ESO's ambition of 'competition everywhere'. While the ADE acknowledges that the intra-day response provided by MFR is essential for the operation of the system, the ESO should have already outlined plans to facilitate a within-day commercial frequency response market to provide this service. The ADE strongly encourages the ESO to explore the development of a competitive intra-day response market in order to replace MFR in the medium to long term, and steadily reduce MFR procurement volumes in the short term.

Balancing Reserve

The ADE notes the recent development of Balancing Reserve and repeats our concern at how a patently discriminatory product progressed to such an advanced state of development, diverting resources from other programmes. This is especially the case as the new Quick and Slow Reserve services have been repeatedly delayed. While we welcomed the Ofgem decision to reject the service, it is important to understand the process for developing BR and avoid a reoccurrence.

Although we do not have a problem with the principle underpinning BR, it is crucial that any reimagining of the service and assurances that control room is capable of including sub-50MW assets on an equal footing be scrutinised carefully, given the issues with BM dispatch addressed above.

Demand Flexibility Service

We strongly supported the development of DFS and believe the results including dependable volumes coming from both domestic and non-domestic DSR, and highly increased provider forecasting in a short space of time, should mark an inflection point in the progress of DSR.

As we laid out in our joint response with EnergyUK to ESO's Call for Input on the future of the DFS, we believe that, with specific changes to the design of the service, volumes can be grown for winter 2023/24 so as to negate the need for coal and provide a more cost-effective enhanced service. Following winter, we believe it is essential that a Transitional Service be ready to absorb these volumes as we await ESO market reforms (such as the OBP) and the rollout of MHHS. It is imprudent to simply wait for these reforms to have taken place before improving DSR participation in the electricity system and will even exacerbate our need to turn to carbon intensive flexibility for balancing as more low carbon technologies come onto the system.

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

The ADE supports the ESO's shift to day-ahead procurement of its new balancing services.

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

The ADE welcomes continued efforts to improve user experience of the EMR portal. 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 during the BP 1 period.

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). Likewise, the ADE and its members welcomes the publication of the ESO Quarterly Performance Reports and their utility for industry. It notes that there have been issues with the reports are made more accessibility and timeliness during the BP 1 period.

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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