

19th April 2023

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Non-confidential

Dear Matthew,

Call for Evidence – Electricity System Operator’s (ESO) end of scheme performance 2021-2023

Drax Group plc (Drax) owns and operates a portfolio of flexible, low carbon and renewable electricity generation assets – providing enough power for the equivalent of more than 8 million homes across the UK. The assets include Drax Power Station in North Yorkshire, which is the country’s single largest source of renewable electricity, and Cruachan pumped storage hydro power station in Scotland. Drax also owns two retail businesses, Drax Energy Solutions and Opus Energy, which together supply renewable electricity and gas to over 250,000 business premises.

We welcome the opportunity to provide feedback on ESO Performance as it has been a particularly challenging time for all market participants including the ESO. We acknowledge that high energy prices in the Winter 2022/23 period required some reprioritisation of the ESO’s deliverables and may lead to differences between forecast and actual balancing costs. We also note that a changing capacity mix and sector decarbonisation has highlighted some of the challenges with maintaining safe and secure system operation. Overall, we believe that the ESO has met most of its targets for the relevant period, however, there are areas that require further improvement and acceleration.

As risks associated with transitioning to Net Zero increase, the ESO needs to accelerate the pace of its balancing services market reforms, as well as the delivery of scheduled IT projects to support reliable system operation. It is also important that there is an improvement in the ESO’s forecasting and modelling capability, as this will be critical to achieving a better understanding of potential risks to reliable electricity supplies and system management arising from the changing capacity mix.

The appendix to this letter provides more detailed commentary against the three ESO roles.

Yours sincerely,

Kamila Nugumanova

Regulation Manager- Markets

Appendix 1- Feedback on the ESO roles.

Role 1 – The ESO’s delivery of benefits and value for money from its priority IT projects, and its steps to tackle increased balancing costs in the short term

Activity 1a: System operation

We welcome the ESO’s Strategic Review of its Balancing Capabilities. The project aims to develop the balancing capabilities that the Electricity National Control Centre (ENCC) needs to deliver reliable and secure system operation, and we are supportive of the objectives and deliverables identified by the ESO.

While the scoping phase of the project managed to attract positive stakeholder engagement and provide an efficient roadmap of planned activities, follow-up communication has not been as effective. The programme has been split into several smaller projects under different names, and this has not been communicated clearly.

Activity 1c: Transparency, data and forecasting

We acknowledge the ESO’s initiative to introduce new balancing products, such as Balancing Reserve, in order to address high balancing costs. However, the ESO should look at more fundamental concerns that may lead to less efficient outcomes in the Balancing Mechanism (BM). Some of the underlying factors that need to be addressed are the ESO’s analytical and balancing capabilities, its transparency and timeliness of data provision and availability, and, its forecasting of demand, generation and interconnectors and sharing of associated data with the market.

The quality and accuracy of ESO forecasts in the past has been questioned by the industry. These forecasts can send incorrect signals about the system margins and lead to incorrect pricing decisions by market participants. Another factor that may provide an incorrect signal is the view of interconnector flows. As part of the Balancing Capability Strategic Review and other relevant projects in this space, the ESO has highlighted that interconnector flow forecasts can change materially closer to real-time and often lead to an increase in the number of actions the ESO needs to take in the BM. If the PN data for interconnectors is not updated and reflected in system forecasts in an accurate and timely manner, this can lead to a false or incorrect view of system conditions. There have also been a number of instances where interconnector flow position was incorrectly reflected in system reports, i.e. even though low prices were available to the ESO to reverse exporting flows, the report would demonstrate very high scarcity risk and price.

Role 2 – Delivery and implementation of the various balancing products and markets the ESO has developed, and how well the ESO has collaborated with the industry in this area.

Activity 2a: Market design

Pathfinders:

We were disappointed with the delivery and administration of the ESO’s Pathfinder projects, specifically Constraint Management Pathfinder 2024-25, Northern Black Start tender, and Stability Pathfinder Phase 3:

- Constraint Management Pathfinder (CMP) 2024-25 – The tender process was inefficient and with a lack of transparent and detailed methodology.

- Northern Black Start tender - The tender process was inefficient, specifically in relation to embedded assets. We don't believe the ESO had a prescribed selection methodology in place. While we acknowledge that the ESO reversed its negative decision in the Northern Black Start tender, overall, the ESO seemed to arbitrarily exclude assets from the tender process. A more detailed and transparent methodology for the assessment of tender submissions is needed in future.
- Stability Pathfinder Phase 3 - We are not satisfied with the robustness of the procurement process and the application of the tender rules. Initial guidance and documentation on the tender, that was used by providers to determine their commercial interests and submission plans, was incomplete and had changed materially part way through the tender process. Additional requirements and criteria published by the ESO have substantially changed the nature of the 'Additionality criteria', yet have not been communicated adequately. Furthermore, applying the Additionality Criteria in the way adopted, risks not making the best use of existing assets and over-procuring services as a result. This will not lead to economic and efficient outcomes, and thus will result in sub-optimal outcomes for both system operation and consumers.

Stability Market Design Expert Group

- We welcome the initiative to run this group, however, would like to see changes to its format. The current structure and setup of the group is unlikely to deliver efficient outcomes as it is struggling to engage properly with stakeholder ideas. We suggest the running of the group accepts the format adopted in code modification workgroups.

Balancing Services

- Dynamic Regulation – The new provider onboarding and support process has not been very efficient, partially, it would appear, due to this ESO function being under resourced.
- Reserve Reform – There has been a delay in the delivery and start date of the products.

Activity 2b: Electricity market reform

EMR Portal

The ESO has performed well in providing support to EMR parties, for example queries are responded to in a swift and efficient manner. However, we are disappointed to see outstanding issues with the EMR Portal. The current portal does not provide the most efficient user experience and has not achieved its full technical deliverables. There are still aspects of agreement management that have to be done outside of the portal or supplemented with additional information by email. The portal upgrade was listed as a priority in the Capacity Market 5-year review (2019), and it is disappointing to see the lack of progress.

We are keen to see further improvements and enhancements to the portal so that it can deliver fully automated and agreed technical functionality, e.g. to refine obligation reminders/notifications and duplication of information.

Security of supply modelling

With regards to security of supply metrics and capacity adequacy modelling, we note the disparity in pricing for the T-4 and T-1 auctions for the 2022/23 delivery year. While the T-4 clearing price was low at c.£6/kW, the T-1 price for the same delivery year was at the record high of £75/kW.

We recognise that a number of factors, like Covid-19 and high gas prices seen in 2022, as well as wider decarbonisation and policy developments, could not have reasonably been foreseen and have impacted the economics of the energy market. However, such a material difference in clearing prices for the same delivery year may indicate that the ESO's modelling of capacity adequacy and system-needs may have been inadequate and may need to be improved.

Furthermore, we are concerned that, aside from the notifications sent in Summer 2022, the other stress event notifications sent in 2021-23 were cancelled shortly after being issued. It could be argued that this has undermined stakeholders' trust in the notification system and raised questions around the accuracy of the algorithm.

Activity 2c: Industry codes and charging

Overall, the ESO has met its expectations against its role as a Code Administrator and code changes are generally well-managed. However, there have been a few instances recently where concerns of workgroup members haven't been appropriately addressed or captured. For example:

- CMP393 - Stakeholders have expressed concerns that the draft workgroup report hadn't captured full workgroup discussion, and there was hesitance to include this.
- CMP 376 - there was some resistance in pulling data together to support the case for change despite multiple requests from workgroup members.

Role 3 – System insight, planning and network development. The ESO's performance on improving the connections process, and its leadership on strategic network planning.

Activity 3a: Connections and network access

Connection reform

We are disappointed with a lack of industry engagement at certain points of the Connection Reform workstream, such as the two-step offer process. We do not believe that proposals have been adequately communicated and stakeholders given sufficient opportunity for input. Furthermore, we are not convinced that the use of informal 'voting' within workshops to inform policy design, provides a robust and transparent process.

Connections process

We have continued concerns about the lack of communication from the connections team at the ESO. There have also been instances where conflicting messages and information was provided by the team.

Activity 3b: Operational strategy and insights

There are continued instances of conflicting information included in the data-sets published on the ESO website / data portal, with outturn data published being increased by incorrect SF data.