

# Incentives Monthly Monitoring Meeting

## Meeting Minutes (February 2021-22 Report)

### Details

Date:	<b>Thursday 31 March 2022</b>	Location:	<b>Teleconference</b>
Time:	<b>10:00 - 12:00</b>	Meeting Number:	<b>43</b>

### Agenda

Ref	Time	Title	Owner
1	10:05 – 10:20	<b>SME slot – Balancing Costs</b>	ESO
2	10:20 – 10:35	<b>SME slot – Domestic Reserve Scarcity trial</b>	ESO
3	10:35 – 10:50	<b>SME slot – Stability Market Design</b>	ESO
4	10:50 – 11:05	<b>ESO to highlight notable points from the published report</b>	ESO
5	11:05 – 11:15	<b>ESO to take questions on the published report</b>	ESO
6	11:15 – 11:25	<b>Ofgem to give feedback on ESO performance</b>	Ofgem
7	11:25 – 11:35	<b>Review actions &amp; AOB</b>	All

### Participants

Name	Company
Laurence Barrett	NG ESO
Phil Smith	NG ESO
Jess Rivalland	NG ESO
Hannah Kernthaler	NG ESO
Cristian Ebau	NG ESO
Will Gratton	NG ESO
Leon Walker	NG ESO
Sophie Van Caloen	NG ESO

Name	Company
Cian McLeavey-Reville	NG ESO
Filippos Panagiotopoulos	NG ESO
Maryam Khan	Ofgem
Adam Gilham	Ofgem
James Hill	Ofgem
Luke Jones	Ofgem

## Actions

Meeting No.	Action No.	Date Raised	Target Date	Resp.	Description	Status
41	121	04/02/22	28/02/22	Ofgem	For RRE 2B Diversity of service providers, consider if data that is being reported on is suitable, particularly STOR.  This to be put on hold until after the mid scheme report.	Open
43	123	31/03/22	14/04/22	Ofgem	Ofgem to create invite for Mid Scheme event and share with the ESO	Open
43	124	31/03/22	08/04/22	Ofgem	Ofgem to speak to EMR team to provide feedback to ESO regarding RRE 2C	Open

## Discussion and Questions

### 1. Balancing Costs

Cristian Ebau talked through the February balancing costs, highlighting the main drivers of performance. Total spend to balance the system in February 2022 was £338m. Non-constraints costs decreased and Constraints costs increased compared with January 2022. Cost outturn was in line with the previous two months. Wholesale power, and carbon prices have remained high in February impacting on the higher than previous balancing costs. Non-constraint volumes are stable and Constraint volumes have increased when compared with January 2022.

Compared with February 2021, all cost categories are higher except for RoCoF and Restoration. All actions taken by the ESO are significantly more expensive driven by continued high wholesale market prices and the related pricing behaviour in the BM. Non constraint costs have increased overall.

February metered wind output was higher than February 2021 which explains the high volume of action required to manage constraints during this month.

Cristian provided a response to action 106. Original query asked why the volumes are nil in some months where there are costs associated with Operating Reserve trades. ESO answered that Constraint Operating Reserve costs represent a portion of the costs of actions taken to meet Operating Reserve. Some of the costs are extracted to this category without the relative volume to avoid double counting.

Hannah provided a response to action 122: ESO to provide detail on the drivers of the higher margin price in January. ESO shared graphs on how prices are being investigated.

Hannah talked through a number of other cost savings actions taken by the ESO during February.

#### Question

#### ESO response

Ofgem asked what we were avoiding double counting with regarding the Operating Reserve.

ESO pull out the costs but don't pull out the volumes to avoid double counting. The costs can get split easily but volumes can't. It is difficult to know how much volume should be applied to the constrained operating reserve as opposed to operating reserve.

Following up on previous question, why is it easy to pull out the costs and not the volumes?	An algorithm does the cost in the background and applies categories to assist the ESO in understanding where the costs have gone. Similar to constrained sterilised headroom, this doesn't always have a volume because it's a portion of the cost. If the volume is split as well, there's a danger of double counting the volume.
Ofgem mentioned that it appears a lot of costs categories aren't a true attribution of costs but an algorithm that splits them up based on a percentage.	All costs are categorised post event. No costs are categorised in real time apart from energy flagging versus system flagging. Looking at a true cost of an action, this goes through a number of processes, one of which splits the costs but doesn't split up the volume due to the complexity of doing so.
Following up on the previous question, does it split up the costs per action?	Yes, that's correct.
Ofgem asked what the next step is for addressing the high margin price issues.	There is a broader BM review being performed by the market monitoring team and the first step was to check that the behaviours that are driving these prices and outcomes are in line with the rules, and it appears people are operating within them. The next step is looking at possible changes to rules. However, the ESO cannot facilitate this. ESO Future Markets are also looking into the issue. But for now, it is largely out of our control.
Following on from the previous question, is there anything the ESO can do in the short term to mitigate high balancing costs?	The FRCR implementation is an example of what we are doing to mitigate costs. Another piece of work is ensuring our Day Ahead markets are looking at alternative costs and the BM in detail. One example is the STOR methodology review.

## 2. Domestic Reserve Scarcity trial

Leon Walker presented on the Domestic Reserve Scarcity trial. The ESO is collaborating with Octopus Energy on a new trial exploring the potential participation of domestic flexibility from their smart meter customer base in provision of energy. This builds on the Crowdflex:NIA project and will feed into future ESO initiatives exploring flexibility. Domestic customers will be incentivised to reduce their household consumption during pre-defined 2-hour windows. The ESO will focus on when market conditions imply low margins on the system, based on readily available market data. Octopus Energy will provide incentives to their customers and there will be no contractual energy and cashflow between Octopus and ESO. The trial window ran from 11/02/2022 to 31/03/2022. The ESO are looking at understanding the pathway for participation of domestic flexibility in future market and applying live market conditions to trial events to build a robust set of evidence. The ESO are doing a learn by doing approach which will allow an increase in understanding the volumes of flexibility from domestic households. ESO are exploring capability of forecasting domestic flexibility and will review the impacts of repeatability on consumer behaviour.

## 3. Stability Market Design

Sophie Van Caloen presented on the Stability Market Design. This is a study-based innovation project with the ESO working with AFRY. The project began in September 2021 and a publication of the results and Thought-Piece was published in March 2022. The ESO looked at the possible high-level designs for a stability market that would allow us to meet our requirements whilst making efficient investment and dispatch

decisions. While also enabling wide participation with minimal barriers to entry. The project outcome is a preferred way forward, future steps will consider detailed market design and analysis. There will be additional consultation with industry and opportunity to refine based on engagement. The ESO have carried out multiple sessions with control room and market team experts as well as holding industry workshops. Surveys have been sent to gather further input from industry to design an effective market. We identified some opportunities for change in the current arrangements in line with our Market Design Objectives and Principles. The second phase of this innovation project, which is planned for Q1 2022-23, is being scoped and could include exploring interactions between stability and other services such as reactive and response. Refinement of some market design options and our procurement strategy for long-term vs short-term. There will be thorough cost-benefit analysis with expanded modelling horizon beyond 2030.

**4. ESO to highlight notable points from the published report**

Laurence Barrett talked through the key points from the February 2021-22 report.

**5. ESO to take questions on the published report**

N/A

**6. Ofgem to give feedback on ESO performance**

The Markets Forum morning session on reserve and response reforms was really useful for industry and this was a high standard communication piece which provided many answers.

**7. Review actions & AOB:**

- Previous actions closed during balancing costs presentations
- Actions 123 and 124 added
- Following the Value for Money deep dive, the ESO sent Ofgem a draft of an open letter. Ofgem confirmed they are happy with the high level messages and the ESO can send it to industry.

**Previously Closed Actions**

Meeting No.	Action No.	Date Raised	Target Date	Resp.	Description	Status
37	106	05/10/21	23/11/21	ESO	ESO to investigate possible gaps in the data for Operating Reserve trades volume.	Closed
42	122	03/02/22	10/03/22	ESO	ESO to provide detail on the drivers of the higher margin price in January	Closed