

Meeting Wednesday 25th September 2024

Markets Advisory Council

Agenda:

1. Chair's Opening Remarks (Steve Jennings)
2. Whole Energy Market Strategy (Suki Ferris)
3. Flexibility Market Strategy (Yingyi Wang)
4. Clean Power 2030 (Matt Magill, Paul Wakeley, Lizzie Blaxland)
5. Future of MAC (Rebecca Beresford)

Topics Discussed

1. Chair's Opening Remarks

- Steve Jennings (SJ) welcomed MAC members to the fourth meeting of 2024 and introduced new Director of Markets, Rebecca Beresford.

2. Whole Energy Market Strategy (Suki Ferris)

- Suki Ferris (SF) (Whole Energy Market Strategy Manager) reiterated the scope of the Whole Energy Market Strategy (WEMS) project and the key vectors which NESO will be looking at, and how ESO have acted on the feedback provided by the MAC at the previous session in July.
- SF talked through the four key categories of risks which ESO have identified: ensuring energy security, optimising carbon signals, integrating greater central planning into holistic market design, and unlocking clean heat.
- An example risk was provided on investment policy and how the value of subsidy support mechanisms on the supply and demand side are disproportional. Members discussed the importance of chronology in identifying and describing the subsidies. For example, a low carbon generator may not really care where the demand they supply comes from; similarly, a heat pump user might not care where the energy they consume comes from.
- A member called upon NESO to provide balanced insight to Government on the role of gas. Gas will play a very fundamental role in providing energy security but political sentiment and public support for net zero could blur the importance of this, so NESO must provide clear, impartial advice to avoid compromising energy security.
- The group discussed the contrasting, but equally valid, perspectives on whether electrification of heating creates extra demand which is in conflict with CP30 targets, or whether that additional demand is required to support prices to stimulate investment. The group agreed this needs to be recognised holistically across whole energy vectors.

- A MAC member asked whether the prioritised risks are too insular, and we should be considering impacts broader than just GB. The group also suggested to highlight the role of price certainty and clear strategic direction to create a longer-term investment framework. The market needs to provide longevity and investor confidence for some of these hugely significant projects which may take 8-10 years to construct. A MAC member also reminded the importance of insulation and energy efficiency as an infrastructure investment.
- Overall, MAC members commended the presentation and welcome further discussion following the publication of the Whole Energy Market Strategy report once completed.

3. Flexibility Markets Strategy (Yingyi Wang)

- Yingyi Wang (YW), Flexibility Market Development Manager, reminded the MAC of previous MAC discussions and outlined the purpose of today's session is to provide a summary of the responses which we've received through the Call for Input (CFI).
- YW summarised the key themes from the flexibility CFI, including on the scope of the report being specific to consumer flex without acknowledging batteries and interconnectors.
- A member cited the difference between digital-first and AI-first and to be mindful of digitising things which could instead be automated. Dispatch transparency could also now be better termed 'dispatch efficiency' as this is the real issue with regards to skipping in the BM.
- MAC members discussed whether creating niche markets for flexibility would be the right approach and whether it was necessary for ESO to have so many ancillary services. The group agreed that ultimately ESO needs to understand the specific flexibility/consumer types in more detail (e.g., industrial load, domestic end consumers, certain generator types – electrolysers) and the relative constraints to them providing flexibility services. The aim should then be to align this flexibility with the right market design and price signals to deliver for the end consumer, especially for those sectors where greatest value could be realised. Specific references were made to Balancing Reserve and Demand Turn Up for constraint management as areas of focus.
- The group commended the process which the flexibility market strategy has adopted and the open consultation with industry, in contrast to previous experiences such as the development of new dynamic response products.

4. Clean Power 2030 (Matt Magill, Paul Wakeley, Lizzie Blaxland)

- Matt Magill (MM) provided an overview of the ESO approach to CP2030 analysis and how the different pathways (high flex, high dispatchable generation, high renewable) have been established.
- The group discussed the necessity for energy supply and demand to be planned very carefully and strategically - hence, the value of Strategic Spatial Energy Planning and the linked dependency for clean power on building the right amount of network in the right place. This locational element is equally important for the growth of flexibility.
- A MAC member queried where the decision-making sits for CP2030. MM clarified that NESO is providing advice to DESNZ who will be ultimately responsible for deciding on the Clean Power Plan. The importance of Ofgem's role was also discussed as the advice which ESO might provide may lead to certain enablers which require regulatory funding. The group reiterated the energy trilemma and how net zero has been brought to the fore, whilst security of supply hasn't gone away, and cost is the remaining key variable that is inherently dependable on any decision which DESNZ make on clean power.

- The group discussed ESO's description of Clean Power where zero carbon sources provide ~95% of GB generation. A member raised the risk that if interconnectors are assumed to be zero carbon assets and the standards change then this could have consequences for any clean power metric. Moreover, ESO's assumption that it will be a net exporter of clean power by 2030 should be validated against other countries interconnected with GB who may have similar assumptions on net exports.
- The group stated that ESO should scrutinise Future Energy Scenarios data to remove projects which are unlikely to progress. ESO also clarified that progress towards Clean Power would not be a manufactured result of suppressing demand and that any demand side response included in the scenarios is additional to the projected demand curves.
- A very important message stressed by members is the importance of timely decision making, but not to make rash decisions on GB's longer-term energy future at the expense of meeting a political target. For example, if Clean Power could be sustainably achieved with the right technology mix in 2032 or 2033, this should be presented as a better outcome than accelerating the wrong technologies in chasing a 2030 target.
- The group again encouraged (N)ESO to be cautious in our advice that the answer to lowering bills in the short-term is not to build lots of clean power; there is a significant cost associated with this which will be paid for by consumers. Instead, MAC articulated how consumer flexibility could be portrayed as a key enabler of the CP2030 ambition but also as a tangible opportunity to reduce consumer bills. However, market access and arrangements are not currently appropriate.
- Members also highlighted the importance of getting the crucial, more orthodox things right (e.g., CM reform, planning reform, CfD allocation, smart meter roll out) and encouraged ESO to reiterate this in the CP2030 report as well as any new thought leadership.
- The MAC concluded this discussion by highlighting the importance of this work for investors and those funding many of the clean power projects required. The significant risk of trying to radically change the system and implement widescale market reform all at once will undoubtedly scare off both domestic and international investment which is a crucial enabler. The cost of any uncertainty and additional risk premia will inevitably be borne by consumers. Therefore, it is important that NESO provides balanced, measured advice which is credible and outlines a realistic pathway to clean power, not necessarily wholly fixated on a 2030 timescale.

5. Future of MAC (Rebecca Beresford)

- Rebecca concluded the meeting with a brief update on how the MAC may evolve as ESO becomes NESO and will address the enhanced scope of electricity, gas and whole energy. MAC members reflected on the possibility of dividing up councils and how the competing factors of a declining gas network and the expanding role for electricity should be balanced. Furthermore, there may be an opportunity for a council to remain focussed on some of the bigger strategic questions and other forums to address the more detailed, technical problems.

Meeting closed.