The Association for Decentralised Energy

Industrial Energy
Demand Side Flexibility
Energy Efficiency
Heat Networks

ADE Response
Ofgem CFI: ESO incentives BP2 Mid-scheme assessment
3rd May 2024

Context

The ADE welcomes the opportunity to respond to Ofgem's ESO Call for Input: Mid Scheme Assessment.

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 150 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 flexibility and storage, industrial energy including combined heat and power, heat networks and energy efficiency.

Summary

The ADE welcomes much of the ESO's work for the beginning of the BP2 period. As usual, the high-level goals that the ESO is pursuing are the right ones and are ambitious and challenging.

However, there is still lots of work to be done, as laid out below and we still need far clearer communication from the ESO. The areas detailed below demonstrate the impact of a lack of transparency with industry participants when designing services aimed at promoting wider access and market reform, with some new services still failing to be technology agnostic, excluding distributed flexible assets from participation. The ADE also encourages a much more ambitious approach to moving volumes from bilateral contracts into competitive markets if consumers and service providers are to see the true value of flexibility. This will be particularly important as ESO become the National Energy System Operator (NESO) over the coming months.

We do 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. The speed at which some of these initiatives are delivered will be the determining factor of their success over the coming months, also laid out in our below response.

Role 1 – Control Centre Operations

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

Wider Access

Despite outlining the importance of operational metering requirements throughout various responses over the past year, the progress of the work being conducted by Power Responsive on operational metering has been slow, with the independent consultant being commissioned to look into these requirements still yet to begin the review. This leads us to question ESOs urgency and acknowledgement of the impacts these requirements have on inhibiting access to balancing services for many flexible assets. We do commend the incentive to allow access for 300MW of small-scale assets into the balancing mechanism with reduced metering requirements. However, outstanding implementation questions, especially around Physical

Notifications (PNs) continue to demonstrate communication failings within ESO that are hindering participation.

Skip rates and the Balancing Capability Strategic Review

Throughout the BP1 period, industry had made very clear their dissatisfaction with the number of out-of-merit actions or 'skips' being taken in the BM and how these skips have been reported. We still await the findings from the LCP Delta review on 'Dispatch Transparency Analysis' of which were scheduled to be sent out at the beginning of the year to help make decision making more transparent and give industry an understanding as to how actions are being taken. As laid out last year, we support the work being undertaken by the Balancing Programme 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 evidence and ESO communications that indicate this is an underestimate.

We have brought our concerns around this to Ofgem, in writing, on a number of occasions.

Role 2 – Market development and transactions
Activity 2a: Market design – Balancing and ancillary service market design

The designs of certain products under ancillary service reform 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.

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 still been a three year process. 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.

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 (BR)

Despite having overcome the previous issues of Balancing Reserve excluding any sub-50MW assets from participation, the service has been introduced alongside more exclusions for a large amount of flexibility assets. This includes non-dedicated large-scale heat pumps, CHPs, EV charge points and HEMS as a result of dispatch flexibility rules requiring assets to be able to dispatch its contracted quantity in one or multiple consecutive increments of 1MW for ramping

periods of 1 minute. We fail to understand why this is a requirement of BR such as how it helps the service to achieve its ambitions, essentially excluding non-dedicated low-carbon flexible assets, leaving essentially only dedicated CCGTs and batteries able to deliver.

Quick Reserve (QR)

Despite supporting the replacement of Frequency Response with Quick Reserve, the situation remains the same for the introduction of the service, failing to implement standards that allow for QR to be technologically agnostic, requiring full delivery in 1 minute. For many flexible assets to get up to what is required within 1 minute is either unachievable or will have large impacts on the health of the technology being used. This would make the service dominated by batteries, the fourth ancillary service introduced throughout RIIO-2 to do this. The three-minute recovery time also creates issues for many assets to participate.

Demand Flexibility Service

As laid out in our response to ESOs DFS-What's Next questionnaire, we highlight the success of the DFS over the past two years in unlocking a significant amount of DSR flexibility, particularly domestic. However, concerns and recommendations that we have made over the past two years to help improve the service have been overlooked.

We do still feel very strongly around the need for allowing stacking with other flexibility services, such as the CM, DNO and Demand Turn Up flexibility. If consumers and flexibility service providers are going to see the true value of flexibility, when DFS is not being run, there should be the ability to participate in additional services and revenue streams. As well as this, we continue to believe that asset meters should not have to be associated to a half hourly settled boundary meter, that they should have the same requirements as any participants entering the service with the boundary meter only. This has meant that many small-scale flexible assets have not been able to participate in the past two iterations of the DFS, due to only being associated to a boundary meter capable of HH reads, not settlement.

Finally, we feel strongly that the decisions made when implementing the DFS should help to increase I&C participation, instead of creating barriers. Introducing the ability to stack, particularly with the CM would help this, along with the issues raised above regarding skip rates, operational metering requirements and dispatch transparency. Allowing both Demand Turn Up and down would create additional value for many flexibility service providers and assets, like all the above, we did raise ahead of DFS Day 2.

Plans for the future of DFS need to be communicated to industry as soon as possible to allow providers and consumers to be prepared, especially larger non-dedicated assets who could provide significant volume to a future service. We are concerned that the plans for next year are already very delayed.

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 and beginning of BP 2 period.

Furthermore, delays to delivery of the new EMR portal should be taken very seriously. Even more worrying, is that the new portal which is meant to be far more adaptable to CM rules changes has been cited by the DB during CMAG meetings as a reason certain rules changes would be problematic or should not be brought forward. This is the antithesis of what was aimed for with this product.

Role 3 – System insight, planning and network development
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. We do also commend the nature of the work that has been carried out for the Constraints Collaboration Project (CCP), engaging industry to help create inclusive design prior to firm decisions having been made. We hope this approach is taken forward into future service design.

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