**Notes from a virtual workshop run by BEIS on Carbon in Flexibility Markets**

**Summary and Context:**

*This virtual workshop on Carbon in Flexibility Markets was held on 14th October. The session ran in two parts: the first was a presentation by BEIS, and the second was an anonymised text-based discussion in four breakout sessions. A range of businesses and organisations were invited to participate.*

*The four breakout sessions were grouped by: current market and policy environment, proposed policy options, carbon monitoring, and any other key questions.*

The virtual workshop aimed to collect feedback from various businesses and organisations on the current state of policy on carbon in flexibility markets, what they felt was needed to reach net-zero, and what they would like to see in the future.

Key messages included:

* Making the market more competitive for low-carbon small generators, both by levying accurate carbon prices on more flexibility assets and removing other barriers to entry.
* There was significant support for more policies to reach Government net-zero targets, particularly through revised carbon pricing and exemptions.
* Users supported carbon intensity reporting and increasing the quality and consistency of flexibility market data.

If you have any questions, please contact Isobel Morris: imorris@r-e-a.net.

**Questions:**

**MAIN DRIVERS**

In your opinion, what are the main drivers explaining why flexibility markets remain dominated by high carbon assets?

Users noted that costs are still generally lower for high-carbon assets, particularly when carbon pricing is not tough enough. Existing high-carbon assets are easy to control, making it hard for smaller generators (primarily low-carbon) to compete. Barriers to entry include high capital expenditure and the CM.

 **GAP ANALYSIS**

To what extent do you agree with our assessment of carbon signals? Are there any further gaps or inefficiencies?

Comments included feedback that exemptions and thresholds create significant market distortions, limiting access and potential of low-carbon generation. There was a view that insufficient pricing of carbon emissions also remains a problem.

 **NET-ZERO COMPLIANCE**

To what extent do you consider that the mix of current emissions policies is net-zero compliant?

Clear consensus that the current mix of emissions policies is not yet close to being net-zero compliant. Comments suggested that there is a focus on old policies, an insufficient ETS price, and a lack of recognition of the benefit of low- and zero-carbon flexibility.

**EXEMPTIONS**

What are your views on exemptions for small installations?

There were some mixed views over the short-term elimination of exemptions to carbon pricing based on size in a nascent market, but consensus that elimination of exemptions is necessary in long-run to meet net-zero.

**ADDITIONAL POLICY OPTIONS**

Should Government consider policy actions to strengthen carbon signals in flexibility markets, and why? What would be the main benefits and risks of additional action?

a. *Review of minimum thresholds in carbon policies* – Consensus expressed that a review is needed, including of exemptions.

b. *Strengthened / new emissions limits* – Response generally affirmed the need to strengthen limits, and to include interconnectors too.

c. *DNOs and ESOs to apply carbon factors in services procurement and d*ispatch –This idea received a generally positive response from attendees, but with caveats about risk of market distortions when DNOs/ESO apply limits without central Government direction and risk discouraging a nascent market before it reaches maturity.

d. *Incentive for use of low-carbon flex during defined periods* – Concerns were raised in comments about potential complications in administering this proposed incentive.

e. *Incentive mechanism based on real-time carbon signals* – Met with requests for more detail from BEIS (including from REA) due to questions over whether the incorporation of real-time carbon signals could create an extra burden for smaller generators.

f. *Bespoke support or new incentives in existing schemes to bring forward low-carbon flexibility* – There was consensus that a CfD for low-carbon flexibility would be very useful, or a de-risking mechanism for larger projects.

**CARBON MONITORING**

Do you agree with the proposed scope for our thinking on carbon monitoring, and why?

Users felt that the priority should be firstly on the easier to collect ex post data, before moving on to live carbon monitoring. There was strong support for carbon monitoring in the interests of transparency, but issues were raised around administrative barriers, having a clear methodology, and only investing time and effort in this capability with a clear and useful purpose.

**CARBON INTENSIVE FORECASTING**

To what extent would this be useful to your organisation, and what are the benefits to be gained?

There was not no consensus on responses to this question. Some said it would be very helpful, others said only if the forecasting was linked to a cost, and others said it could lead to very distorted outcomes.

**LIVE TRACKING OF CARBON INTENSITY**

To what extent would this be useful to your organisation, and what are the benefits to be gained?

The general view was that this would be useful, especially for Demand Side Response, but that this could be a barrier to small scale flexibility assets and needs to be marginal and localised.

**CARBON INTENSITY REPORTING**

To what extent would this be useful to your organisation, and what are the benefits to be gained?

Consensus among users that carbon intensity reporting would be necessary.

**OTHER APPROACHES**

What other potential approaches to carbon monitoring would be useful? What are the benefits to be gained?

Concern were voiced over the need for consistent data registration and a data platform across all markets is needed, since at the moment data is very dispersed.

**DATA REQUIRED**

What data is needed to support efficient i) carbon intensity forecasting, ii) live tracking of carbon intensity, and iii) carbon intensity reporting, and at what temporal resolution?

Users asked for data on: the net effect of balancing actions taken by the ESO; distributed assets. In addition, users asked for accurate metering, and grid code changes for more emissions reporting.

**KEY BARRIERS**

To what extent do you agree with the key barriers identified on slide 29 (asset registration; market reporting; carbon forecasting tools; carbon reporting methodology)? Are there any other barriers associated with carbon intensity monitoring, and in providing, collecting, and publishing relevant data, including from aggregated portfolios?

There was consensus that emissions reporting should reflect real emissions, as opposed to ‘ideal’ emissions. Users commented that there is a need for coordination of asset registers and asset registration, to consider benchmarking. Finally, it was noted that GDPR and the Utilities Act are potential obstacles for sharing DER information.

**UNADDRESSED ISSUES**

What issues are not currently being addressed by existing industry initiatives? What is needed to resolve these issues?

Users stated that emissions from construction, manufacturing and disposal, battery lifecycle emissions, emissions of fossil fuel extraction process were not currently being addressed. In addition, they criticized system losses and the lack of carbon emissions being linked to incentives.

**ROLES**

 What are the roles of Government, Ofgem, and industry to facilitate carbon monitoring?

Users expressed concern over a lack of strategy and a consistent approach from Government, and the need for a net-zero vision. Some users commented that Ofgem should allow the prioritisation of low-carbon dispatch based on signals rather than price, and stated that Ofgem should state upfront that Net Zero requires investment rather than over-promising lower bills for consumers. Finally, users commented that network companies should be able to provide accurate reporting data to the market.