

Joseph Cosier
Local Governance and Flexibility Strategy
flexibility@ofgem.gov.uk

National Grid ESO
Faraday House
Gallows Hill
Warwick
CV34 6DA

Claire.Dykta@nationalgrideso.com
nationalgrideso.com

07 February 2024

Dear Joseph,

Thank you for the opportunity to respond to your consultation on the Market Facilitator delivery body, published on 13 December 2023.

Who are we

As the Electricity System Operator (ESO) for Great Britain (GB), we have a dual responsibility to:

1. Operate and balance the electricity system in real-time.
2. Work with Government, Ofgem, industry and consumers to drive the transformation to a fully decarbonised electricity system by 2035, that is secure, fair and affordable for all.

Our transformation to become the Future System Operator (FSO), we will build on ESO's unique position at the heart of the energy system. FSO's ambition for market development is to:

- Drive the evolution of market arrangements across the whole energy system to facilitate security of energy supply and deliver markets at lowest cost for consumers.
- Provide Government and industry with strategic direction for markets across energy vectors, develop market strategies and roadmaps, and drive the development of cross-market solutions in conjunction with stakeholders.
- Bring together players from across the whole energy industry to identify opportunities for change, prioritise market interventions, and drive coordinated action.

About this response

We have set out a summary of our views below and have provided more detailed replies to specific consultation questions in Appendix 1. Our response is not confidential.

Key messages

1. The Market Facilitator must be a trusted and capable organisation that can deliver market changes at pace, with the ability to influence wider market and policy reforms required to facilitate the growth of local flexibility.
2. FSO remains the only organisation with robust accountability, technical and strategic capability, and whole system purpose to deliver Ofgem's vision for the Market Facilitator.
3. Our minded to position is to stand up the Market Facilitator as a distinct team from FSO's transmission market design teams, with a separate identity. We welcome feedback on this approach and will collaborate with stakeholders to develop robust technical design options as the immediate next step.

The Market Facilitator must be a trusted and capable organisation that can deliver market changes at pace, with the ability to influence wider market and policy reforms required to facilitate the growth of local flexibility.

Regardless of which organisation is chosen as the delivery body, we see three key priorities that the Market Facilitator must deliver, crosscutting the Market Facilitator design principles set out by Ofgem:

1. **Accelerate the transition:** the decision and changes we make in the next few years are crucial to set out the foundation of growth for local flexibility, especially as we continue to electrify transport and heat. To avoid market hiatus, the Market Facilitator must be able to facilitate market coordination as soon as possible and manage a smooth transition. This requires a delivery body that:
 - a. Has the skillset, technical expertise, and understanding of flexibility markets and network operations, minimising onboarding delays.
 - b. Is trusted to make decisions in the transitional period true to the Market Facilitator vision, for consumer and whole system benefit.
2. **Deliver sustained success:** to deliver accessible, transparent, and coordinated flexibility markets, the Market Facilitator must be completely independent from private interests, adaptable and trusted to make the right decisions for the whole system and consumer benefits.
3. **Transform engagement:** current engagement across markets and policies related to local flexibility is fragmented and lacks coordination. The Market Facilitator must simplify this for flexibility providers to unlock the value of an increasingly diverse range of asset types and participants.

FSO remains the only organisation with robust accountability, technical capability, and whole system purpose to deliver Ofgem's vision for the Market Facilitator.

- **Accountable and impartial:** FSO's unique purpose and statutory duty to work for consumer benefit will ensure that we will make decisions in the best interests of consumers. As a publicly owned organisation, FSO will be completely independent from any private interests and impartial.
- **Expert and strategic:** ESO has a strong track record of springboarding the development of new flexibility technologies through markets and programmes like Firm Frequency Response, the Demand Flexibility Service and Power Responsive. We are also providing strategic leadership for the industry through programmes such as Net Zero Market Reform and the upcoming Flexibility Markets Strategy. As FSO takes on future whole energy market design, advisory and whole systems energy planning roles (including Regional Energy Strategic Planning (RESP)), our understanding of the whole energy landscape means we are best positioned to drive forward coordinated changes with local stakeholders at pace.
- **Transition and delivery:** our participation in Open Networks to date means we understand the market challenges facing Distribution System Operators (DSOs) and ESO-DSO coordination in detail, and therefore can ensure pace and accelerate progress during transitional arrangements and as the Market Facilitator. Although we recognise Elexon has some experience in delivering change programmes, the ESO has significantly more experience and expertise in delivering programmes broadly on time and on budget.

Our minded to position is to stand up the Market Facilitator as a distinct team from FSO's transmission market design teams, with a separate identity. We welcome feedback on this approach and will collaborate with stakeholders to develop robust technical design options as the immediate next step.

To ensure we address the concerns we've heard from DNO/DSOs and wider industry stakeholders, and support Ofgem to accelerate the transition should they decide to choose the FSO as the delivery body, we are currently developing detailed governance and technical design options for the Market Facilitator role, working with consultants with strong governance and DSO expertise. To ensure stakeholders are included early in the process, we plan to share our initial thinking through a series of engagements in the coming months.

Our minded to position is to set up the Market Facilitator up as a distinct team from FSO's transmission market design teams with a separate identity, supported by strong project management and facilitation expertise. The Market Facilitator will interact with transmission market teams in the same way as DSOs and market participants under a fair and transparent process, to address concerns around transmission bias. To support this, it's imperative that a strong governance process is in place to co-ordinate complex change in a fair and concise way against a backdrop of competing customer interests. The ESO is already well placed to deliver this role given our skills, knowledge and experience through our code governance and development function, who adopt this working model, operating industry code change and secretariat functions independently and transparently.

We also recognise the other concern raised in the consultation and by our industry stakeholders around our track-record of stakeholder engagement. We are committed to working with stakeholders over the coming months to transform our own market design and reform processes, to collaborate with stakeholders right from the start and standardise our process for developing new services to enable a consistent experience for market participants throughout the market design life cycle. We would also like to highlight that FSO's new RESP role will be set up to conduct a bottom-up whole system approach to engagement with DNOs and local stakeholders. Given the extensive local engagement this role will entail, we can create synergies for local stakeholders by working closely with RESP and sharing resources where appropriate. To bridge any technical gaps in DSO markets expertise, we will work with DNOs and providers to explore options including potential secondments between organisations.

Our holistic approach to enabling local flexibility

In the interim of the Market Facilitator being established, we must continue to drive reforms that aim to unlock the value of local flexibility across the whole energy system. The ESO is committed to continuing our efforts to deliver this vision through the following programmes:

- **Flexibility Markets Strategy:** we believe a lack of a clear vision and a transparent roadmap across our sector is a key reason why we are not making progress at pace. In November 2023, the ESO announced our 2028 vision for all flexibility to access, and move seamlessly between markets driven by effective signals. We are in the process of creating a roadmap of clear, accountable actions to this vision in conjunction with stakeholders, which will be shared in Spring 2024.
- **DSO markets:** we are accelerating our efforts to deliver standardised, easily accessible, and transparent SO markets. In addition to delivering against our commitments in Open Networks, we have initiated a number of programmes to investigate stacking rules and enable better coordination and data sharing with DSOs, e.g. we are conducting a proof-of-concept of MPAN matching to manage risk of conflict within our Single Markets Platform.
- **Power Responsive:** we continue to support demand side response (DSR) across industry through the dedicated Power Responsive programme, raising awareness of the value of DSR while bringing together industry and energy users to resolve market access challenges.

We look forward to engaging with you further on design of the Market Facilitator delivery body. Should you require further information on any of the points raised in our response please contact Amy Weltevredden, Head of Flexibility Market Strategy, at amy.weltevredden@nationalgrideso.com.

Yours sincerely

Claire Dykta

Director of Markets – Electricity System Operator

Appendix 1: Consultation questions

1. Do you agree with the proposed market facilitator design principles (in paragraphs 2.22 - 2.28)? If not, what additions or changes do you suggest?

We broadly agree with the Market Facilitator design principles set out in the consultation and note that they are not mutually exclusive.

The only additional design principle we must consider is cost. It is crucial that the benefits of the Market Facilitator outweigh the costs (both for day 1, and for an enduring basis) to ensure that best value is delivered for consumers. A potential approach is to complete a cost benefit assessment using a do-nothing scenario, and then scenarios for Elexon and FSO as the Market Facilitator.

2. Do you think some of the design principles are more important than others? If so, which should we attach greater weight to?

While all the design principles are important for the Market Facilitator to achieve its end objectives, we believe the following three principles should be highlighted.

- For the Market Facilitator to deliver changes required at pace, it is crucial that it can be held accountable for delivering Ofgem's expected outcomes and has decision-making power over crucial aspects of flexibility market coordination. We therefore believe the **accountable** design principle is most important and should have greatest weighting.
- We believe the Market Facilitator must be an organisation capable of making decisions for consumer benefits, therefore requiring them to be **expert and strategic**. The Market Facilitator must have expertise in market design, network operations and policy, whilst having a strategic position within the energy sector that provides visibility of developments across the whole energy system. This will allow more holistic decisions to be made for flexibility that have fully considered wider interdependencies with the system, policy, regulation, and markets.
- We believe **inclusive and collaborative** should be another key principle driving the Market Facilitator's approach to decision making. We recognise that the expertise in local flexibility, DSO markets, and ESO markets will not strictly be in the Market Facilitator body, but across a range of parties in the sector (flexibility providers, DSOs, across ESO etc). The Market Facilitator must, therefore, facilitate effective engagement that utilises expertise from across the sector to make better decisions for local flexibility. This is only possible with a simple, inclusive, and collaborative approach to engagement.

3. How important is it for the market facilitator to be able to align transmission and distribution flexibility market arrangements? Why?

Aligned transmission and distribution flexibility market arrangements are crucial to enable investment in, and participation from local flexibility.

We understand that the lack of coordination and alignment of transmission and distribution flexibility markets is preventing assets from entering flexibility markets, or being efficiently utilised across the whole system. While standardising DSO markets could remove some of the barriers for providers, it is the full alignment between DSO and ESO markets that would enable them to stack multiple revenue streams and achieve the business case for these projects.

As we continue to electrify transport and heating over the next decade, transmission and distribution coordination issues will exacerbate. Without alignment, we risk network overbuilds and delays in electrification targets.

4. How important is ease of implementation and enabling a smooth transition when considering the market facilitator delivery body? Why?

The next few years are crucial to introduce market alignments, ahead of a step change in the electrification of transport and heating required to meet our Net Zero targets. Ease of implementation and enabling a smooth

transition are crucial to ensure we deliver as many changes as possible ahead of the establishment of the Market Facilitator, to maximise benefit for consumers.

- **Ease of implementation:** we believe that the Market Facilitator should be stood up as soon as possible to address the barriers and challenges faced today by local flexibility providers. The establishment of a new Market Facilitator role is critical to introduce reforms that enable local assets to fully access DSO and ESO markets, unlocking greater potential revenues.
- **Smooth transition:** it is important that current activities and programmes (e.g. progress made to date through Open Networks) aimed to remove barriers for local flexibility providers in DSO and ESO markets continue in the transitional period, whilst the Market Facilitator is being established. A long period of uncertainties and inaction would risk investor confidence in local flexibility. A smooth transition requires a delivery body that is familiar with current market alignment challenges, can provide stability and restore trust in the growth of local flexibility, ahead of any formal accountability.

5. Do you agree with our assessment of Elexon's suitability for the market facilitator role? If not, why not?

We broadly agree with Ofgem's assessment. Whilst Elexon's role as the BSC administrator continues to be a success, we do not believe their role today correlates to being suitable for the Market Facilitator role and being able to achieve Ofgem's vision for local flexibility. Specifically, we are concerned about the following principles:

- **Accountable:** Elexon is not licensed directly by Ofgem and therefore cannot be held to account to always deliver in the best interests of the whole system and consumers. Setting up a new licence to hold Elexon accountable could require changes in legislation that would result in extended delays to the Market Facilitator being established. We also have concerns of being bound by the requirements of the BSC, as the BSC objectives do not reference net zero or flexibility markets.
- **Expert and strategic:** Elexon's work to date has been in response to code modifications raised by industry meaning they have not been exposed to wider whole system challenges for GB. This would require upskilling across flexibility, policy, regulation, and market design, to take on a leadership role in driving strategic reforms, which could delay delivery of the Market Facilitator and its vision in a timely manner. In addition to their limited expertise in the flexibility value chain, we are still concerned about Elexon's ability to make strategic, whole-system decisions without the ability to leverage accountabilities in policy advisory, and local planning.
- **Aligning transmission and distribution arrangements:** if Elexon became the Market Facilitator, they would be responsible for delivering standardised, easily accessible, and transparent DSO markets, whilst FSO would still be responsible for delivering transmission (or ESO) markets. This separation would make it harder to drive alignment in flexibility markets across the whole system.
- **Implementation and transition:**
 - We are concerned that the modifications required for Elexon to take on the Market Facilitator role could be complex and lengthy, with a lack of clarity on if it could be fast-tracked. For instance, if a BSC issue group was deemed necessary to design the governance, funding, and operation model required for Elexon to take on the Market Facilitator role prior to a modification being raised, there is a risk of extended delays to Market Facilitator go-live (e.g., see [Issue 101](#) timetable for the development of governance, funding and operation of the Data Integration Platform as part of Market-wide Half Hourly settlement).
 - Elexon is currently not involved in Open Networks, which would mean an onboarding period would be required for Elexon to get up to speed with the programme so they could lead through the period of transitional arrangements until the Market Facilitator is established. This risks delay to the delivery of the Market Facilitator outcomes via Open Networks, which are needed urgently to grow local flexibility.
- **Impartial:** Given the planned transfer of Elexon's ownership, Elexon's shareholders will be a subset of BSC parties who may themselves be participants in flexibility markets. Elexon are also accountable to the BSC panel which is made up of industry parties. While Elexon's shareholders have no operational control, and BSC panel members are required to be impartial, it would be critical that Elexon manages

perceptions to give confidence that they will act in the best interests of consumers and the whole system.

6. Do you agree with our assessment of the FSO's suitability for the market facilitator role? If not, why not?

We broadly agree with Ofgem's assessment and that the expert and strategic, accountable, delivery at pace, and transparent design principles should score highest. We acknowledge the concerns raised around being inclusive and collaborative, and impartial. In question seven we have set out our actions to address these development areas for FSO.

7. Do you believe Elexon or the FSO is better suited to take on the market facilitator role when considering the design principles and wider considerations?

FSO remains the only organisation with robust accountability, technical capability, and whole system purpose to deliver Ofgem's vision for the Market Facilitator.

- **Accountable and impartial:** FSO's unique purpose and statutory duty for consumer benefits will ensure that we will make decisions in the best interest of consumers. As a publicly owned organisation, FSO will be completely independent and impartial from any private interests.
- **Expert and strategic:** ESO has a strong track record of springboarding the development of new flexibility technologies through markets and programmes like Firm Frequency Response, the Demand Flexibility Service and Power Responsive. We also have provided strategic leadership for the industry through programmes such as Net Zero Market Reform and Flexibility Markets Strategy. As FSO takes on future whole energy market design and whole systems energy planning roles (including Regional Energy Strategic Planning (RESP)), our understanding of the whole energy landscape means we are best positioned to drive forward coordinated changes with local stakeholders at pace. We do not believe Elexon can build up these capabilities in time to deliver the necessary changes required.
- **Implementation and transition:** our participation in Open Networks to date means we understand the market challenges facing Distribution System Operators (DSOs) and ESO-DSO coordination in detail, and therefore can ensure pace and accelerate progress during transitional arrangements. Although we recognise Elexon has some experience in delivering change programmes, the ESO has significantly more experience and expertise in delivering programmes broadly on time and on budget.

We acknowledge the concerns raised in the consultation and from engagements around FSO being the Market Facilitator, and will ensure these are robustly addressed:

- **Impartiality:** To ensure we address the concerns we've heard from DNO/DSOs and wider industry stakeholders, and support Ofgem to accelerate the transition should they decide to choose the FSO as the delivery body, we are currently developing detailed governance and technical design options for the Market Facilitator role, working with consultants with strong governance and DSO expertise. To ensure stakeholders are included early in the process, we plan to share our initial thinking through a series of engagements in the coming months. Our minded to position is to set up the Market Facilitator up as a distinct team from FSO's transmission market design teams with a separate identity, supported by strong project management and facilitation expertise. The Market Facilitator will interact with transmission market teams in the same way as DSOs and market participants under a fair and transparent process, to address concerns around transmission bias. To facilitate this, it's imperative that a strong governance process is in place to co-ordinate complex change in a fair and concise way against a backdrop of competing customer interests, the ESO is already well placed to deliver this function given our skills, knowledge and experience through our code governance and development function, who already regularly facilitate industry change through a robust open governance process to find the best outcome for consumers and system needs.
- **Engagement:** We also recognise the other concern raised in the consultation and by our industry stakeholders around our track-record of stakeholder engagement. We are committed to working with stakeholders over the coming months to transform our own market design and reform processes, to collaborate with stakeholders right from the start and standardise our process for developing new services to enable a consistent experience for market participants throughout the market design life

cycle. We would also like to highlight that FSO's new RESP role will be set up to conduct a bottom-up whole system approach to engagement with DNOs and local stakeholders. Given the extensive local engagement this role will entail, we can create synergies for local stakeholders by working closely with RESP and sharing resources where appropriate. To bridge any technical gaps in DSO markets expertise, we will work with DNOs and providers to explore options including potential secondments between organisations.